

# START your business



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## 1

### Have you prepared your business plan?

You won't want to start your business before you have completed your business plan! You may want to click the "Planning" box for business planning guidelines. For planning assistance and more in-depth information regarding any of the steps on this page, you may wish to check out the following resources:

- [U.S. Small Business Administration](#)
- [SCORE](#)
- Community Capital Development - [Washington Business Center / Women's Business Centers](#)
- [Microenterprise organizations](#)
- [Washington Small Business Development Center](#)  
(contact after you have a draft plan)
- [Business and professional associations](#)

## 2

### Are you buying an existing business?

If you're buying a business or even just some of the assets of a business, be aware that you may inadvertently be buying past liabilities; workers' compensation and unemployment insurance experience ratings, as well as unpaid debts. As the buyer of a business, you could be liable for the unpaid taxes of the former owner. Therefore, you should require the owner to provide a [Tax Status Letter](#) with regard to any outstanding taxes owed by the business. You may also need to pay [Use Tax](#) to the Department of Revenue on the value of tangible assets included in the purchase, such as equipment, furnishings, supplies, etc. Get competent legal advice before purchasing a business.

## 3

### Choose a business structure

A business is a legal entity. It can own property, hold bank accounts and is required to pay taxes. There are different types of business entities, each with unique benefits and limitations.

The “right” choice for you depends on your interests and needs. You’ll need sound counsel to understand your obligations regarding your business. Get to know the business structure options and discuss them with your advisors to determine which will be optimal for you. Find legal, tax and business (SCORE, Small Business Development Centers) advisors. Good decisions are based on:

- The number of owners now and planned for the future.
- The types of owners - are they all individuals or are they entities (such as corporations, trusts, etc.)?
- Liability concerns.
- Federal tax implications - [Internal Revenue Service \(IRS\)](#).
- Registration and tax filing requirements and costs.
- Paperwork and entity management considerations.

**Sole Proprietorships** are owned by a single person or a married couple. These businesses are inexpensive to form and there are no special reporting requirements. The owner is personally responsible (liable) for all business debts and for federal taxes.

**Limited Liability Companies (LLCs)** are very popular. The business has limited legal liability like a corporation, but has fewer governance requirements. Creating an LLC requires filing with the Washington [Secretary of State](#). For federal taxes, LLCs are typically treated like sole proprietorships if there is one owner, or like partnerships if there is more than one owner. However, by filing an [entity classification election form](#) with the IRS, LLCs can be treated like corporations for federal tax purposes. Although not required, forming an LLC should be done with the help of a qualified legal professional. Among other requirements, LLCs are required to create a governance document called an Operating Agreement.

**General Partnerships** are like sole proprietorships but with more than one owner. Partners share managerial duties, profits and losses, and each is personally responsible (liable) for all business debt. Because the actions of one partner can result in personal liability for the others, partnerships have become less popular since LLCs have been around. For federal tax purposes, the business is required to file a partnership return with the income or loss going to each partner based on how much of the business each owns. Creation of a partnership agreement, with guidance from a qualified legal professional, is recommended.

**Corporations** are more complex structures than the others. As with LLCs, corporations have limited legal liability. To form a corporation, you must file with the Washington [Secretary of State](#) and you must create a governance document—which, in this case, would be bylaws. Corporations also have other requirements, such as issuing stock certificates, holding annual meetings and keeping minutes, electing directors, etc. Working owners of corporations are employees and must have federal payroll taxes withheld and reported the same as other

employees. [Corporations](#) file federal corporate tax returns with the IRS. If qualified and applied for on a timely basis, corporations may choose pass-through taxation, where income taxes are paid by the owner(s) but not also by the corporation ("[S-Corporation](#)"). Although not required, forming a corporation should be done with the assistance of a qualified legal professional.

**Limited Partnerships** (LPs) are not used very often for small businesses, although they are common for real estate ownership. LPs are composed of one or more general partners and one or more limited partners. The general partners manage the entity and share fully in its profits and losses. To protect themselves from liability, general partners are often corporations or LLCs rather than individuals. Limited partners share in the profits of the business, but their losses are limited to the extent of their investment. Limited partners are usually not involved in the day-to-day operations of the entity. Get legal advice before choosing an LP structure for your business. Like LLCs and corporations, creating an LP requires filing with the Washington [Secretary of State](#).

**Washington State Business and Organization Structure Considerations:**

<b>Considerations</b>	<b>Sole Proprietorship</b>	<b>General Partnership</b>	<b>Limited Liability Company (LLC)</b>	<b>Corporation</b>
<b>File or register with Washington Secretary of State</b>	No	No	Yes	Yes
<b>Formation Difficulty</b>	Low	Low	Medium	Medium/High
<b>Liability</b>	Sole Proprietor has unlimited liability for debts and taxes.	Partners have unlimited liability for debts and taxes.	Members are not typically liable for debts other than taxes.	Shareholders are not typically liable for debts other than taxes.
<b>Operational Requirements</b>	Relatively few legal requirements.	Relatively few legal requirements	Some formal requirements such as operating agreements and annual reporting.	Board of directors, annual meetings, annual reporting required.
<b>Management</b>	Sole proprietor has full control of management and operations.	Typically each partner has an equal voice, unless otherwise arranged.	LLCs have an operating agreement that outlines governance and management.	Corporations have bylaws that outline governance. Typically managed by directors who are elected by shareholders.

<b>Considerations</b>	<b>Sole Proprietorship</b>	<b>General Partnership</b>	<b>Limited Liability Company (LLC)</b>	<b>Corporation</b>
<b>Federal Taxation</b>	Sole proprietor reports all business revenues & expenses and pays taxes through personal return.	Each partner reports their share of business revenues & expenses and pays taxes through personal return.	If one LLC member, typically pay taxes as individual. If more than one member, typically pay taxes as partnership. Can elect with IRS to pay taxes as a corporation (either c- or s-).	If standard corporation (c-corp), taxed as a business. If dividends are distributed to shareholders, dividends are taxed at the individual level. Can elect with IRS to be taxed as an s-corp. Each s-corp shareholder reports their share of business revenues & expenses and pays taxes through personal return.
<b>Washington Excise Taxation and Liability (Washington Department of Revenue)</b>	Taxes based on business income. Sole proprietor has unlimited liability.	Taxes based on business income. General partners have unlimited liability.	Taxes based on business income. Members may have liability for taxes.	Taxes based on business income. Governing persons may have liability for taxes.

NOTE: This information is for reference only, for detailed considerations contact your trusted legal or tax advisors.

## 4

### Determine your business name

When deciding on a business name, there are many things to consider:

- Will it appeal to your potential customers?
- Will it work well in graphic design and marketing?
- Is anyone else using the name? If so, could there be confusion in the marketplace, or could you be infringing on their trademark or service mark? Learn the difference between a “[trade name](#),” a name used in the course of business, and a “[trademark](#),” an exclusive right to use a name. You can do searches through the [U.S. Patent and Trademark Office](#), the Washington [Business Licensing Service](#), the [Secretary of State](#), and through various Web search engines.
- If your business is a corporation or limited liability entity, the name must indicate the type of entity (such as Corp., Inc., LLC, etc.).

You can register a trade name when you complete your Washington Business License Application, at a cost of \$5 per name. If you also want to trademark a name, you may want to consult an intellectual property [attorney](#). If your business activities will extend beyond Washington State, file for a trademark with the [U.S. Patent and Trademark Office](#). If your business activities will stay within Washington, file for a trademark with the [Secretary of State](#).

## 5

### If selecting a corporation or LLC structure, get registered

If the business structure you’ve chosen is a corporation, limited liability company, or limited partnership, you will need to create the entity or have your attorney do it for you.

- You may have heard that registering your business entity in a state other than Washington is the way to go. Do your homework before acting on that advice! If you’re operating your business in Washington, you’ll need to be registered in Washington. If you do the initial registration in another state, you’ll need to register in Washington as a “foreign” corporation or LLC. You won’t save anything in state registration, licensing, and tax costs for your Washington operation, but you’ll have the added costs of the other state.
- Determine who will be your “[registered agent](#),” the Washington-based person who is to receive your official business entity notifications. It can be you, your attorney, or an outside party
- Create “Articles of Incorporation” (corporation), or “Articles of Organization” (limited liability company), and file them with the Secretary of State’s office. Alternatively, you can use the Secretary of State’s forms available online. See [filing costs](#).

- By filing, you will receive your Washington State Unified Business Identifier, or UBI number (state business identification number).
- Create the governance document for your entity: “Bylaws” (corporate entity); “Operating Agreement” (limited liability entity); or “Partnership Agreement” (limited partnership).

## 6

### Determine your business location

Your business may have a clear location, such as a retail store, a restaurant or a practitioner’s office, or it may be mobile or Web-based. Regardless, to license your business you will need to identify a physical location. Consider the following when determining where to locate your business:

- Will the location appeal to your customers?
- Have you accounted for all site-related start-up and operational costs in your business plan?
- Is the location zoned appropriately?
- If it will involve a [lease](#), what will the terms be?
- What special permits, if any, will be required at that location?
- If home-based, what restrictions will your [city or town](#), [county](#) or homeowner association place on your business?

## 7

### Get your federal tax number and consider federal tax filing options (LLCs and corporations)

If your business is a sole proprietorship or one-owner LLC and you won’t have employees, you can use your Social Security Number as the business’s federal identification number, although many business owners choose not to for confidentiality reasons. Otherwise, you will need to obtain a [federal ID number](#) (also called taxpayer ID number and employer ID number).

The federal tax form for [sole proprietorships](#) is 1040-Schedule C, and for [partnerships](#) is Form 1065. For standard [corporations](#), tax filing is with Form 1120. If you wish to be treated as an [S-corporation](#) (Form 1120S for pass-through taxation), you must complete [Form 2553 – Election by a Small Business Corporation](#) within 75 days of forming your business (see [Form 2553 Instructions](#)). The IRS doesn’t recognize LLCs as a classification for tax purposes. [LLCs](#) default to sole proprietorship taxation if one owner, and partnership taxation if more than one owner. However, LLCs can elect to be treated as standard or S-corporations for federal



tax purposes through IRS [Form 8832](#). Consult your tax professional for further information and advice.

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## Obtain required licenses and permits

Most businesses are required to be licensed at both the state and local levels, and many need [professional licenses](#) too. You will likely need licenses in every location where you do business; not just where you're based. Also, some businesses require additional permits.

The online [Business Licensing Guide](#) is a helpful tool. Use it to learn the licensing and permitting requirements for your specific business. Enter your intended business activity, location and other key information, and receive an online list of specific licenses and permits that are likely to be required.

- When you file your Washington [Business License Application](#), be prepared to address the following:
  - Whether you will want unemployment insurance coverage for corporate officers. Officers who provide services in Washington are automatically exempt from unemployment insurance unless the employer specifically requests to cover them. If you want to cover your corporate officers, you must submit a Voluntary Election Form. Find out more [here](#).
  - General business information including physical location and ownership.
  - A rough estimate of your expected gross annual revenues.
  - Whether you intend to hire employees within 90 days of start-up.
  - Whether you will want [optional workers' compensation coverage](#) for business owners.
- The [Business License Application](#) is the state business license form and establishes your accounts with multiple Washington state agencies, including the Departments of Revenue, Employment Security and Labor & Industries. Some [local](#) and [specialty](#) licenses can be obtained by using the Business License Application. Follow the links above for information on local and specialty license fees.
- For information about local licenses NOT handled through the Business License Application, contact each [city or town](#) where you will be conducting business.
- Some businesses require professional licenses, such as architects, engineers, health care providers, counselors, attorneys, CPAs, etc. For information and requirements, contact the [licensing authority](#) for that profession.
- Food-related businesses (such as restaurants, coffee stands, caterers, food product manufacturers, etc.) will need kitchen and food handler permits. Contact your [county health department](#). Converted food vans and trailers may need to be inspected by

the Department of Labor & Industries [Factory Assembled Structures](#) division. Food and beverage manufacturers and processors will need licensing from the [Washington Department of Agriculture](#). If you plan to sell, serve, or produce alcoholic beverages, you will need a liquor license. Contact the [Business Licensing Service](#) for more information.

- Businesses in the construction trades must be [registered as contractors](#), which requires bonding and insurance. Be aware that even marketing or bidding for a construction job requires that you be registered as a contractor.
- Some service businesses can require contractor registration if their services extend into contractor specialties. Examples: (a) Garbage haulers haul construction debris; (b) lawn maintenance services modify flower beds, build paths, plant plants, cut branches with something more powerful than loppers, or use power equipment to remove unwanted plants; (c) janitorial services remove construction debris when cleaning new construction; (d) pressure washing services clean buildings or decks. There is a minimum \$1000 fine for performing contractor services without contractor registration. Descriptions of specialty contractor classifications. Businesses that have environmental impacts may need permits at the county and/or state level. Contact your county health department and the state Office for Regulatory Innovation and Assistance for more information.
- Lodging establishments, such as hotels and motels, must be licensed through the state [Department of Health](#).
- Businesses providing residential care and businesses providing medical and health services must be licensed through the state [Department of Health](#).
- Child care businesses must be licensed through the state [Department of Early Learning](#).

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### Set up your operations

- With your federal ID number, state UBI number, your governance document if you're a corporation (bylaws) or LLC (operating agreement), and some cash, you can set up a bank account. Select a bank that best meets your needs. Consider:
  - Access to credit (loans, credit cards).
  - Business products and services and their costs.
  - Convenience (location and hours).
  - Staff relationships.
- Ensure understanding of regulatory and tax requirements, including those items listed below (note: the [RUN Your Business](#) chapter can help you):
  - U.S. Internal Revenue Service - income tax, Social Security tax, Medicare, federal unemployment tax.

- Washington Department of Revenue - business & occupation tax, sales tax, use tax, specialty taxes.
- Washington Department of Labor & Industries - contractor licensing, workers' compensation, wage & hour laws.
- Washington Employment Security Department - state unemployment tax.
- Your county - property tax, food-related requirements, environmental requirements.
- Your cities, towns and counties - license renewals, signage ordinance, zoning restrictions, local business & occupation tax.
- Set up your accounting system, ideally with assistance from an accountant or skilled bookkeeper.
- Secure business insurance.
- If you want your business to be certified as a [woman, minority or economically disadvantaged business](#), or a [veteran-owned business](#), complete the certification paperwork.

## 10

### Hire employees

- Prepare to hire employees, if needed. Having employees with the right attributes and skills for your business is critical for successful growth. There are resources to help you with employment planning, including [Workforce Explorer](#).
- There are also programs to help you find and train qualified employees.
  - [WorkSource](#) can bring you applicants that are skilled and ready to work.
  - Job fairs and [free, online job posting](#) can help increase your pool of applicants.
  - [Tax credits](#) can help lessen the cost of new employees.
  - Options for employee [training assistance](#).
  - [On-the-job training wage subsidies](#).
  - Employee training resources - [Career Bridge](#)
  - [Apprenticeship programs](#)
- If you noted on the form that you would be hiring employees, information from your Business License Application will be forwarded to the Employment Security Department to set up a state unemployment tax account, and the Department of Labor & Industries to set up a workers' compensation account and obtain your minor work permit, if applicable. You will have quarterly filing responsibilities with both agencies, plus the IRS (see the [RUN Your Business](#) chapter of the Small Business Guide).
- Every new employee will need to complete the federal [I-9 Employment Eligibility Verification Form](#) within 3 days of hire, and the [IRS W-4 Form](#). You'll also need to report each newly hired and rehired employee through the Department of Social and

Health Services New Hire Reporting Program (please use this [link](#)) within 20 days of hire. Reporting is done through a secure web portal, Secure Access Washington (SAW). If you don't already have a SAW account, you'll have to create one prior to doing your first reporting. To report you'll need information from the employee's W-4 Form, plus the hire date and the birthdate.

- Be aware that employment is an area of significant regulation, including minimum wage, overtime pay, employment of minors and family members, workplace safety, etc.
- The use of independent contractors is a frequently misunderstood area. Unless an individual is truly in business for himself or herself, is licensed, actively markets, has multiple clients/customers, and is performing work that is outside your normal business activities, chances are state and federal laws will require that the individual be treated as an employee.
- Employment is also an area of significant recordkeeping and taxation. It's important that you understand those regulations and costs as you plan your business.
  - [Wage and hour laws \(such as minimum wage, overtime, breaks, etc.\)](#)
  - [Workplace poster requirements](#)
  - [Employment of minors](#)
  - [Non-Discrimination Laws](#)
  - [Independent contractors \(Labor & Industries\)](#)
  - [Independent contractors \(Employment Security\)](#)
  - [Independent contractors \(IRS\)](#)
  - [Workplace safety](#) (including required written accident prevention plan)
  - [Federal payroll taxes](#)
  - [State unemployment taxes](#)
  - [Workers' compensation insurance](#)
  - [Child Support Withholding Laws](#)
  - [City of Seattle sick leave requirement](#)
  - [Washington Health Benefit Exchange](#)

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## Open your doors

Congratulations – and good luck!

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## Need assistance?

State of Washington [Small Business Liaisons](#) can help you get the information and resources you need. Also, help us improve the Small Business Guide by filling out a short, confidential [survey](#).