

Licenses and Permits for Small Businesses

By Brian Powers

When you decide to start a company, you probably start with a business name. Then you choose a business structure. Will it be a sole proprietorship, a general partnership, a limited liability company, or a corporation? Then you must register or license the company with the appropriate government agencies, depending on the state in which you are located.

Limited liability companies (LLCs), corporations, and nonprofits typically have to file or register with the secretary of state in the state where they primarily operate. Your city and county may also require registration. Most secretaries of state have comprehensive websites that make it easy to register.

Sole proprietorships generally do not need to register with the state government. But if you are operating with a business name, you will have to register as “doing business as,” or DBA. For example, if Jane Smith has a proprietorship but her shop is called Carousel Quilting, she would register that her business entity is a sole proprietorship for Jane Smith, DBA Carousel Quilting.

This requirement protects the public if someone has a claim against the business. They can find out what entity actually runs the business and is responsible for it.

Common Requirements

Once set up, small businesses typically need a number of licenses and permits to operate legally. These will depend on the business’s specific activities and location.

It is crucial to research and understand the requirements for your particular situation and location. For example, though unusual, some states require a state business operating license for general business operations. Consult your attorney or accountant about what licenses you might need to operate your business.

What follows are common requirements for business operations.

Employer identification number (EIN) is required to conduct any business. This is a federal tax ID number needed to open a business bank account and for tax purposes. You can apply via mail or on the IRS website. If you are a sole proprietor, this is usually your social security number.

Sales tax license is required for a retail business. This might be known by other names, but the Department of Revenue of every state that collects sales tax requires every business engaged in retail sales to have such a license and file periodic tax returns. Note

that additional requirements and licensing are now required for certain internet sales. You might be required to register in multiple states depending on your level of online sales.

Occupational licenses are required for specific professions. It is unlikely that your shop will require one of these licenses, but again, it's something to investigate. The easiest way is to contact your secretary of state. You may also find this online on a number of websites that have compiled the information for all 50 states. Simply search "occupational license requirements by state."

Payroll tax registration. If you have employees, you are required to collect and pay various payroll taxes to the IRS. Your state might also have payroll tax requirements. Sometimes merely filing the payroll tax return is all you need to do. Ask your accountant for advice on this.

Unemployment. If you have employees, the IRS and your state require you to pay unemployment tax. You can secure the necessary forms online from your state's department of labor. You may wish to claim that people working for you are independent contractors and not subject to the tax. Before doing so, though, be sure to get legal advice on whether you meet the requirements for that worker category.

Intellectual property. Since you are in a creative business, you might investigate trademark or copyright protection to safeguard your intellectual property. Register a trademark with the U.S. Patent and Trademark Office. Register a copyright at the U.S. Copyright Office.

Zoning permits could be required for operating your business in some areas. If you want to run your business in an area zoned for a different type of business, you might need to apply for a variance or a conditional-use permit. You can find out requirements at your local building department or city hall.

Home occupation license. Depending on your local and state laws, home-based businesses may need a home occupation permit to use an owner's home as the primary business location. Sometimes, you may need such a permit merely to work from home. Again, check with your local government.

Signage. If you are installing a sign for your business, most local authorities have specific requirements on the size of your sign and where you can place it. They generally require a sign permit, which you can secure through the local building department or city hall.

Facts and Figures

To apply for licenses and permits more easily, gather the appropriate documents and information in advance. Many applications request these forms and items:

- The filing fee. This varies by state and local jurisdiction.

- Your business tax ID or EIN.
- A description of the company, its location, and its activities.
- Copies of corporate records, including bylaws and articles of incorporation.
- A list of owners, investors, or managers allowed to sign agreements on the business's behalf.
- Relevant insurance information.
- Applicable educational or professional certifications needed to perform your service.

Insurance is an important factor in your licensing and permitting. It is one of your most costly operating expenses. Many governments require appropriate insurance before you are allowed to operate your business. Depending on jurisdiction, this might include property insurance, general liability insurance, business interruption insurance, and health insurance.

The licenses and permits you need to operate your business will vary depending on your type of business, its location, its activities, and how it operates. As I usually advise, consult your attorney to be sure that you comply with all applicable laws and regulations.