I take pleasure in introducing to you, Arthur B Hamel, the Dean of American Business. Arthur Hamel is a nationally recognized expert in business opportunities and a well-known author, consultant, investor, business owner, and dynamic lecturer. His expertise is founded on his actual business experience over the past 30 years as well as his formal educational credentials.

Hamel is a doer. Arthur Hamel's early business knowledge came from his years in the trenches. While in his teens, Hamel worked in construction and after earning his degree in industrial engineering from Pennsylvania State University, he applied that knowledge both in working for major industrial giants like IBM and Lockheed as well as in a management consulting firm in which he was a partner HTH Consulting Associates in New York.

Very active today in business management and ownership, Hamel estimates that he has been involved in over 200 business opportunities including formation, ownership, franchising and leasing.

Since 1975, Hamel has also been conducting the Arthur Hamel Business Seminar and has provided thousands of Hamel graduates with valuable, practical business training.

The cassette tape home-study program that you're about to hear will give you the same indepth opportunity to completely familiarize yourself with the total mechanics of business. You will receive easy to follow, step-by-step information on how to select the right business for you, how to analyze it carefully, structure the purchase shrewdly, finance it fully, and own it successfully with substantial cash flow while investing little or no money of your own. You do not have to be a wiz at bookkeeping or math. You do not have to be a college graduate. You do not have to be an experienced business person.

The easy to follow workbook, which has chapters to accompany each tape, will provide you with forms and charts to keep and use forever. Here at last is the easy way to learn the proven steps to success. Welcome to the wonderful world of cash flow.

As we start looking into the areas of either buying or starting a business, the thing you have to realize up front is really covered on page 1-1, and what we have is something here that we've had in our program as the introduction, "Don't Be a Quitter", and again I'm not going to read this for you other than say, "Don't be a quitter when the job is tough, or fail in trying with the going is rough." The thing you have to realize when you get involved in business – as you're going out to buying out, as you're going out to start one – it's not going to be that easy. It's going to be probably a lot easier than you think it is.

I've been involved in business now for many, many years. I've also been involved in education of people for over ten, and the key thing we have found, in going back to check on our successful people, is that fact that the people are successful has nothing to do with race, creed, color, sex, national origin – any of those things. It has to do with persistence. It has nothing to do with your IQ level because I don't care if your IQ level is very low or very high. The key thing is persistence because when you go out there to get involved in business and you're getting started whether you're buying an existing one or starting one, a lot of things are going to go wrong. A lot of people are going to put you down. People are going to tell you it doesn't work. People are going to tell you that you couldn't possibly get in business, or just look at you and say, "You? You've got to be kidding."

The thing that always fascinates me as your relatives and friends put you down is be of good cheer because X number of months from now, these same people are going to come back to you and say, "See I told you. I told you you'd succeed." Why because as soon as you start to make money and do well, you're going to find the average person – relative or friend – that put you down before is now going to come back and be your friend. Why? Because you now have beaucoup bucks.

What I want you to consider as you're thinking about section one here is the fact that you're not going to be going to another planet as you get involved business. You're going to have the same problems in life you've had before. The only thing that happens, basically, when you get involved in business is you're going to have more money. Another thing you're going to have to do is figure out ways to enjoy that money because after you get that business, if you let the business bog you done or if you don't have good management or if you've set it up so you're not able to take off and enjoy the money, you're going to find life isn't going to be that sweet because in business it requires two things basically if you want to be happy. Number one, to make the money to cover what you and your family need and also buy all the toys you wants, and the secondary thing that you have is to have good management so you can take off so you can enjoy some of the money.

Also, the thing that you gain with good management is the fact that it may take away a lot of the problems. They're a buffer, and if you get involved in businesses where you don't have that management buffer, you're going to find in most cases you're not going to enjoy the management of a business because you're going to have all those people hitting you all the time.

As you start to consider getting involved in business, three of the basic areas that we're going to talk about on the next page is basically the form of ownership or the form of organization, and as we go through this – this is the only time in this section we're going to cover taxation. So, why don't we go through this now, and I'll just read it and we'll talk about these different areas.

We talk about choosing a form of organization. Starting a business involves among other things, or buying existing ones, a number of substantial tax aspects, and what we have are the most significant tax points you'll encounter.

One of the first decisions is related to the legal form of ownership, and again I'm not an attorney, and you're going to need an attorney to give you advice in all these different areas, but let's start giving an overview as to some of the problems, the good news and bad news you're going to find to get involved in the area.

As you get involved in larger companies, you're going to find the general rule is if you're generally incorporating or buying it or selling up as a form of a corporation because we're going to find we're going to end up with a lot more tax benefits having a corporation, and even though most people think of the basic benefit being the protection, that is also true because you're going to find in a corporation as long as you've done everything properly and you haven't signed personally, you're going to find if something does go wrong with that corporation basically you end up collapsing the problem you have within that corporation and doesn't go out and affect your other assets. Again, I'm generalizing if you just set it up properly.

Also, I'm going to suggest one thing. If you do decide to get involved in the area of forming corporation – again, I'm not an attorney – but, I do want to tell you I run into a number of you that buy these books on how to form a corporation for under X number of dollars in all these Mickey Mouse states, and what I suggest you do is form the corporation in your own state, and what I also suggest you do is get an attorney to do it because then when you run into trouble, you have somebody to go back to.

The thing that really gets me is a lot of you will spend thousands of dollars on your fantastic job in your corporation, setting it up, buying it and the whole thing, and whenever you get down to the corporation part of the form of ownership you screw the thing up by going cheap. Although you may save a hundred or two hundred dollars or three hundred or whatever, the money you've saved you're going to end up losing in the next few years. Why? Because you're going to end up screwing it up. Let the professionals do their job.

Now, again, we've talked about the tax aspects. Let's start talking about the first type here and let's start talking about sole proprietorship. The simplest form of organization is sole proprietorship. It's not an organization at all since it has no existence separate from that of the owner. In fact, an individual may own more than one sole proprietorship and they even elect to use different tax accounting method. Income or loss is reported in a proprietor's income tax return. The proprietor is liable for any self-employment tax on the income, and although most deductions available to other forms of organization are also available to the sole proprietor, certain benefits available to corporate employees such as retirement are medical are restricted.

So, what you're going to find especially when you get involved in businesses making over $50,000 and that's just our general rule of thumb, don't hold us to it, you're going to find that basically with the benefits we have in retirement and other areas, we do like the corporate form of ownership.

The other thing is with a sole proprietorship, it may be a good way to start because basically when you're going out with a sole proprietorship and you don't have a good tax record, the corporation form is not going to protect you legally because even if you have a corporation and you don't have a track record, people are going to ask you to sign personally. So, you end up basically, other than tax wise, back in the same position you would be legally with a sole proprietorship.

The next form of ownership we run into is a thing called a partnership, and a partnership is formed when two or more persons join together and carry on a business, very basic. These persons may be individuals, corporations – yes you can have a partnership between corporations – and other partnerships.

There are two types of partnerships. One is general. One is limited. In general partnerships all partners are jointly and separately liable for all obligations of the partnership. A limited partnership must include at least one general partner who is liable for obligations without limit, and the limited partners are liable only to the extent of their investment and any other obligations they specifically assume. Later on in this program, you're going to find as we get into the area of financing, we'll be talking about a thing called limited partnerships, discussing how we use these in the purchase of businesses, and it works very well.

A partnership does not pay any federal income tax. It computes it's annual taxable income or loss and files a US partnership information return of income. The partnership acts as a conduit reporting items of ordinary income, loss, capital gain and investment interest and investment tax credit to each partner. These items retain their tax character in the partner's hand and must be reported in the partner's tax return where they're subject to the same treatment as though the partner had realized directly.

All elections for income tax purposes with limited exceptions are made by the partnership, and the partners are bound by these elections. Under some circumstances, a partnership may elect not to be treated as such for federal income tax purposes. This exception is available only in cases where income and deductions may be separately computed by each partner.

Now, although it's not necessary to have a formal partnership for tax purposes, it makes good sense to have one. A sound agreement may actually prevent future disputes. And, again, I've been involved in partnerships a number of times. I just want to say basically that we say that partnerships basically don't work. Think about marriage, that's a partnership and we have a lot of divorces today in the country. When you get back to another partnership, the biggest problem is you spend a lot of time building the partnership agreement and how you're going to put it together and what we have found from a person to person standpoint, you don't have a good way out and when problems do come up in a partnership, there's no way to split up the partnership or it's not spelled out enough or it's too restrictive.

So, we usually suggest – again, not from a legal standpoint, but from a practical standpoint – that you consider also the way out and spend a lot of time working on that also.

The main partner into a partnership, and I hate it to put it as basic as this, you're eventually going to get to the point with most of them where you end up accusing them of stealing more money from the company than you're stealing. I know that's very basic, but the thing you want to keep in mind, it is much better in business if you have a great friend to let them go off and buy their business, you buy your business, and then meet every week or so and have lunch and be friends because in most partnerships, you're going to find great friendships turning into hate relationships.

Now, partnerships have several advantages over corporations at start-up. You have operating losses common in new businesses may be deducted against the income of the partners. Funds may generally be withdrawn by the partners without adverse tax consequences. Partnerships are also extremely flexible from a tax standpoint and offer the opportunity to allocate certain items of income or deduction to specific partners with such an allocation with substantial economic affect, and again, we run into this quite often especially in limited partnerships where they're bringing in people in our partnership where we are the general partners, and we're able then to structure the transaction to give our limited partnership not only cash flow, but maybe give them more of the tax benefits that we're getting.

On the other hand, over the long term, partnerships may suffer from some disadvantages. Death or disability of a partner may terminate the partnership. In a general partnership, each partner is jointly and severely liable for their obligations.

Partnership interests are usually not freely transferable. Partners like sole proprietors are not eligible for preferential treatment of certain fringe benefits available to people that own corporations.

Of course, from the planning viewpoint there's no reason a business can not begin unincorporated, in other words a sole proprietorship or a general limited partnership and later incorporate when the time is right. Again, you should be talking to your attorney about this.

The last basic general category is use of the corporation, and a corporation unlike a sole proprietorship or a partnership is treated as a person under the law. Since a corporation is preformed under applicable state law and requirements vary, legal assistance is essential. Again, don't go this Mickey Mouse route with these crazy books. Go to an attorney.

Corporations, except so called Subchapter S described later, are separate tax payers and must compute their taxable income or loss, file a tax return and pay any tax due. Withdrawals of funds from the corporation by the shareholders are subject to income tax. A corporation may select a fiscal year, an accounting method different from those of the shareholders. It's existence is not affected by the death or disability of any shareholder. Corporate stock is usually fully transferable. Stockholders can limit their liability to the amount of their investment in the stock, and offsetting this advantages is an array of Federal and State taxes upon the corporation.

Also to be considered is the potential double taxation of corporate earnings – first at the corporate level and second at the stockholder level where the earnings are paid out, and what they're basically saying here is you know what you're going to do? You're going to end up paying taxes in the corporation on the profit and then on the remainder that you assure as dividends, the people receiving the dividends – the shareholders – are going to end up paying stock also.

A significant exception is Subchapter S. This is a corporation meeting the requirements of Subchapter S of the Internal Revenue Code, and the basic thing we want to talk about here, it's the same form as the other forms of incorporation, but what happens is you don't have to pay tax within the corporation and the profits of the corporation actually funnel down through the corporation and the individual shareholders then pay tax as if they were partners in this corporation. In other words, the tax is not provided by the corporation, it's funneled through. You're going to either have to talk to your attorney to find out if you want to use Subchapter S.

Years ago we found, we didn't use many Subchapter S corporations because we got a feeling that these were used by people that went out to invest in Mickey Mouse things and weren't looking for a profit. But, we have found recently with changes in the law the government has given us, we have found that Subchapter S is becoming increasingly important in our planning, and in the last couple of years we've used Subchapter S a lot more than we ever did in the past.

So, talk to your attorney about it and get some advice, and although you're going to think that maybe you can go out and do some reading on this, I want to tell you something. The money that you spend on taxes with your CPA in this area, and also the money that you spend with your attorney is going to be money well spent. The reason for this is – again, over the years, I've felt, "Ah, let's go the cheap way. Let's not bring in the CPA. Let's not bring in the attorney." I have found in the last few years especially I'll say the last 15 or 20 in business, I found that basically for every dollar that I've spent with a CPAs and I've had many of them that I've worked with, I save five to ten times that amount.

The key thing is, and we're going to talk about this later, it really gets me in the area of taxation because many of you are going to be tempted to go out and cheat on your taxes. You're going to Mickey Mouse your taxes, and I've had a chance to go back and look at a lot of the different businesses that you buy or that you own, and the thing is because you don't go to a CPA or get that professional tax advice, you might find you Mickey Mousing and cheating to pick up another $20 or $30,000 in write-offs that are not legitimate. If you had just gone to a CPA, you probably would've picked-up $70, $80, or $100,000 in legitimate write-offs. So, why don't you spend the money on the legitimate way to go which is a CPA and on the other end, you're going to find that you can actually write-off so much legitimately under our tax laws that you don't have to go out and Mickey Mouse them and play games.

The next area also has to do with an attorney. I'm sure you're going to tell me especially those of you from the Midwest and the Western United States that you don't need an attorney in a transaction. I want to tell you something. Business transactions are very complex. Business transactions right in the beginning that are handled properly by an attorney or going to make life a lot easier and then as your family takes over, your great grandkids take over the company later, you're going to find that you set a good base in that company. Why? Because you did it properly.

So, don't try to go and chince in this area because there's always ways to go out and get this help. Later in the tape program will show you how these professionals will also provide financing for you, but we'll talk about that later.