



America Counts on CPAs

## Money Management

*The Money Management columns are a joint effort of the AICPA and the Indiana CPA Society, as part of the profession's nationwide 360 Degrees of Financial Literacy program.*

**FOR IMMEDIATE RELEASE: September 2010**

### **Financing Options for Your Small Business**

Where can you turn if you need to borrow money for your small business? It's often a smart idea to take out a loan to finance an expansion or upgrade, to consolidate debts and lower your borrowing costs, or for any number of other reasons. However, in a recession, many of the usual sources of cash have dried up. The Indiana CPA Society offers this advice on getting funding in the current economy.

#### **Traditional Sources**

Banks, of course, are usually the first place that many businesses approach for financing, but numerous lenders have tightened their requirements, making it much more difficult to get credit. CPAs recommend that you be prepared to tell a compelling story when you go for a bank loan. That means being armed with current and prospective financial statements and answers to questions bankers may have about your current business challenges, including any late payments or declining sales. Many companies also turn to the government for funding. For more information on this option, consult the U.S. Small Business Administration site at [www.sba.gov](http://www.sba.gov). And remember that your CPA can help you prepare the information and documentation you need to improve your chances at gaining financing from any source.

#### **The Personal Touch**

If outside sources won't provide the funding you need, there are several options closer to home. Many business owners turn to home equity loans, particularly when they want to finance a start-up or expansion. Keep in mind, however, that after the recent implosion in the mortgage market, these loans can be more difficult to obtain. Remember, too, that you are putting your home on the line if you face business setbacks, so use great caution when turning to this source of funds. It's important to be realistic about your ability to repay the money on a timely basis

before borrowing against your home. The same is true of credit cards, which some entrepreneurs use to cover costs. This can be an expensive proposition with a high-interest-rate card. It's also a risky choice, since your credit rating will be damaged if you're unable to make timely repayments.

### **The Retirement Nest Egg**

A fat retirement account can be a tempting source of funds, but CPAs urge against dipping into this money except in an absolute emergency. Retirement savings are not a good option for business start-up or other costs for a number of reasons. First, if you withdraw money from a tax-advantaged retirement account, you will likely face a steep penalty and have to pay taxes on the withdrawal amount. That makes this type of financing extremely expensive. It is possible to borrow against a retirement account in some situations, but even that is not a great idea. Consider the fact that the money in a retirement account is working for you by earning interest or dividends as the years go by. When you borrow money from an account, these funds can no longer do that work for you. Finally, even if you are certain that you will be able to repay the money down the road, there's always the chance that things will not work out as planned. In that case, you've left a big hole in your retirement nest egg, one that you may never be able to replace. All in all, CPAs strongly recommend against turning to retirement funds to finance a business.

### **Your Local CPA Can Help**

Cash flow is the lifeblood of any business, which is why financing is such an important concern for company owners. Remember that with any challenge facing your business, your local CPA can help. Turn to him or her with all your financial questions.

Need to find a CPA? The Indiana CPA Society's Find a CPA service can help you find one in your area! Visit [incpas.org/findacpa](http://incpas.org/findacpa).

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