Unity is strength...when there is teamwork and collaboration, wonderful things can be achieved.

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HANGING A SHINGLE
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Have you been thinking of hanging your own shingle, but you are not sure where to begin? The process can seem daunting, but if you make sure you have the fundamentals in place, you will be off to a great start.

This article is intended to be a starting point for a new law business. The intent is to give information to think about when choosing a business entity, choosing office space, malpractice insurance, and additional needs to start a law practice.

Choice of Business Entity

The first decision to make when deciding to set up shop is what form of business entity to use. The choices are: to be a sole proprietorship/partnership, a professional limited liability company ("PLLC"), an S corporation, or a C corporation.

If you have an established client base, it may be beneficial to set up a PLLC. If a PLLC is chosen, the important election will be how the entity is taxed by the Internal Revenue Service ("IRS"). The choices are: to be taxed as a sole proprietorship/partnership, an S corporation, or a C corporation. Being taxed as an S corporation has the potential to significantly reduce the tax liability by reducing the amount of social security, also referred to as self-employment tax. The downside to organizing as a PLLC taxed as an S corporation is the requirement to file a tax return for the business entity separate from a personal tax return. This could lead to a higher tax preparation cost. Another disadvantage of being taxed as an S corporation is maintaining payroll, which requires paying withholding taxes, unemployment insurance and workers compensation.

If you are just starting the practice of law or do not have an established client base, there may not be enough of a reduction in social security taxes to justify organizing a PLLC taxed as an S corporation. It may be more beneficial to elect to be taxed as an individual/partnership or not form a PLLC at all.

In order to select the appropriate tax election, consult with a competent tax advisor. While consulting with a tax advisor, make sure to ask them how they want the business financial information provided to them to prepare the required tax returns. Do not be in a position to try to recreate a year of financial transactions prior to the applicable filing deadlines. An option is to use QuickBooks and download the business bank transactions straight into QuickBooks. Another option would be to keep track of the business transactions in Microsoft Excel.

For help with creating an entity in Kentucky, the Kentucky Secretary of State has an online Business Portal designed to help create an entity. The website provides information on registering a business, getting tax numbers, insurance requirements, licenses/permits, and other useful information in regards to starting a business. The Secretary of State's Business Portal can be found at http://onestop.ky.gov/start/Pages/default.aspx.

Office Space

The next decision to make is where to locate the office. The two options are to have a physical office location or to use a virtual office.

If there is an established practice with regular face-to-face meetings with clients, a physical office location may be the best option. A physical location can be rented or owned, but the most cost effective option is to rent a space. There are numerous attorneys in the area that rent individual offices within their existing office. This can be a good option because it is less costly than renting an entire stand-alone space. It provides a source for possible referrals as well as a fellow lawyer to serve as a sounding board. It is also likely that the space may already have furniture or a phone system in place with intercom and voicemail.

If a physical space is not necessary or is cost prohibitive, a virtual space is a great alternative. This can mean having access to a conference room at a physical office location, but no actual office. As long as the conference room is available when needed, clients may never know a physical office is not maintained. Also, a virtual office could mean working out of your house, meeting with clients at a location such as the courthouse, the library, their house or a coffee shop. The downside to this option is the potential lack of privacy at the meeting places and a potential expectation on the part of the client for a more formal, private meeting place.

Tax ID Numbers/Business License

The business will need to get an Employee Identification Number ("EIN") from the IRS and the Kentucky Department of Revenue. There is assistance for this process on the Secretary of State's Business Portal. In addition the business will need a county and city license to operate the law practice within a county/city. Some cities, such as Covington, require a certificate from planning and zoning that the office is in compliance with zoning laws prior to granting a business license.

Malpractice Insurance

Malpractice insurance is not required if the business is a sole proprietorship/partnership. Pursuant to SCR 3.024, malpractice insurance is required if the business is a limited liability entity. There are options to pay the premium in installments. Further, to be a member of the Northern Kentucky Bar Association ("NKBA") Lawyer Referral Service, a minimum level of malpractice coverage is required. Typically, lawyers purchase liability limits of at least $1,000,000.00 per occurrence/$2,000,000.00 per year.

Additional Needs to Set Up Shop

Other than the considerations mentioned
above, additional necessities include:

1. Bank Accounts – An operating account and an IOLTA/trust account will need to be opened. Any bank should know the requirements to set up an IOLTA/trust account. Opening an IOLTA/trust account is no more difficult than opening a simple business operating account. Do not mix a personal account with a business operating account.

2. Computer – A basic computer with word processing, software, Internet and email will suffice. A used computer is a cost effective option to begin practice.

3. Printer/ Copier/ Scanner/ Fax – A printer, scanner, copier and fax machine will be needed. There are inexpensive combination units available on the market. One thing to keep in mind is the cheaper models make up for the cost of the machine by requiring high cost toner cartridges. A Brother combination unit for as little as $180.00 is a good machine to begin with. As volume increases, moving on to renting a combination printer from a local company for $100.00 a month may be cost effective. This would include approximately 4,000 prints a month, the toner, and all maintenance.

4. Telephone/Internet – Often, it is most cost effective to use the same company for Internet and land line telephone services as a “bundle.” Another option is to use a cell phone as the initial phone provider to cut costs. If a cell phone is chosen, it may be prudent to set up a phone number through Google Voice. This would allow separate phone number for business to receive calls and call out with the cell phone.

5. Postage Machines – Stamps.com provides a monthly service with a free scale to be able to print exact postage.

6. Credit Card Processing – The ability to accept credit cards is recommended. There are online based processing services that charge a flat percentage. An example is www.squareup.com.

7. Billing Software – Chaos Legal Billing Software (http://www.chaossoftware.com/legal-billing.aspx) charges a one-time $50.00 fee for billing software. It is more than adequate starting out and very economical. This can also be used as a conflicts check.


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Please sign up for the event to show your support. Superhero costumes are encouraged. An award for the best overall NKBA Team* will be presented.

Law firms or NKBA members interested in sponsoring the race or participating, please contact Jenna Overmann at (859) 757-4234 or jovermann@udofamilylaw.com

*NKBA Team is a team which consists of two or more NKBA members.