

## 12.7: Reading- Ten Steps to Starting a Business

### Ten Steps to Starting a Business

Starting a business involves planning, making key financial decisions, and completing a series of legal activities. These ten easy steps can help you plan, prepare, and manage your business.

#### Step 1: Write a Business Plan

A business plan generally contains the following parts (which we will expand on later):

- Executive Summary
- Company Description
- Market Analysis
- Organization and Management
- Service or Product Line
- Marketing and Sales
- Funding Request
- Financial Projections
- Appendix

#### Step 2: Get Business Assistance and Training

Take advantage of free training and counseling services, from preparing a business plan and securing financing, to expanding or relocating a business.

#### Step 3: Choose a Business Location

Get advice on how to select a customer-friendly location and comply with zoning laws.

Choosing a business location is perhaps the most important decision a small business owner or startup will make, so it requires precise planning and research. It involves looking at demographics, assessing your supply chain, scoping the competition, staying on budget, understanding state laws and taxes, and much more.

Here are some tips to help you choose the right business location.

#### Determine Your Needs

Most businesses choose a location that provides exposure to customers. Additionally, there are less obvious factors and needs to consider, such as the following:

- **Brand Image**—Is the location consistent with the image you want to maintain?
- **Competition**—Are the businesses around you complementary or competing?
- **Local Labor Market**—Does the area have potential employees? What will their commute be like?
- **Plan for Future Growth**—If you anticipate further growth, look for a building that has extra space should you need it.
- **Proximity to Suppliers**—They need to be able to find you easily as well.
- **Safety**—Consider the crime rate. Will employees feel safe alone in the building or walking to their vehicles?
- **Zoning Regulations**—These determine whether you can conduct your type of business in certain properties or locations. You can find out how property is zoned by contacting your local planning agency.

#### Evaluate Your Finances

Besides determining what you can afford, you will need to be aware of other financial considerations:

- **Hidden Costs**—Very few spaces are business ready. Include costs like renovation, decorating, IT system upgrades, and so on.
- **Taxes**—What are the income and sales tax rates for your state? What about property taxes? Could you pay less in taxes by locating your business across a nearby state line?
- **Minimum Wage**—While the federal minimum wage is \$7.25 per hour, many states have a higher minimum. View the Department of Labor's list of minimum wage rates by state.
- **Government Economic Incentives**—Your business location can determine whether you qualify for government economic business programs, such as state-specific small business loans and other financial incentives.

### Is the Area Business Friendly?

Understanding laws and regulations imposed on businesses in a particular location is essential. As you look to grow your business, it can be advantageous to work with a small business specialist or counselor. Check what programs and support your state government and local community offer to small businesses. Many states offer online tools to help small business owners start up and succeed. Local community resources such as SBA Offices, Small Business Development Centers, Women's Business Centers, and other government-funded programs specifically support small businesses.

### The Bottom Line

Do your research. Talk to other business owners and potential co-tenants. Consult the small business community and utilize available resources, such as free government-provided demographic data, to help in your efforts.

### Step 4: Finance Your Business

SBA offers a variety of loan programs for very specific purposes. Take some time to study the programs described on [this website](#) to learn more about which types of businesses qualify for different loans.

### Step 5: Determine the Legal Structure of Your Business

Decide which form of ownership is best for you: sole proprietorship, partnership, Limited Liability Company (LLC), corporation, S corporation, nonprofit or cooperative.

### Determine Your Federal Tax Obligations

When starting a business, you must decide what form of business entity to establish. Your form of business (e.g., sole proprietorship, partnership, LLC) determines which income tax return form you have to file. The federal government levies four basic types of business taxes:

- Income tax
- Self-employment tax
- Taxes for employers
- Excise taxes

To learn more about these taxes, visit the Internal Revenue Service's (IRS) Guide to Business Taxes.

### Federal Income Taxes

Select the form of your business below to find out which federal tax forms you need to file:

- Sole Proprietorship
- Partnership
- Corporation
- S Corporation
- Limited Liability Company (LLC)

### State Income Taxes

Nearly every state levies a business or corporate income tax. Like federal taxes, your state tax requirement depends on the legal structure of your business. For example, if your business is an LLC, the LLC is taxed separately from the owners of the business, while sole proprietors report their personal and business income taxes using the same form used to report their business taxes. Consult the General Tax Information link on the State and Local Tax Guide for specific requirements.

### Step 6: Register a Business Name ("Doing Business As")

Register your business name with your state government. Naming your business is an important branding exercise, but if you choose to name your business as anything other than your own personal name then you'll need to register it with the appropriate authorities.

This process is known as registering your "Doing Business As" (DBA) name.

### What is a "Doing Business As" Name?

A fictitious name (or assumed name, trade name or DBA name) is a business name that is different from your personal name, the names of your partners or the officially registered name of your LLC or corporation.

It's important to note that when you form a business, the legal name of the business defaults to the name of the person or entity that owns the business, unless you choose to rename it and register it as a DBA name.

For example, consider this scenario: John Smith sets up a painting business. Rather than operate under his own name, John instead chooses to name his business: "John Smith Painting". This name is considered an assumed name and John will need to register it with the appropriate local government agency.

The legal name of your business is required on all government forms and applications, including your application for employer tax IDs, licenses and permits.

### Do I Need a "Doing Business As" Name?

A DBA is needed in the following scenarios:

- **Sole Proprietors or Partnerships** – If you wish to start a business under anything other than your real name, you'll need to register a DBA so that you can do business as another name.
- **Existing Corporations or LLCs** – If your business is already set up and you want to do business under a name other than your existing corporation or LLC name, you will need to register a DBA.

**Note:** Not all states require the registering of fictitious business names or DBAs.

### How to Register your "Doing Business As" Name

Registering your DBA is done either with your county clerk's office or with your state government, depending on where your business is located. There are a few states that do not require the registering of fictitious business names.

### Step 7: Get a Tax Identification Number

Learn which tax identification number you'll need to obtain from the IRS and your state revenue agency. An Employer Identification Number (EIN) is also known as a Federal Tax Identification Number, and is used to identify a business entity. Generally, businesses need an EIN. You may apply for an EIN in various ways, and now you may apply online. You must check with your state to determine if you need a state number or charter. The following links will take you to the IRS's website for more information:

- [Do You Need an EIN?](#)
- [Do You Need a \*New\* EIN?](#)
- [How to Apply for an EIN](#)
- [How Long Will it Take to Get a Number?](#)
- [Lost or Misplaced Your EIN?](#)
- [How EINs are Assigned and Valid EIN Prefixes](#)
- [Canceling an EIN—Closing Your Account](#)
- [Who is a Responsible Party?](#)

You can apply for an EIN online.

### Step 8: Register for State and Local Taxes

Register with your state to obtain a tax identification number, workers' compensation, unemployment and disability insurance.

### Determine Your State Tax Obligations

In addition to business taxes required by the federal government, you will have to pay some state and local taxes. Each state and locality has its own tax laws. The links below provide access to key resources that will help you learn about your state tax obligations. Having knowledge of your state tax requirement can help you avoid problems and your business save money. The most common types of tax requirements for small business are income taxes and employment taxes.

#### Income Taxes

Nearly every state levies a business or corporate income tax. Your tax requirement depends on the legal structure of your business. For example, if your business is a Limited Liability Company (LLC), the LLC gets taxed separately from the owners, while sole proprietors report their personal and business income taxes using the same form. Consult the General Tax Information link under your state for specific requirements.

#### Employment Taxes

In addition to federal employment taxes, business owners with employees are also responsible for paying certain taxes required by the state. All states require payment of state workers' compensation insurance and unemployment insurance taxes. The following states/territories also require a business to pay for temporary disability insurance:

- California
- Hawaii
- New Jersey
- New York
- Rhode Island
- Puerto Rico
- State and Territory Tax Resources

Each state requires different steps and forms in order to register and be open for business. In general, you can look for these four things:

- Business Tax Registration
- General Tax Information and Forms
- Workers' Compensation Insurance
- Unemployment Insurance Tax

### Step 9: Obtain Business Licenses and Permits

Get a list of federal, state and local licenses and permits required for your business.

#### Federal Licenses and Permits

If your business is involved in activities supervised and regulated by a federal agency—such as selling alcohol, firearms, commercial fishing, etc.—then you may need to obtain a federal license or permit. Here is a brief list of business activities that require these forms and information on how to apply.

In addition, you can also discover which general business permits, licenses and registrations required by your state, county or city.

#### Agriculture

If you import or transport animals, animal products, biologics, biotechnology or plants across state lines, you'll need to apply for a permit from the U.S. Department of Agriculture (USDA).

#### Alcoholic Beverages

If you manufacture, wholesale, import, or sell alcoholic beverages at a retail location, you will need to register your business and obtain certain federal permits (for tax purposes) with the U.S. Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB). The website has a number of online tools that make this process straightforward. If you are just starting a business in this trade, start by reading the TTB's New Visitors Guide which offers helpful information for small business owners.

Remember, you will also need to contact your local Alcohol Beverage Control Board for local alcohol business permit and licensing information.

#### Aviation

Does your business involve the operation of aircraft; the transportation of goods or people via air; or aircraft maintenance? If so, you'll need to apply for one or more of the following licenses and certificates from the Federal Aviation Administration:

- FAA Licenses and Certificates – Get licensing information for airmen, aircraft, airports, airlines and medical aviation services.
- Pilot Licenses and Training Requirements
- Aircraft Mechanic Licenses

#### Firearms, Ammunition, and Explosives

Businesses who manufacture, deal and import firearms, ammunitions and explosives must comply with the Gun Control Act's licensing requirements. The Act is administered by the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). Refer to the following resources from the ATF to make sure your business is properly licensed:

- Firearms Industry Guide – Includes information on obtaining and renewing a federal firearms license, importing firearms and ammunitions, and more.

- Explosives Industry Guide – Find out how to get a federal explosives license.
- How to Become a Federal Firearms Licensee (FFL)
- How to Become a Federal Explosives Licensee (FEL)

### **Fish and Wildlife**

If your business is engaged in any wildlife related activity, including the import/export of wildlife and derivative products, must obtain an appropriate permit from the U.S. Fish and Wildlife Service.

### **Commercial Fisheries**

Commercial fishing businesses are required to obtain a license for fishing activities from the NOAA Fisheries Service. This guide includes quick links to permit applications and information.

### **Maritime Transportation**

If you provide ocean transportation or facilitate the shipment of cargo by sea, you'll need to apply here for a license from the Federal Maritime Commission.

### **Mining and Drilling**

Businesses involved in the drilling for natural gas, oil or other mineral resources on federal lands may be required to obtain a drilling permit from the Bureau of Ocean Energy Management, Regulation and Enforcement (formerly the Minerals Management Service).

### **Nuclear Energy**

Producers of commercial nuclear energy and fuel cycle facilities as well as businesses involved in the distribution and disposal of nuclear materials must apply for a license from the U.S. Nuclear Regulatory Commission

### **Radio and Television Broadcasting**

If your business broadcasts information by radio, television, wire, satellite and cable, you may be required to obtain a license from The Federal Communications Commission (FCC).

### **Transportation and Logistics**

If you operate an oversize or overweight vehicle, you'll need to abide by the U.S. Department of Transportation offers guidelines on maximum weight. Permits for oversize/overweight vehicles are issued by your state government.

### **State Licenses and Permits**

Starting a business? Confused about whether you need a business license or permit?

Virtually every business needs some form of license or permit to operate legally. However, licensing and permit requirements vary depending on the type of business you are operating, where it's located, and what government rules apply.

To help you identify the specific licenses or permits your business may need, simply select a state from the list below to learn about specific license and permit requirements in the area where your business is located.

State Business License Offices

## State Business License Offices

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|---|---|--|
| <ul style="list-style-type: none"> <li>Alabama</li> <li>Alaska</li> <li>Arizona</li> <li>Arkansas</li> <li>California</li> <li>Colorado</li> <li>Connecticut</li> <li>Delaware</li> <li>District of Columbia</li> <li>Florida</li> <li>Georgia</li> <li>Guam</li> <li>Hawaii</li> <li>Idaho</li> <li>Illinois</li> <li>Indiana</li> <li>Iowa</li> <li>Kansas</li> </ul> | <ul style="list-style-type: none"> <li>Kentucky</li> <li>Louisiana</li> <li>Maine</li> <li>Maryland</li> <li>Massachusetts</li> <li>Michigan</li> <li>Minnesota</li> <li>Mississippi</li> <li>Missouri</li> <li>Montana</li> <li>Nebraska</li> <li>Nevada</li> <li>New Hampshire</li> <li>New Jersey</li> <li>New Mexico</li> <li>New York</li> <li>North Carolina</li> <li>North Dakota</li> </ul> | <ul style="list-style-type: none"> <li>Ohio</li> <li>Oklahoma</li> <li>Oregon</li> <li>Pennsylvania</li> <li>Puerto Rico</li> <li>Rhode Island</li> <li>South Carolina</li> <li>South Dakota</li> <li>Tennessee</li> <li>Texas</li> <li>U.S. Virgin Islands</li> <li>Utah</li> <li>Vermont</li> <li>Virginia</li> <li>Washington</li> <li>West Virginia</li> <li>Wisconsin</li> <li>Wyoming</li> </ul> |
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## Step 10: Understand Employer Responsibilities

Learn the legal steps you need to take to hire employees. If your business is booming, but you are struggling to keep up, perhaps it's time to hire some help.

The eight steps below can help you start the hiring process and ensure you are compliant with key federal and state regulations.

### Step 1: Obtain an Employer Identification Number (EIN)

Before hiring your first employee, you need to get an employment identification number (EIN) from the U.S. Internal Revenue Service. The EIN is often referred to as an Employer Tax ID or as Form SS-4. The EIN is necessary for reporting taxes and other documents to the IRS. In addition, the EIN is necessary when reporting information about your employees to state agencies. Apply for EIN online or contact the IRS at 1-800-829-4933.

### Step 2: Set up Records for Withholding Taxes

According to the IRS, you must keep records of employment taxes for at least four years. Keeping good records can also help you monitor the progress of your business, prepare financial statements, identify sources of receipts, keep track of deductible expenses, prepare your tax returns, and support items reported on tax returns.

Below are three types of withholding taxes you need for your business:

- **Federal Income Tax Withholding**—Every employee must provide an employer with a signed withholding exemption certificate (Form W-4) on or before the date of employment. The employer must then submit Form W-4 to the IRS. For specific information, read the IRS' [Employer's Tax Guide](#) [PDF].
- **Federal Wage and Tax Statement**—Every year, employers must report to the federal government wages paid and taxes withheld for each employee. This report is filed using Form W-2, wage and tax statement. Employers must complete a W-2 form for each employee who they pay a salary, wage or other compensation.

Employers must send Copy A of W-2 forms to the Social Security Administration by the last day of February to report wages and taxes of your employees for the previous calendar year. In addition, employers should send copies of W-2 forms to their employees by Jan. 31 of the year following the reporting period.

- **State Taxes**—Depending on the state where your employees are located, you may be required to withhold state income taxes.

### Step 3: Employee Eligibility Verification

Federal law requires employers to verify an employee's eligibility to work in the United States. Within three days of hire, employers must complete Form I-9, employment eligibility verification, which requires employers to examine documents to confirm the employee's citizenship or eligibility to work in the U.S. Employers can only request documentation specified on the I-9 form.

Employers do not need to submit the I-9 form with the federal government but are required to keep them on file for three years after the date of hire or one year after the date of the employee's termination, whichever is later.

Employers can use information taken from the Form I-9 to electronically verify the employment eligibility of newly hired employees by registering with **E-Verify**.

Visit [the U.S. Immigration and Customs Enforcement agency's I-9 website](#) to download the form and find more information.

### Step 4: Register with Your State's New Hire Reporting Program

All employers are required to report newly hired and re-hired employees to a state directory within 20 days of their hire or rehire date. Visit the [New Hires Reporting Requirements](#) page to learn more and find links to your state's New Hire Reporting System.

### Step 5: Obtain Workers' Compensation Insurance

All businesses with employees are required to carry workers' compensation insurance coverage through a commercial carrier, on a self-insured basis or through their state's Workers' Compensation Insurance program.

### Step 6: Post Required Notices

Employers are required to display certain posters in the workplace that inform employees of their rights and employer responsibilities under labor laws. Visit the Workplace Posters page for specific federal and state posters you'll need for your business.

### Step 7: File Your Taxes

Generally, employers who pay wages subject to income tax withholding, Social Security and Medicare taxes must file IRS Form 941, Employer's Quarterly Federal Tax Return. For more information, visit [IRS.gov](#).

New and existing employers should consult the IRS Employer's Tax Guide to understand all their federal tax filing requirements.

Visit [the state and local tax page for specific tax filing requirements for employers](#). [1]

### Step 8: Get Organized and Keep Yourself Informed

Being a good employer doesn't stop with fulfilling your various tax and reporting obligations. Maintaining a healthy and fair workplace, providing benefits and keeping employees informed about your company's policies are key to your business' success. Here are some additional steps you should take after you've hired your first employee:

#### Set up Recordkeeping

In addition to requirements for keeping payroll records of your employees for tax purposes, certain federal employment laws also require you to keep records about your employees. Complying with standards for employee rights in regards to equal opportunity and fair labor standards is a requirement. Following statutes and regulations for minimum wage, overtime, and child labor will help you avoid error and a lawsuit. See the Department of Labor's Employment Law Guide for up-to-date information on these statutes and regulations.

### Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in this section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

<https://assessments.lumenlearning.com/assessments/194>

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