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SEVEN LEGAL AND FINANCIAL STEPS TO CLOSING YOUR SMALL BUSINESS

For a variety of reasons, some small businesses permanently close their doors. Closing a company may be a difficult decision to make, and it can become even more challenging when a business owner does not take the proper steps.

Exiting a business involves more than just ceasing to advertise and ending sales of products and services. It also requires filing paperwork to officially dissolve your business with the state and taking care of other formalities. Failing to take care of those details could mean being on the hook for fees (and possibly fines) even when a business is not serving its customers anymore.

Here are the Seven Steps to Closing a Business

Step #1 — Dissolve Your Business Entity: Companies operating as an LLC or corporation must legally dissolve that business structure so that the state knows it is no longer in operation. This involves filing Articles of Dissolution with the Secretary of State office. Businesses with multiple owners will need to first hold a meeting with their business partners or Board of Directors to get a consensus vote on closing the business. Note that the procedures for each state and municipality may vary slightly, so it is important to research what you need to do in each state and municipality where your business is registered.

Step #2 — Collect Money Owed to You and Sell Your Assets: As you pay suppliers and vendors what you owe them before you close your business, you will want to reach out to customers who owe you money. If you are having difficulty collecting, one option to ensure you get some of what is owed is to sell your accounts receivable to a factor. A factor will compensate you for a portion of the money that is owed you, and then they assume ownership (and the task of collecting the money) of the receivables.

Selling your business assets and inventory can also generate cash for you before you close your company. Some ways to handle this are using sites like Craigslist or eBay, holding an auction, and personally reaching out to other business owners who might need what you're selling.

Step #3 — Pay Your Outstanding Debts: Take care of outstanding bills from vendors and service providers to close out your accounts payable. If you are unable to pay what you owe, discuss your options with an attorney.

Step #4: File Final Payroll Taxes and Pay State Sales Tax: If you have employees, after you have paid them their final wages and salaries, submit your payroll forms as usual and pay your final payroll taxes. What if you are unable to pay what you owe in payroll taxes to the IRS? Filing an "Offer in Compromise" (<https://www.irs.gov/forms-pubs/about-form-656>) might enable you to reduce the amount that you owe. Another option to consider is agreeing to pay your tax due in installments.

Also, submit your final state sales tax forms with the tax you have collected from your

customers. Then, find out what your state and municipal tax agencies require you to do to officially close out your tax account. (See additional information at the end of this article.)

Step #5 — Submit Your Final Income Tax Return: LLCs and corporations must check the "final return" box when filing their income tax forms. Corporations also need to report shareholder allocations (and losses) on Schedule K-1 (<https://www.irs.gov/pub/irs-pdf/f1120ssk.pdf>).

Heed the deadlines for submitting final tax documents:

- LLCs – By April 15 of the year after the business dissolved or as published during the COVID-19 crisis.
- Corporations – Within two months and 15 days from when the business dissolved.

Businesses that close must also close their Employer Identification Number account with the IRS (<https://www.irs.gov/businesses/small-businesses-self-employed/canceling-an-ein-closing-your-account>).

Step #6 — Cancel Business Licenses and Permits: If you have needed business licenses and permits from the federal, state, county, or local governments, notify them that your company has closed. That way, you will not be charged renewal fees or be on the hook for taxes after you are no longer doing business.

Step #7 — Distribute Assets to Partners or Shareholders: Businesses that have multiple owners and money or assets left over after paying all debts should distribute them among partners or shareholders. LLCs will divide assets according to each partner's share of the business. Corporations will allocate assets according to the shares owned by each shareholder.

Additional Information

More information about what is required by the IRS is available at <https://www.irs.gov/businesses/small-businesses-self-employed/closing-a-business-checklist>.

More information about what is required by the Pennsylvania Department of Labor and Department of revenues is available in <https://www.revenue.pa.gov/FormsandPublications/otherforms/Documents/rev-252.pdf>

Do Not Miss a Thing – GET HELP!

As you can see, closing a business comes with many responsibilities. To make sure you cover all the bases as you work through the process, SCORE recommends reaching out to legal and accounting professionals who can provide expert guidance. Also, you might find that an online business document filing service will make submitting your dissolution paperwork and canceling licenses and permits less daunting. And, last but not least, your SCORE mentor will also be a helpful resource for insight, feedback, and encouragement.