

New Jersey Business

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Overcoming Small Business Challenges

CPA, banking and law firms offer programs and guidance to help small companies flourish in New Jersey.

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From financing, taxes, cash flow management and other challenges, startups and other small businesses face high hurdles in New Jersey – but fortunately, several leading CPA, banking and law firms dedicated to sustaining New Jersey’s small company base offer seasoned support and advice to help this segment flourish.

These service firms know how to navigate New Jersey’s many helpful, but sometimes complex assistance programs offered by entities such as the Small Business Administration, which helps smaller firms address healthcare reform, rural and economic development, equal opportunity issues, labor and workforce development and other policies and regulations required for doing business in New Jersey.

While a full range of organizations are devoted to small business development, most entrepreneurs and small business owners – adept at their business specialties – need guidance in making the best support and growth decisions based on the individual challenges they face.

New Jersey Business asked several leading CPA, banking and law firms about the primary issues small businesses face today, the programs and guidance they offer to this segment, and their opinions of how our government can help ignite an entrepreneurial fire across the state.

CPAs

Financing appears to top the list of small business’s heavy challenges. Unless smaller firms have a track record of revenue as well as net income, it is very difficult to obtain financing in New Jersey, declares Michael Aversa, partner-in-charge of the private business services group at EisnerAmper of Iselin.

He says, “We have a wealth of knowledge about New Jersey’s banking networks and can point companies in the right direction regarding how to go about obtaining financing – and whether it is premature from a timing standpoint to even seek financing at the moment. Obviously, we have strength on the tax side and carefully guide clients about potential pitfalls. For example, we see

many small businesses hire less-costly independent contractors instead of employees, but that doesn't always fly in the eyes of government." Employees misclassified as independent contractors deprive the government of employee-related income, such as unemployment, disability and Social Security taxes; the state has increased its auditing procedures and the penalties associated with misclassification, and small businesses must be aware.

Aversa sees huge potential in New Jersey revolving around high tech: "The talent base these companies need is extensive here in the state, and if they can succeed, they can make a lot of money."

In addition, with the right tax structure, "we can draw smaller professional services firms from New York City, for example, to our eastern coast. Right now, our tax structure is a big challenge for the small business segment. We need to create a tax friendlier environment – not necessarily tax zero – but certainly not be one of the top three states in terms of the cost of doing business from a tax standpoint," Aversa states.

Andrew Ebnetter concurs that the state's high tax rate is trending as a primary deterrent to small business growth in New Jersey. As partner in the tax and business services division of Marcum LLP of Roseland, Ebnetter sees cash flow management as another major challenge facing small businesses, particularly startups.

New Jersey also offers great positives for small businesses, Ebnetter says, "such as its geographic proximity to waterways and the eastern coastline for shipping and transportation purposes; easy access to major cities such as New York City and Philadelphia; a relatively large number of colleges and universities both in and around the state; a well-educated workforce; and high quality of life."

Governor Christie, in July 2016, approved a healthy \$500,000 funding increase for the New Jersey Small Business Development Centers (NJSBDC) network. The NJSBDC trained more than 10,000 small business owners and entrepreneurs in 2015, helping them retain and create more than 16,000 jobs.

Still, unless small businesses put up collateral, many New Jersey banks are hesitant to offer financing and capital, especially to startups, notes Paula Ferreira, a partner with WeiserMazars LLP of Edison. "Posting collateral may be uncharted territory for startups and small business owners, who are hesitant to provide it, as they are not familiar with the process." Developing and maintaining a solid customer base and building infrastructure also are significant challenges for this group, she adds, as are the state's expensive rents, taxes, compliance issues and other obligations which, if not managed properly, eat into bottom line profits. "Many startups are good at doing what they do, but running a business day-in-and-day-out can pose a new set of potential unforeseen challenges. Building a team of knowledgeable advisors helps them avoid costly mistakes."

For example, it's important for startups to know what not to do, states Ferreira: "Common mistakes to avoid range from failure to file and pay sales and use tax, to not registering properly in states they operate. While failing to comply with taxing authority guidelines will keep

business owners awake at night, squandering the chance to minimize their taxes by failing to apply for available New Jersey tax incentives is a waking nightmare. New Jersey offers many different programs to businesses in the state, and not taking advantage of them in the proper timeframe can result in missed opportunities. Small businesses with a strong team and knowledgeable advisor will grow more efficiently and effectively than their less equipped competitors.”

James Bourke, partner and technology niche practice leader at WithumSmith+Brown of Red Bank also sees the state’s small business growth as “alive and well.” The CPA firm handles a significant number of startup clients, Bourke reports, with growth in this client segment of more than 50 percent last year.

However, because many startups are bootstrapped, “they believe that they can’t surround themselves with the best professionals that know their space,” he says. “But not doing so often leads to missed opportunities. For example, from a technology perspective, due to lack of awareness, we see far too many companies missing out on programs such as the R&D tax credit and Net Operating Loss sale.

“We love startups,” Bourke asserts. “We actually co-habitate with startups at co-working facilities and incubators. Our staff does its normal Withum work while onsite there, and also acts as a sounding block to the startup entrepreneur when it comes to tax, accounting and consulting needs. Best of all for these companies, they are getting access to professionals who really know their space – and at no cost for the interaction and sounding block.”

Bourke reports pockets of active small business development throughout the state, specifically in Hoboken, Jersey City, Asbury Park, Newark and Holmdel, to name a few.

Banking

At First Bank, a family-owned institution based in Hamilton, president and CEO Patrick Ryan notes that higher regulatory and labor costs – two issues particularly relevant New Jersey – have a disproportionate impact on small business owners, who are just getting started and do not have large revenue bases to help them absorb the higher costs. “States with lower labor and regulatory costs are much more attractive to smaller/startup businesses,” he emphasizes. “The climate for these enterprises might improve with a tiered regulatory structure where certain regulations or costs don’t kick in until the business reaches a certain size. Tax breaks are probably less effective initially since most startups don’t make money for the first couple of years.”

Ryan adds that the state’s economy and labor market have positive characteristics – including good population density, and higher wealth and education levels – but those variables are more attractive to established businesses that can afford to pay more.

“We assist young companies most by helping them determine the best financial structure for their businesses – for example, debt versus equity financing, and best type of debt financing – and by providing guidance regarding key financial metrics as well as industry comparable

analyses to help founders track how they are performing,” reports Ryan. “We also help them prepare and ‘sanity test’ their financial projections to make sure the business is truly viable.”

Each phase of the startup process provides its own set of challenges, the biggest and most significant of which are raising capital; finding good employees; marketing and generating revenue; developing processes that work; and continuing to make those processes more efficient, explains Matt Flannery, SBA team leader of Provident Bank in Iselin.

“In the early stages, raising capital tends to be the largest challenge our customers face,” says Flannery. “Entrepreneurs need to determine the best avenue to get that capital and weigh the costs of borrowing versus the cost of giving up ownership to investors.”

The SBA Lending Program allows Provident Bank to provide startup loans that typically are cheaper than those from private lenders, Flannery explains, and without having to give up equity or take on unwanted partnerships.

Law

A similar eye toward the future is underscored by Saiber of Florham Park, a law firm working with startups and small businesses clients, along with their accountants, to create the most tax advantageous structure for now and moving forward.

In terms of challenges, Denise Walsh, a partner in Saiber’s corporate group, flags New Jersey’s high corporate and individual income tax rates, as well as its high sales and property taxes, “which can cripple a small business,” she asserts.

Walsh also cites the issues smaller businesses face in attracting and retaining good talent. With so many large businesses in the state, and the highly competitive market across the river in New York, small businesses and startups are at a disadvantage, she maintains. Bigger businesses typically offer higher overall compensation, better health insurance options and a multitude of benefits that smaller companies cannot provide.

“To assist small businesses and startups in attracting and retaining talented employees, our firm tries to think outside the box, such as leveraging the right incentives in lieu of a high base salary,” Walsh explains. “One option is a bonus or incentive plan: For example, as the company reaches certain financial benchmarks, it would pay its key employees a bonus equal to a certain percentage of the profits. This plan alleviates the need for up-front cash, while incentivizing and rewarding employees. Another option is offering stock options, whereby employees will have the option to purchase equity in the company at a fixed price. Many companies tie a stock option plan together with a bonus plan, providing an employee with a bonus that he or she can use to then purchase the stock. An alternative to a stock option plan is a phantom stock plan, under which participating employees do not own company equity, but rather have a right, as if they were company equity holders, to a portion of the sale proceeds if and when the company is sold.”

When various such incentives are in play, Saiber recommends employees sign a non-competition and/or non-solicitation agreement which, when constructed properly, prevents key employees from later working for a competitor and/or raiding a company's customers and employees.

For many candidates, the difference between accepting one job versus another comes down to benefits; therefore, to remain competitive, small businesses may consider using a professional employer organization (PEO), Walsh adds. Not only does a PEO take certain human resource and other responsibilities off the company's plate, it can also provide many employee benefits, and at good rates."

Although there are myriad challenges to operating startups and small businesses here in New Jersey, with guidance from a good CPA, bank and/or law firm, those issues are not insurmountable.