E EMPIRE BUILDER ACADEMY

MODULE 02

BUILD YOUR BUSINESS FOUNDATION

10 lessons with step-by-step instructions, copy-and-paste AI prompts, exercises, a worksheet, an action checklist, and a knowledge check.

THE ONLINE ENTREPRENEUR BLUEPRINT

From Zero to Your First Online Business

02

BUILD SMART. LAUNCH FAST. SCALE WITH AI.

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MODULE 2: BUILD YOUR BUSINESS FOUNDATION

MODULE OVERVIEW: A solid foundation protects you, makes tax season less painful, and makes your business look professional from day one. In this module you'll choose a business name, understand your legal structure options (including LLCs), get an EIN, set up business banking and email, secure a domain, learn basic bookkeeping, understand deductible expenses, research licenses and permits, and keep your personal and business money separate.

In this module:

- Lesson 2.1: Choosing a Business Name
- Lesson 2.2: Understanding LLCs and Incorporation
- Lesson 2.3: EIN Basics
- Lesson 2.4: Business Banking
- Lesson 2.5: Business Email
- Lesson 2.6: Domain Names
- Lesson 2.7: Basic Bookkeeping
- Lesson 2.8: Understanding Business Expenses
- Lesson 2.9: Understanding Licenses and Permits
- Lesson 2.10: Separating Personal and Business Finances

LEGAL AND TAX NOTICE: This module provides general educational information about U.S. business basics. It is not legal, tax, or financial advice. Rules vary by state, county, city, and individual situation, and they change over time. Before making decisions, check official sources such as IRS.gov, SBA.gov, and your state's Secretary of State website, and consider speaking with a licensed attorney, CPA, or enrolled agent.

LESSON 2.1

Choosing a Business Name

The Big Idea

Your business name is often the first thing a customer sees. A good name is easy to say, easy to spell, easy to remember, and legally available. You don't need a perfect name; you need a clear, usable one that won't cause legal problems later.

What Makes a Good Business Name

- **Clear:** It hints at what you do or who you serve ("Bright Path Bookkeeping" is clearer than "Zentrix").
- **Simple:** Easy to spell after hearing it once. Avoid unusual spellings, hyphens, and numbers when possible.
- **Flexible:** Not so narrow that it traps you. "Austin iPhone Screen Repair" is hard to expand; "Austin Device Repair" leaves room.
- **Available:** Not already used by a similar business, with a matching domain and social handles available or close.
- **Legally safe:** Doesn't infringe on someone else's trademark.

Three Types of Names

1. **Descriptive:** says exactly what you do ("Fresh Start Home Cleaning"). Easy to understand; harder to trademark.
2. **Suggestive:** hints at a benefit ("Clear Ledger" for bookkeeping). A good balance for many small businesses.
3. **Invented or abstract:** a made-up word. Distinctive, but requires more marketing to explain.

How to Check Availability

1. **State business name search:** Most states let you search registered business names on the Secretary of State (or equivalent) website. If you form an LLC or corporation, your name usually must be distinguishable from existing entities in that state.
2. **Trademark search:** Search the U.S. Patent and Trademark Office database at USPTO.gov. Look for identical or confusingly similar names in related industries.
3. **Domain search:** Check whether a .com or another suitable domain is available (see Lesson 2.6).
4. **Social media handles:** Check the platforms you plan to use.
5. **Plain web search:** Search the name plus your industry and location.

> **NOTE:** A state business registration does not give you trademark rights across the country, and a domain registration doesn't either. If your brand becomes important to you, consider consulting a trademark attorney.

DBA ("Doing Business As")

If you operate under a name that isn't your legal name (for a sole proprietor) or your registered entity name (for an LLC), many states and counties require you to file a **DBA**, also called an assumed name, fictitious business name, or trade name. Example: Jane Smith operating as "Sunrise Pet Care" as a sole proprietor would generally need a DBA. Requirements and fees vary by location; SBA.gov has a guide under "Register your business."

> **EXAMPLE (HYPOTHETICAL):** Imagine a hypothetical dog-walking business. The founder brainstorms "Pawsome Walks," "Neighborhood Dog Walkers," and "Leash & Lead." She finds "Pawsome" used by dozens of pet businesses, which could cause confusion. "Leash & Lead" has no similar registered business in her state, no conflicting trademark she can find, and the domain is available with a small variation. She chooses it, then plans to confirm with her state's registration rules.

Step-by-Step: Choose Your Name

1. Brainstorm 20 names (use the AI prompt below to help).
2. Cut to 5 using the "clear, simple, flexible" test.
3. Say each one out loud to three people. Ask them to spell it.
4. Run availability checks: state database, USPTO, domain, social handles.
5. Choose your top name and a backup.

AI Prompt: Brainstorm Business Names

COPY-AND-PASTE AI PROMPT

```
I'm starting a business. Help me brainstorm names.
- What I do: [SERVICE/PRODUCT]
- Who I serve: [TARGET CUSTOMER]
- Location (if relevant): [CITY/STATE]
- Personality of the brand: [e.g., friendly, premium, bold, calm]
- Words or styles to avoid: [LIST]

Give me 25 names: 10 descriptive, 10 suggestive, 5 invented.
For each, give a one-line explanation and a possible .com domain.
Flag any names that seem likely to conflict with well-known brands.
Remind me to verify availability with my state and USPTO.gov.
```

AI Prompt: Evaluate My Shortlist

COPY-AND-PASTE AI PROMPT

```
Here are my top 5 business names: [LIST]
My business: [DESCRIPTION]
Evaluate each on: clarity, ease of spelling, memorability,
flexibility for future growth, and potential confusion with
existing brands. Rank them and explain your reasoning.
Do not claim any name is legally available; I will check that myself.
```

EXERCISE 2.1: Complete the "Name Availability Checklist" on your worksheet for your top three names.

LESSON 2.2

Understanding LLCs and Incorporation

The Big Idea

Your **business structure** affects your personal liability, your taxes, your paperwork, and how you can raise money. Beginners don't need to master every detail, but you should understand the basic options and the trade-offs. Many people start as sole proprietors and form an LLC once the business is active; others form an LLC from the start. Neither choice is universally "right."

The Main Business Structures

Sole proprietorship. The default if you do business alone and don't register an entity. There's usually no formation filing (though you may need a DBA, licenses, and permits). You and the business are legally the same, which means **you are personally responsible for business debts and liabilities.** Business profit is generally reported on your personal tax return (Schedule C).

General partnership. The default when two or more people do business together for profit without forming an entity. Partners generally share personal liability. A written partnership agreement is strongly recommended.

Limited Liability Company (LLC). A state-created entity formed by filing documents (often called Articles of Organization or a Certificate of Formation) with your state. An LLC can help separate your personal assets from business liabilities. It's flexible in how it's taxed.

Corporation (C corporation). A separate legal entity owned by shareholders. More formal requirements (bylaws, board, minutes) and the corporation pays its own income tax. Often chosen by businesses planning to raise investment from venture capital.

S corporation. Not a separate type of entity, but a **federal tax election** that an eligible corporation or LLC can make (IRS Form 2553). It can change how owners pay certain taxes. It has eligibility rules and added requirements like reasonable salary for owner-employees. Discuss with a tax professional before electing.

How an LLC Is Taxed (Federal Default Rules)

- **Single-member LLC:** By default, the IRS treats it as a "disregarded entity." Profits and losses are generally reported on the owner's personal return (Schedule C for most businesses), similar to a sole proprietorship.
- **Multi-member LLC:** By default, taxed as a partnership, which files an informational partnership return (Form 1065) and issues each member a Schedule K-1.
- **Elections:** An LLC can elect to be taxed as a corporation (Form 8832) or as an S corporation (Form 2553) if eligible.

Source: IRS.gov, "Limited Liability Company (LLC)." State tax treatment can differ.

What an LLC Does and Doesn't Do

It can:

- Help protect personal assets from business debts and lawsuits against the business, when properly maintained.
- Make your business look more established to some customers and partners.
- Provide flexibility in ownership and taxation.

It doesn't:

- Automatically lower your taxes. A default single-member LLC is generally taxed the same way as a sole proprietorship at the federal level.
- Protect you from your own personal wrongdoing or negligence.
- Protect you if you personally guarantee a loan or lease.
- Fully protect you if you mix personal and business funds or ignore formalities; courts can sometimes "pierce the corporate veil."
- Replace business insurance.

Common LLC Costs and Requirements

- **State filing fee** to form the LLC. Fees vary widely by state.
- **Annual or biennial report and fees** in many states. Some states also charge franchise taxes or minimum taxes (for example, California generally imposes an annual minimum franchise tax on LLCs doing business there). Check your state.
- **Registered agent:** A person or company with a physical address in the state who accepts legal documents for the LLC. You can often be your own registered agent if you have an in-state address and are available during business hours.
- **Operating agreement:** An internal document describing ownership and how the LLC runs. Not every state requires one, but it's strongly recommended, even for a single-member LLC.
- **Publication requirements:** A few states require newly formed LLCs to publish a notice in newspapers.
- **Federal reporting rules:** Beneficial ownership information (BOI) reporting rules from FinCEN changed several times in 2024 and 2025. Check FinCEN.gov for the current requirements that apply to your company.

How to Form an LLC (General Steps)

1. Choose and check your name (Lesson 2.1) against your state's database.
2. Choose a registered agent.
3. File Articles of Organization (or the equivalent) with your state, usually online through the Secretary of State website, and pay the fee.
4. Create an operating agreement.

5. Get an EIN from the IRS (Lesson 2.3).
6. Open a business bank account (Lesson 2.4).
7. Register for state taxes and obtain licenses and permits as needed (Lesson 2.9).
8. Calendar your annual report deadline.

IMPORTANT: You can usually file an LLC directly with your state yourself. Third-party formation services are optional and charge additional fees. Some mail official-looking solicitations offering "compliance" services. Always verify that a notice comes from your actual state agency before paying.

Do You Need an LLC Right Now?

Questions to consider (and discuss with a professional):

- Does your business involve physical risk (e.g., working in clients' homes, handling pets, events) or significant contracts?
- Do you have personal assets you want to protect?
- Can you afford the formation and ongoing state fees?
- Would general liability or professional liability insurance address much of your risk?

EXAMPLE (HYPOTHETICAL): A hypothetical freelance writer testing her first few projects might begin as a sole proprietor with a DBA and a separate bank account, then form an LLC once she has steady clients. A hypothetical mobile pet-grooming business, which works with animals in customers' homes, might decide to form an LLC and buy insurance before taking the first appointment because the liability risk is higher from day one. Both are reasonable choices depending on risk and budget.

AI Prompt: Understand Structure Options

COPY-AND-PASTE AI PROMPT

```
I'm a beginner starting a [TYPE OF BUSINESS] in [STATE].
Explain, in plain language, the differences between a sole
proprietorship, a single-member LLC, and an S corporation election
for my situation. Include: liability, federal tax treatment,
typical paperwork, and ongoing state requirements to look up.
Give me a list of questions to ask a CPA or attorney.
Clearly state that I must verify details on my state's official
website and IRS.gov, and that this is not legal or tax advice.
```

AI Prompt: Draft an Operating Agreement Checklist

COPY-AND-PASTE AI PROMPT

I'm forming a single-member LLC in [STATE]. Create a checklist of topics an operating agreement typically covers (ownership, management, capital contributions, distributions, what happens if I die or become incapacitated, dissolution, etc.). For each topic, explain it in one sentence. Don't write the agreement itself; I'll use an attorney or my state's resources for that.

EXERCISE 2.2: Complete the "Business Structure Decision" section of your worksheet. Look up your state's LLC filing fee, annual report requirement, and registered agent rules on the official state website, and record them.

LESSON 2.3

EIN Basics

The Big Idea

An **Employer Identification Number (EIN)** is a nine-digit number the IRS assigns to identify a business for tax purposes. Think of it as a Social Security number for your business. Despite the name, you don't need employees to get one.

Who Needs an EIN?

According to IRS guidance, you generally need an EIN if your business:

- Has employees.
- Operates as a corporation or partnership (including a multi-member LLC taxed as a partnership).
- Files certain employment, excise, or alcohol/tobacco/firearms tax returns.
- Has a Keogh retirement plan, or meets other criteria listed on IRS.gov.

A sole proprietor or single-member LLC **with no employees** and no excise tax obligations may not be required to have an EIN for federal tax purposes and can often use their SSN. However, many people get one anyway because:

- Banks often require an EIN to open an LLC business account.
- You can give clients an EIN on Form W-9 instead of your Social Security number, which reduces identity-theft risk.
- It makes the business look more established.

Check the IRS's "Do You Need an EIN?" page for the current rules.

How to Get an EIN (Free)

1. Go to **IRS.gov** and search "Apply for an EIN online."
2. Confirm you're on the official IRS.gov site. **The IRS does not charge a fee for an EIN.** Many third-party websites look official and charge for this free service.
3. Complete the online application. You'll need the "responsible party's" SSN or ITIN, the business name, address, structure, and reason for applying.
4. If eligible for the online application, you typically receive the EIN immediately at the end of the session. Download and save the confirmation notice (CP 575) as a PDF.
5. Alternatives include applying by fax or mail with Form SS-4.

After You Get Your EIN

- Store the confirmation letter securely. You'll need it for banking and sometimes for state registrations.
- Use the EIN on your W-9 forms, business bank account, and tax filings as applicable.

- An EIN doesn't register you for state taxes. You may need a separate state tax ID (for example, for sales tax or state payroll).

> **EXAMPLE (HYPOTHETICAL):** A hypothetical single-member LLC offering virtual assistant services forms in its state, then visits IRS.gov to apply for an EIN online. It isn't technically required for her federal taxes because she has no employees, but her bank requires it to open the LLC's account, and she prefers not to share her SSN with clients on W-9 forms.

AI Prompt: Prepare for the EIN Application

COPY-AND-PASTE AI PROMPT

```
I'm about to apply for an EIN on IRS.gov for a [STRUCTURE, e.g.,
single-member LLC] that [WHAT THE BUSINESS DOES] in [STATE].
Make a checklist of the information I should have ready before
starting the application, and explain each term I'll see
(responsible party, legal name vs. trade name, reason for applying,
principal activity). Remind me the EIN is free on IRS.gov.
```

> **EXERCISE 2.3:** Use the worksheet's "EIN Readiness" checklist. Decide whether you need an EIN now and record where you'll store the confirmation letter.

LESSON 2.4

Business Banking

The Big Idea

A **dedicated business bank account** is one of the simplest and most important steps you can take. It makes bookkeeping easier, supports your liability protection if you have an LLC, makes tax time simpler, and looks more professional to clients.

Types of Accounts

- **Business checking:** Your main operating account. Receive payments, pay expenses.
- **Business savings:** Set aside money for taxes and emergencies.
- **Business credit card (optional):** Can help separate expenses and build business credit. Use carefully; avoid carrying high-interest balances.

What to Compare

Factor	Questions to ask
Fees	Monthly fees? Can they be waived? Transaction or deposit limits?
Minimums	Minimum opening deposit or balance?
Integrations	Does it connect to your bookkeeping software and payment processors?
Access	Online/mobile banking quality? Branches or ATMs if you handle cash?
Deposit insurance	Is the bank FDIC-insured (or the credit union NCUA-insured)? If it's a fintech app, which partner bank holds the deposits?
Support	Can you reach a human when needed?

FDIC deposit insurance generally covers up to $250,000 per depositor, per insured bank, per ownership category. Verify details at FDIC.gov.

What You'll Typically Need

Requirements vary by bank, but often include:

- Government-issued photo ID.
- EIN (or SSN for some sole proprietors).
- Formation documents (Articles of Organization) for an LLC or corporation.
- Operating agreement (some banks ask for it).
- DBA certificate if you use a trade name.

- Business license, if applicable.

The Tax Savings Habit

If you're self-employed, taxes are not automatically withheld from your business income. A common practice is to move a fixed percentage of every payment into a separate savings account for taxes. The right percentage depends on your income, state, and deductions; a tax professional can help you choose. Self-employed people generally pay self-employment tax (Social Security and Medicare, 15.3% on net earnings up to applicable limits) in addition to income tax, and may need to make quarterly estimated tax payments (see IRS.gov, "Estimated Taxes," and Form 1040-ES).

> **EXAMPLE (HYPOTHETICAL):** A hypothetical home-organizing business opens a business checking account and a business savings account at the same bank. Every time a client pays, the owner transfers a set percentage, which she chose with her tax preparer, into the savings account labeled "TAXES — DO NOT TOUCH."

Step-by-Step: Open Your Business Account

1. Gather your documents (see list above).
2. Compare at least three options using the table.
3. Open business checking (and savings if possible).
4. Connect your payment processor to deposit into the business account.
5. Set up your tax savings transfer habit.

AI Prompt: Compare Bank Accounts

COPY-AND-PASTE AI PROMPT

```
I'm comparing business bank accounts for a [STRUCTURE] doing
[BUSINESS TYPE], expecting about [NUMBER] transactions per month,
[YES/NO] cash deposits, and using [PAYMENT TOOLS, e.g., Stripe,
Square, PayPal]. Here are the details I found for three accounts:
[PASTE FEES, MINIMUMS, FEATURES FROM EACH BANK'S WEBSITE]
Compare them in a table and recommend which fits my needs, explaining
trade-offs. Only use the information I provided.
```

> **EXERCISE 2.4:** Fill out the "Bank Comparison" table on your worksheet for three options.

LESSON 2.5

Business Email

The Big Idea

An email address like **hello@yourbusiness.com** looks more trustworthy than a free personal address, and it keeps business communication organized and separate.

How Business Email Works

A custom-domain email requires:

1. **A domain name** you own (Lesson 2.6).
2. **An email hosting provider** such as Google Workspace, Microsoft 365, Zoho Mail, or email included with some hosting plans.
3. **DNS records** that connect your domain to the email provider (usually MX records, plus SPF, DKIM, and DMARC records to improve deliverability and reduce spoofing). Most providers include step-by-step setup guides.

Smart Address Choices

- **hello@** or **contact@**: friendly general inbox.
- **yourname@**: personal and direct for sales conversations.
- **support@**: customer service (can be an alias that forwards to your main inbox).
- **billing@** or **invoices@**: payments and receipts.

Many providers let you create **aliases** for free, so one inbox can receive mail for several addresses.

Email Professionalism Basics

- Add a simple signature: name, title, business, website, and phone (optional).
- Respond within a set time (for example, one business day) and say so on your contact page.
- Use templates for common replies (Module 3 shows you how to create them with AI).
- For marketing emails, follow the CAN-SPAM Act: don't use deceptive subject lines, identify the message as an ad where required, include your valid physical postal address, give a clear way to opt out, and honor opt-outs promptly. See FTC.gov's "CAN-SPAM Act: A Compliance Guide for Business."

Step-by-Step: Set Up Business Email

1. Buy your domain (Lesson 2.6).
2. Choose an email provider and plan.
3. Follow the provider's guide to verify your domain and add MX records.
4. Add SPF, DKIM, and DMARC records as instructed.

5. Create your main address and aliases.
6. Set up your signature and connect the inbox to your phone.
7. Send test emails to and from a personal account to confirm delivery.

AI Prompt: Create Email Templates

COPY-AND-PASTE AI PROMPT

I run [BUSINESS] serving [CUSTOMER]. Write 6 short, friendly, professional email templates I can reuse:
1. Reply to a new inquiry
2. Sending a quote
3. Following up on a quote after 3 days
4. Booking confirmation
5. Thank-you after the job, with a review request
6. Politely declining a project that isn't a fit
Use [PLACEHOLDERS] for names, dates, and prices. Keep each under 120 words.

AI Prompt: Write My Email Signature

COPY-AND-PASTE AI PROMPT

Write 3 professional email signature options for:
Name: [NAME], Title: [TITLE], Business: [BUSINESS], Website: [URL], Phone: [OPTIONAL]. One minimal, one with a short tagline, and one with a booking link line. Plain text, under 5 lines each.

EXERCISE 2.5: Choose your email provider and record your planned addresses and aliases on the worksheet.

LESSON 2.6

Domain Names

The Big Idea

A **domain name** (like yourbusiness.com) is your address on the internet. You register it through a **domain registrar** for an annual fee. Your domain powers your website and your business email.

Choosing a Good Domain

- **Match your business name** as closely as possible.
- **Prefer .com** when available because many people type it by default. Other good options include .co, .net, or industry extensions (.studio, .shop), but be aware customers might mistype them.
- **Keep it short** and easy to spell. Avoid hyphens and numbers.
- **Consider adding a word** if your exact name is taken: get[name].com, [name]hq.com, [name][city].com.
- **Check for trademark conflicts.** Registering a domain doesn't give you the right to use a protected brand name.

Registrar Basics

- Compare first-year and **renewal** prices; promotional first-year prices often renew higher.
- Look for **WHOIS privacy** (often free) to keep your personal contact info out of public records.
- Turn on **auto-renew** and **two-factor authentication.** Losing a domain because a card expired is a painful, avoidable problem.
- Register the domain in **your own account** (or your business's), not a designer's or contractor's. You should always control your domain.

Step-by-Step: Register Your Domain

1. Brainstorm 5–10 domain variations.
2. Check availability at a registrar.
3. Compare first-year and renewal pricing at two registrars.
4. Purchase for at least one year; consider multiple years if you're committed.
5. Enable WHOIS privacy, auto-renew, and two-factor authentication.
6. Record your registrar, login email, and renewal date in a secure place (a password manager is ideal).

> **EXAMPLE (HYPOTHETICAL):** A hypothetical bookkeeping business named "Clear Ledger" finds clearledger.com taken. It considers clearledgerbooks.com, getclearledger.com, and clearledgeraz.com (for Arizona). It chooses clearledgerbooks.com because it describes the service and is easy to say aloud.

AI Prompt: Generate Domain Ideas

COPY-AND-PASTE AI PROMPT

My business name is [NAME] and I offer [SERVICE] in [LOCATION/online]. The exact .com is taken. Suggest 20 alternative domain ideas that are short, easy to spell, and avoid hyphens and numbers. Group them into: name + keyword, name + location, prefix/suffix variations, and alternative extensions. I'll check availability myself.

EXERCISE 2.6: List five domain options on your worksheet, check availability, and record your final choice and renewal date.

LESSON 2.7

Basic Bookkeeping

The Big Idea

Bookkeeping is recording every dollar that comes into and goes out of your business. It's not glamorous, but it's how you know whether your business is actually working, how you prepare for taxes, and how you protect yourself if the IRS ever asks questions.

Key Terms

- **Revenue (income):** money earned from sales.
- **Expenses:** costs of running the business.
- **Profit (net income):** revenue minus expenses.
- **Cash basis accounting:** record income when you receive it and expenses when you pay them. Most small businesses start here.
- **Accrual basis accounting:** record income when earned and expenses when incurred, regardless of when cash moves.
- **Receipts and records:** evidence of each transaction (invoices, receipts, bank statements).
- **Chart of accounts:** the list of categories you use to organize transactions (e.g., Advertising, Software, Supplies, Contract Labor).

Three Ways to Keep Books

1. **Spreadsheet:** free and simple for very small businesses. Requires discipline.
2. **Bookkeeping software:** connects to your bank and categorizes transactions; many options have small-business plans.
3. **Bookkeeper:** a professional handles it for you, typically monthly.

Your Weekly 20-Minute Bookkeeping Routine

1. Download or sync the week's transactions from your business bank account and payment processors.
2. Categorize each transaction.
3. Attach or file the receipt (photo, PDF, or email).
4. Note anything unusual (refunds, owner contributions, transfers).
5. Check for unpaid invoices and follow up.

Monthly Routine

1. **Reconcile:** confirm your records match your bank statement.
2. Review a simple **profit and loss** summary.

3. Move your tax savings (Lesson 2.4).
4. Review subscriptions and cancel unused ones.

How Long to Keep Records

The IRS generally says to keep records that support income and deductions for at least three years, with longer periods in certain situations (for example, employment tax records and some property records). See IRS.gov, "How long should I keep records?" and IRS Publication 583, *Starting a Business and Keeping Records.*

A Simple Spreadsheet Layout

Date	Description	Category	Income	Expense	Payment method	Receipt saved?
03/02	Client A — website edits	Service income	300.00		Stripe	Yes
03/03	Design software subscription	Software		15.00	Business card	Yes

(The amounts above are placeholders for illustration only.)

> **EXAMPLE (HYPOTHETICAL):** A hypothetical candle maker sells at weekend markets and online. Every Sunday evening, she spends 20 minutes categorizing that week's transactions and snapping photos of paper receipts. At tax time, her preparer receives a clean profit and loss summary rather than a shoebox of receipts.

AI Prompt: Build a Bookkeeping Spreadsheet

COPY-AND-PASTE AI PROMPT

```
Create a simple bookkeeping spreadsheet structure for a [BUSINESS TYPE]
using cash-basis accounting. Include:
- A transactions tab (columns and example categories)
- A suggested chart of accounts for my type of business
- A monthly summary tab with formulas for total income, total expenses,
  and net profit by category (give formulas for Google Sheets)
- A tax savings tab that calculates a set-aside at [X]% of income
Explain how to use it weekly in 5 steps.
```

AI Prompt: Categorize Transactions

COPY-AND-PASTE AI PROMPT

Here is a list of my business transactions for the month:
[PASTE DATE, DESCRIPTION, AMOUNT]
Suggest a bookkeeping category for each one using common small-business categories. Flag anything that might be personal, unclear, or need a receipt. Do not give tax advice; mark items I should ask my tax professional about.

EXERCISE 2.7: Set up your bookkeeping method (spreadsheet or software) and schedule your weekly 20-minute bookkeeping block.

LESSON 2.8

Understanding Business Expenses

The Big Idea

Business expenses reduce your taxable profit, but only legitimate business expenses with proper records. The IRS generally allows deductions for expenses that are both **ordinary** (common and accepted in your industry) and **necessary** (helpful and appropriate for your business).

Common Categories of Small Business Expenses

- Advertising and marketing
- Software and subscriptions
- Website, domain, and hosting costs
- Office supplies
- Contract labor (payments to freelancers)
- Professional fees (legal, accounting)
- Business insurance
- Education directly related to your current business (rules apply)
- Business use of a vehicle (with mileage or expense records)
- Equipment (may be deducted or depreciated depending on rules)
- Merchant/payment processing fees
- Business travel (rules apply)
- Business meals (generally limited, often 50%, with exceptions; check current rules)

Special Topics to Know About

Home office. If you use part of your home **regularly and exclusively** for business, you may qualify for a home office deduction. The IRS offers a simplified method based on square footage (with a cap) or the regular method based on actual expenses. See IRS Publication 587.

Startup costs. Costs incurred before your business begins operating may be treated differently. Under current federal rules, you may be able to deduct up to $5,000 of startup costs in your first year (reduced if total startup costs exceed $50,000), with the rest amortized over 180 months. Confirm details with a tax professional.

Mixed-use items. If something is used for both personal and business purposes (like a phone or vehicle), generally only the business-use portion may be deductible. Keep records showing how you calculated the business percentage.

Personal expenses are not deductible. Clothing you could wear outside work, personal meals, and family vacations generally don't qualify, even if you discuss business.

Payments to contractors. If you pay contractors for services, you may need to collect Form W-9 and issue Form 1099-NEC if payments meet the IRS reporting threshold. The threshold has changed for recent tax years, so check IRS.gov for the current amount.

Documentation Is Everything

For each expense, keep: date, amount, who you paid, what it was for, and how it relates to the business. A bank statement alone may not show the business purpose. Write a short note.

TAX NOTICE: Tax rules are complex and change. This lesson explains general concepts only. Use IRS Publication 334 (*Tax Guide for Small Business*), the "Deducting business expenses" guidance on IRS.gov, and a qualified tax professional for your situation.

EXAMPLE (HYPOTHETICAL): A hypothetical freelance photographer buys a new camera lens, pays for photo-editing software, and drives to client shoots. She saves the lens receipt with a note about its business use, keeps the software subscription on her business card, and logs mileage with a mileage app. She does not deduct her family's streaming subscription, even though she occasionally watches photography documentaries.

AI Prompt: Expense Questions for My Tax Pro

COPY-AND-PASTE AI PROMPT

```
I run a [BUSINESS TYPE] as a [STRUCTURE] in [STATE]. Here are expenses
I'm unsure about: [LIST]. For each one, explain in general terms what
rules usually apply (ordinary and necessary, business-use percentage,
documentation needed) and write a clear question I should ask my tax
professional. Do not tell me definitively whether it's deductible.
```

EXERCISE 2.8: Fill in the "Expected Business Expenses" table on your worksheet with your likely monthly expenses and the records you'll keep for each.

LESSON 2.9

Understanding Licenses and Permits

The Big Idea

Depending on what you do and where you do it, you may need one or more **licenses or permits** from federal, state, county, or city agencies. Online businesses aren't automatically exempt. Requirements depend on your industry, location, and activities.

Common Types

- **General business license:** Many cities and counties require one to operate within their limits, including some home-based businesses.
- **Home occupation permit:** Some localities require one if you run a business from your home, especially if clients visit.
- **Seller's permit / sales tax permit:** Many states require one if you sell taxable goods (and in some states, certain services or digital products).
- **Professional or occupational licenses:** Required for regulated professions (e.g., cosmetology, contracting, real estate, accounting, some health services).
- **Health permits:** Food businesses typically need them. Many states have "cottage food" laws with specific rules for selling certain homemade foods.
- **Federal licenses:** Required for certain activities, like selling alcohol, firearms, or transportation services. See SBA.gov's "Apply for licenses and permits."

Sales Tax in Brief

Sales tax is handled at the state (and sometimes local) level. Since the U.S. Supreme Court's 2018 *South Dakota v. Wayfair* decision, many states require sellers to collect sales tax once they pass certain sales thresholds in that state ("economic nexus"), even without a physical presence. Many marketplaces (like Etsy or Amazon) collect and remit sales tax on behalf of sellers under "marketplace facilitator" laws in many states. Check your state's department of revenue.

How to Find Your Requirements

1. Visit **SBA.gov** and search "Apply for licenses and permits."
2. Visit your **state's** business portal or Secretary of State website.
3. Check your **county** and **city** websites, or call the city clerk or business licensing office.
4. Check your **state department of revenue** for sales tax registration.
5. Ask your local **Small Business Development Center (SBDC)** or **SCORE** mentor (free resources).
6. If you're in a regulated profession, check the relevant state licensing board.
7. If you rent or live in an HOA, check your lease or HOA rules for home business restrictions.

EXAMPLE (HYPOTHETICAL): A hypothetical home bakery owner checks her state's cottage food law and finds that certain baked goods are allowed with labeling rules and sales limits, while items requiring refrigeration are not. Her city also requires a general business license. She records both requirements, their renewal dates, and the agency phone numbers in her worksheet.

AI Prompt: Build a Licensing Research Checklist

COPY-AND-PASTE AI PROMPT

I'm starting a [BUSINESS TYPE] in [CITY, COUNTY, STATE], operating [from home / online / at client locations]. Create a research checklist of licenses, permits, and registrations I should investigate at the federal, state, county, and city levels.
For each, tell me what type of agency usually handles it and what question to ask them. Do not state final requirements; tell me to verify with official government sources.

LEGAL NOTICE: Not legal advice. Licensing rules vary significantly by location and industry. Always confirm with the official agency.

EXERCISE 2.9: Complete the "Licenses and Permits Research" table on your worksheet, including agency, link, cost, and renewal date for each item.

LESSON 2.10

Separating Personal and Business Finances

The Big Idea

Mixing personal and business money ("commingling") is one of the most common beginner mistakes. It makes bookkeeping confusing, makes tax preparation harder, can weaken an LLC's liability protection, and hides the truth about whether your business is profitable.

The Separation Rules

1. **All business income goes into the business account.** Every payment, every platform payout.
2. **All business expenses are paid from the business account or business card.**
3. **Don't pay personal expenses from the business account.** If you need money for yourself, transfer it as an **owner's draw** (sole proprietors and most LLC owners) or salary (if structured as an S corp or C corp, per your tax professional), and record it.
4. **If you use personal money for the business, record it** as an owner's contribution, or reimburse yourself with documentation.
5. **Keep business payment accounts (PayPal, Stripe, Square) linked to the business bank account.**

Paying Yourself

For a sole proprietor or default single-member LLC, the business's profit is generally your taxable income whether you withdraw it or not. Owner's draws are not a business expense; they're a transfer to you. A simple approach many owners use:

1. Pay business expenses.
2. Set aside taxes.
3. Keep a cash cushion for the business.
4. Transfer a consistent owner's draw on a schedule (e.g., monthly).

Protecting Your Separation

- Use separate logins and payment methods for business software.
- Label everything clearly ("Business," "Tax Savings," "Personal").
- Never use business funds for personal purchases "just this once."
- If a mistake happens, record it and fix it promptly.

EXAMPLE (HYPOTHETICAL): A hypothetical tutoring business owner had been receiving payments to her personal payment app. She updates her settings so all tutoring payments go to a business payment account linked to her business checking. On the first of each month, she pays herself a fixed owner's draw and records it in her books.

AI Prompt: Create My Money Flow System

COPY-AND-PASTE AI PROMPT

```
Design a simple money-flow system for my [BUSINESS TYPE] as a
[STRUCTURE]. I receive payments through [PAYMENT METHODS] and pay
expenses like [LIST]. Show:
- Which accounts I need (business checking, tax savings, etc.)
- Where every payment and expense should flow
- A monthly routine for paying myself and setting aside taxes
- How to record owner's draws and contributions
Present it as a step-by-step checklist. Remind me to confirm tax
questions with a professional.
```

EXERCISE 2.10: Draw or describe your money flow on your worksheet and set a recurring date for owner's draws and tax savings transfers.

MODULE 2

Module 2 Worksheet

Not legal or tax advice. Verify every requirement with official sources for your state and locality.

Part A: Name Availability Checklist

Name option	State database clear?	USPTO search clear?	Domain available?	Social handles?	Notes

Final name: _____ Backup name: _____ DBA needed? Yes / No

Part B: Business Structure Decision

Item	My answer / research
Structure I'm starting with	
Why this structure fits now	
State LLC filing fee (if forming)	
Annual report / fees in my state	
Registered agent plan	
Operating agreement plan	
Questions for a CPA or attorney	

Part C: EIN Readiness

- [ ] I checked "Do You Need an EIN?" on IRS.gov
- [ ] I'm using only the official IRS.gov site (EINs are free)
- [ ] I know my responsible party, legal name, and structure
- [ ] I saved my EIN confirmation letter securely

Where I store important documents: _____

Part D: Bank Comparison

Bank / account	Monthly fee	Minimums	Integrations	Insured?	Notes

Tax savings percentage (chosen with tax pro): _____%

Part E: Email and Domain

Item	Decision
Domain options (5)	
Final domain	
Registrar and renewal date	
Email provider	
Main address and aliases	

Part F: Expected Business Expenses

Expense	Est. monthly cost	Category	Record I'll keep

Part G: Licenses and Permits Research

License / permit	Agency	Website or phone	Cost	Renewal date	Status

Part H: My Money Flow

Payments come in through: _____ into _____

Tax savings transfer: _____% on _____ (day)

Owner's draw date: _____ Weekly bookkeeping time: _____

MODULE 2

Action Checklist

- [ ] Choose a business name and a backup, and run availability checks
- [ ] File a DBA if required
- [ ] Decide on your business structure (and form an LLC if chosen)
- [ ] Get an EIN from IRS.gov if needed or wanted (it's free)
- [ ] Open a business checking account (and tax savings account)
- [ ] Register your domain with auto-renew, privacy, and two-factor authentication
- [ ] Set up business email with at least one professional address
- [ ] Choose a bookkeeping method and schedule a weekly bookkeeping block
- [ ] List expected expenses and how you'll document them
- [ ] Research and apply for required licenses and permits
- [ ] Route all business income and expenses through business accounts
- [ ] Book a consultation with a tax professional or SBDC advisor (optional but recommended)

MODULE 2

Knowledge Check

1. By default, how does the IRS generally treat a single-member LLC for federal income tax?
A) As a C corporation
B) As a disregarded entity, with income usually reported on the owner's return
C) As a nonprofit
D) As a partnership

2. How much does the IRS charge for an EIN?
A) $50
B) $99
C) Nothing; it's free on IRS.gov
D) It depends on the state

3. Which statement about LLCs is true?
A) An LLC always lowers your taxes
B) An LLC protects you from your own negligence
C) Mixing personal and business funds can weaken liability protection
D) An LLC replaces the need for insurance

4. What does "DBA" stand for and when is it often needed?
A) "Domain Business Address"; when you buy a domain
B) "Doing Business As"; when operating under a name other than your legal or entity name
C) "Direct Bank Account"; when opening a bank account
D) "Digital Business Authorization"; when selling online

5. Which two tests does the IRS use for deductible business expenses?
A) Cheap and fast
B) Ordinary and necessary
C) Approved and filed
D) Personal and business

6. True or false: Running an online business means you never need a local license.

7. Which marketing email practice is required by the CAN-SPAM Act?
A) Sending at least weekly
B) Including a clear way to opt out and honoring opt-outs
C) Using emojis in subject lines
D) Only emailing customers in your state

8. What is the best way to pay yourself as a sole proprietor?

A) Pay personal bills directly from the business account

B) Record a regular owner's draw transferred to your personal account

C) Never take money out

D) Use the tax savings account

MODULE 2

Answer Key

1. **B.** A single-member LLC is a disregarded entity by default unless it elects otherwise.
2. **C.** EINs are free from the IRS. Beware of sites that charge for them.
3. **C.** Commingling funds can weaken liability protection. LLCs don't automatically reduce taxes or replace insurance.
4. **B.** A DBA is a "doing business as" or assumed-name registration.
5. **B.** Expenses generally must be ordinary and necessary for your business.
6. **False.** Many localities and states require licenses or registrations regardless of whether you sell online.
7. **B.** CAN-SPAM requires a clear opt-out mechanism and prompt honoring of opt-outs, among other rules.
8. **B.** Transfer and record an owner's draw; keep personal expenses out of the business account.