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Starting Your Own Business: Playing by the Rules

Are you thinking about starting your own business? You probably have a million things to do -- from drafting a business plan and raising capital to registering a business name. It's easy to forget about the important legal and accounting hoops you have to jump through before starting your business.

We'll take a look at how the government and its rules affect the whole start-up process. This is a complex area, so if you're in doubt, you should contact your lawyer to help you get things right.

Licenses and Permits

The licenses and permits you need depend on the type and location of your business. In many states, finding out what you need is simple: If you contact the state business development office (or comparable agency), it will send you a packet of information that covers the licenses and permits that apply to your business.

Some businesses exempt from state licensing regulations are required to obtain a license or permit from a county or city to perform certain operations. Building contractors, for example, usually have to get a city or county building permit to build or remodel a house or commercial building.

Most cities and many counties also require businesses located in their jurisdiction to have a business license. In reality, this is a tax based on the gross receipts of the business rather than a regulatory license designed to protect the public against shoddy work and incompetence. Avoiding this tax can be an important factor in choosing the location of a business.

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Tax Requirements

Federal Tax Identification Number

All businesses must obtain a Federal Employer Tax Identification Number (EIN) before beginning to operate. Each state also requires tax registration by a new business. In most cases, the state will use the Federal Employer Tax Identification Number.

You get your EIN by filing an IRS form SS4. You can get one from any office that has IRS forms, or online through the IRS website. If you mail the form, you'll get your EIN in 4-6 weeks. You can get it more quickly if you fax the form or call direct.

State Sales Tax Registration

All states that have sales tax also require any business not exempt from the tax to register with the appropriate state agency. You'll be required to collect the tax and remit it to the state regularly. To avoid paying taxes on the materials you buy from wholesalers and subsequently sell to the public, you should get a **resale tax certificate** from the state tax authorities.

Withholding Requirements

If you have employees (including yourself if your business is a corporation), you'll be required to withhold federal and state income taxes and FICA (Social Security and Medicare) taxes from their wages. You have to regularly remit these funds to the IRS and the applicable state tax agency.

Unemployment Insurance Tax

Most states require your business to register or periodically file with the state agency that administers the state unemployment insurance tax. This is a tax based on the business' payroll. A business must also periodically pay the federal Unemployment Insurance Tax, which is also based on its total payroll.

Federal and State Income Tax Returns

All businesses must also file annual federal and state income tax returns. The applicable forms vary with the type of business. Your lawyer can brief you on various types of business organizations and how they are taxed.

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Some Final Words of Advice

- There are a lot of places that can help you determine which licenses and permits you need. Find out your obligations early, and plan accordingly.
- Be sure to know your taxation requirements and follow them because there may be heavy penalties for late payment. Remember that the principal officers of the company may be personally liable for the payroll taxes that are not paid to the IRS. You may find it pays to use a payroll tax service for this job.
- If in doubt, consult a professional. Your lawyer can help you with these issues. And any business, no matter its size, should consult a tax advisor.

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- Estate Planning
- Probate and Trust
- Financial Planning
- Elder Money Management
- Income Tax for Businesses and Individuals

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Since 1977, we have specialized in providing counsel to clients in these arenas. Thanks to our background in management and added Tax Law expertise, clients benefit from real-world insight that most career attorneys can't offer. From Business Planning to Probate Law and Estate Planning, we're better equipped to look at issues from your perspective.



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