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# Connecticut **LawTribune**

Commentary

## Let's Talk Business: Is It Time to Start Your Own Practice?

Going solo can be challenging, but with careful financial planning and expert guidance, the rewards can be immense.

By **Valerie Dugan** | January 25, 2019 at 09:12 AM



*Valerie Dugan of Morgan Stanley in Hartford. Courtesy photo.*

There may come a time during your career when you will be ready to go off on your own. Perhaps it will be after decades spent in a large firm, or perhaps when you're fresh out of law school. Most likely, it is when the desire to make your own decisions becomes paramount, and when you are longing for a change and a new direction. Certainly, there are challenges to starting your own practice, whether as a seasoned practitioner or a newbie lawyer. Here are some financial tips to help smooth the way.

A business plan is the first step, outlining the goals for your venture and how you plan to achieve them. It's a blueprint of the services you'll provide, your personnel, location, expenses, anticipated cash flow, long-term income projection and more, all taking into account industry trends, competition and various other market factors.

This plan will help determine how much capital you will need for your new venture. How much of that will you be able to provide from your personal savings, and how much will be needed from an outside source? Once you have that figure, determine how much you can contribute. If you don't have enough saved, seek alternative funding. Traditional financial institutions generally lend to practices with proven track records, which, in the beginning stages, can seem daunting.

Secondarily, a private loan, line of credit or business financing from the bank could be viable options. If approaching a financial institution for a loan, it's a good idea to invest at least some of your own money or equipment into the company, as this represents ownership and suggests to creditors that you have "skin in the game."

Regardless of what type of law you want to practice, you will need an up-front amount to cover equipment, supplies, and other costs. Will you hire an

assistant or employee, or will you hire outside vendors for such tasks as accounting?

A very broad rule of thumb to jump-start a law office is to source several thousand dollars (some experts recommend between \$5,000 and \$15,000) depending on whether you will work from home or not. The idea of having that much saved may seem implausible if you were recently admitted to the bar, especially if you are like the average law school grad with \$122,000 in student debt.

Interestingly, less money is needed these days to open a practice than a few decades ago, as space requirements are less. Technology has changed the practice of law, negating the need for a massive law library, storage room and sometimes even a physical office space.

When opening a practice or starting any new business, a good rule of thumb is to separate personal and business banking accounts. Doing so will make tracking and managing your expenses easier, and it will allow you to manage your bills more efficiently. If you are set up as a sole proprietor, all profits, losses and liabilities are tied to you personally, thus it is imperative to keep business and personal finances separate in case of an IRS audit. Separate accounts are critical in that they reduce your legal liability, and may be beneficial when it's time to pay taxes.

When setting up a business banking account, remember that all banks are vying for your business. Thus, consider negotiating for free or discounted services, such as merchant account services that allow you to accept credit card payments. Remember, also, that depending on your legal entity, you may need to apply for an employer identification number to open an account.

Once you have a foundation established, determining an operating budget for your practice is critical, as you cannot seed a business and then let it go. Since 50 percent of small businesses fail within five years of opening, a realistic budget is critical. You will have ongoing expenses related not only to rent, utilities, insurance, professional membership dues and activities, etc., but to equipment, staff, licenses, marketing and more.

Additionally, pad your budget with a reserve to cover unanticipated extra costs that may occur.

Having a sound budget is crucial to expanding your small business. If you are deciding between hiring a paralegal or relocating your office to a larger space, for instance, prioritize your decision based on which option best serves the budget and which can wait. Remember, as your business evolves, so will your budget so take the time for regular reviews.

And, critically, make sure that client funds are saved in a separate escrow account until disbursement is required.

Even as your business continues to reap profits, you should continue your saving efforts, including saving for your own retirement. In the midst of your major business transition it may be easy to neglect personal finances. Don't.

Going solo can be challenging, but with careful financial planning and expert guidance, the rewards can be immense.

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