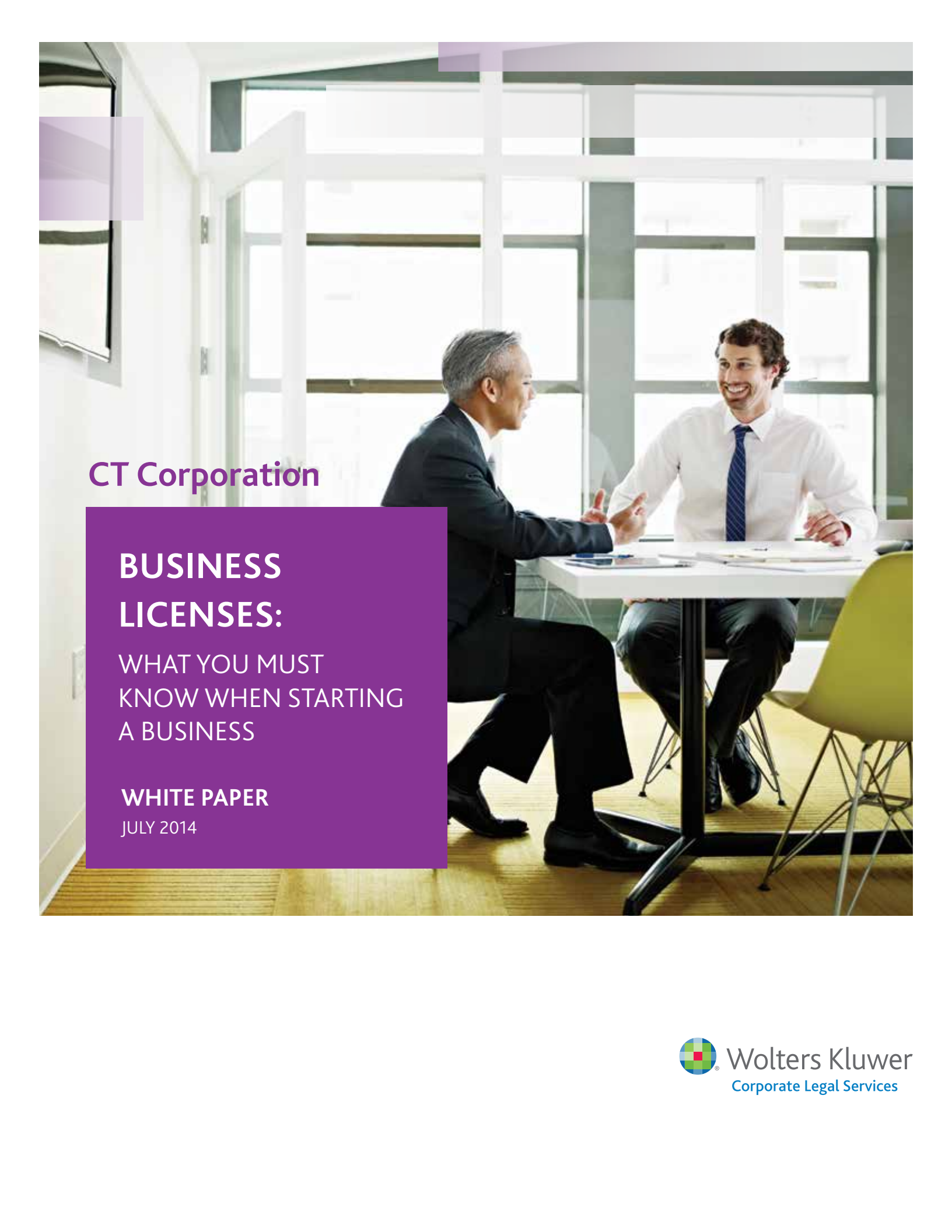




CT Corporation

BUSINESS LICENSES:

WHAT YOU MUST
KNOW WHEN STARTING
A BUSINESS

WHITE PAPER

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Wolters Kluwer
Corporate Legal Services

Business license requirements are a fact of life for nearly every size and type of business in the United States. Certain types of businesses, such as restaurants, may face numerous federal, state and local requirements, but even businesses operated from home may require licenses.

What’s more, business license compliance goes beyond starting a business. Many licenses and permits require periodic renewals. Beyond periodic renewals, any change in business operations, whether it’s a change in the name of the business or the opening of a new location, can trigger the need for new or amended licenses. Even going out of business may have licensing ramifications.

Here we explore the types of licenses, permits and registrations that your business may initially require in preparation for opening your business for customers. In our companion piece, we discuss on-going compliance, provide pointers on compliance and alert you to the potential consequences of non-compliance.

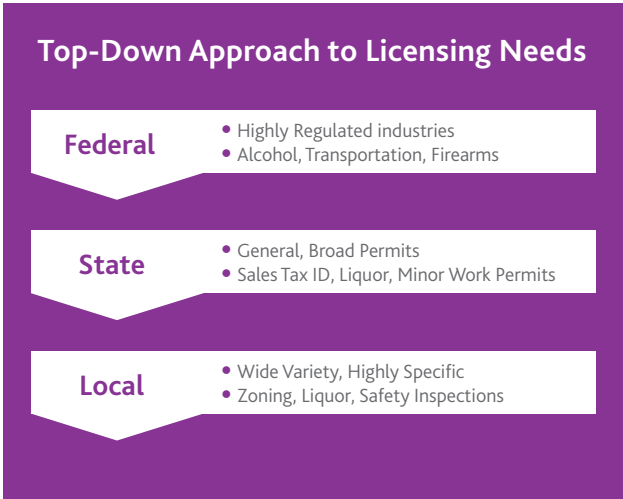
OBTAINING LICENSES: BE READY FOR OPENING DAY

Although the need for licensing exists throughout the business life cycle, it is most critical to address licensing needs during the start-up stage. Failure to determine what licenses are required and to allow sufficient time to obtain them can mean a delayed opening.

Locating and obtaining all the necessary licenses required for your business is one of the most challenging and time-consuming tasks a business owner will face. Why? Because multiple governments (federal, state, local) and multiple agencies require different types of permits, licenses or registrations.

The best way to determine what licenses your business requires is to start at the federal level and to work your way down to your street address.

In addition to the licensing requirements imposed on businesses, states usually require certain professions, such as attorneys, architects, hair stylists and tattoo artists, to have state-issued licenses or certificates.



AN EXAMPLE OF LICENSING COMPLEXITY

How do federal, state and local requirements translate into the license requirements for a particular business? As an example, here is a list of what is likely to be needed if you are starting a restaurant.

- Business licenses and tax permits (federal EIN and state permits, such as sales tax and employment tax)
- Occupancy permit (from the locality where the restaurant is located)
- Signage permit (from the locality; some locations have very strict rules regarding permitted signage)
- Alarm permit (if you have installed a commercial alarm system—this may be from a “fire protection district” or the local government)
- Zoning and/or building permit (from the local government, if you are building or remodeling your business property)
- Health inspection certification (state, county or local)
- Server training certifications (state, usually)
- Alcohol licenses (federal, state and often local)

It's important **to recognize all the activities that your business will undertake**. You may need permits for different activities, even if they are all conducted within the same business. For example, a restaurant that sells alcohol will need federal and state (and maybe local) liquor licenses and permits in addition to the permits required to serve food. Add cigarette sales into the mix, and another set of licenses are going to be required. Similarly, if you operate a hair salon, you may not need a sales tax permit if you are only providing services. However, if you also sell hair and nail products, you will be required to have one.



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CERTAIN INDUSTRIES REQUIRE FEDERAL PERMITS

A small business is far more likely to need an array of state and local permits than it is to need a federal permit. There are exceptions to this rule, however. One federal registration that virtually every corporation and LLC is required to have is a federal EIN. (A sole proprietorship is only required to have an EIN if the business has an employee.)

Another exception that affects many small businesses is the registration and permit requirements related to alcoholic beverages. If your business is involved in the manufacture, wholesale, importation, or retail sale of alcoholic beverages, then you must register your business with the U.S. Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB). You must also obtain federal permits from the TTB for excise tax purposes.

As with any business, you must make sure you account for all your alcohol-related business activities and comply with the permitting process for each one. For example, operating a microbrewery and selling beer at retail requires separate registrations and licenses. (And, of course, you will need state and local licenses as well.) You face similar federal regulations if you plan to sell tobacco products.

Other types of business activities that may require federal licenses and be subject to federal excise taxes are:

- Agriculture (U.S. Department of Agriculture)
- Aviation (Federal Aviation Administration)
- Firearms, ammunition and explosives (Bureau of Alcohol, Tobacco, Firearms and Explosives, as well as the TTB)
- Fish and wildlife-related activities (U.S. Fish and Wildlife Service)
- Fisheries (NOAA Fisheries Service)
- Maritime transportation (Federal Maritime Commission)
- Mining and drilling (Bureau of Ocean Energy Management, Regulation and Enforcement)
- Nuclear energy (U.S. Nuclear Regulatory Commission)
- Radio and Television broadcasting (Federal Communications Commission)



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STATE LICENSES ARE NECESSARY FOR MOST BUSINESSES

Every state has numerous licensing requirements. For example, North Carolina has more 700 regulatory, state-issued and occupational licenses and permits which could be needed. The permutations involved in state and local licensing make it impossible to provide anything more than a high-level summary of what may be required. State license requirements often reflect the economic conditions and history of the state. For instance, there are more likely to be licenses (and fees) related to agriculture in states where that industry is a key economic driver.

If you plan to negotiate the maze of state license requirements on your own, it is imperative that you begin on the website for each state where you plan to do business. This will often (but not always) point you to the localities that you need to contact. While the following list is only illustrative, it is important to be aware that the following state licenses may be needed.

- **State tax identification number.** Some states use the federal tax id number; some do not. Most states require a sales tax identification number if your business involves retail sales. States vary on what services are subject to sales tax.
- **Unemployment and worker's compensation registration.** You may need this, even if you are the only employee of a business.
- **Minor work permits.** Necessary in many states if you have employees under age 18.
- **Weights & Measures registration.** If you weigh items for sale, you may need this type of permit.
- **Specialty licenses.** These vary widely from state-to-state based on the concerns of state legislatures.
- **Professional/Occupation licenses.** States license a wide variety of professions, ranging from accountants to wrestlers.

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LOCAL LICENSES REQUIREMENTS ABOUND

Many licenses and permits must be obtained at the county and city level. As with the state-level licenses, the type of licenses, permits and registrations that are required vary widely and reflect local concerns. It's this level that poses the most challenges for the business owner, in terms of time, money and aggravation. While the federal government and most state governments have websites that provide online information regarding license requirements, the quality of information and services provided at the county and city level often lags far behind.

Food handling and health inspection certificates, as well as alcohol licenses are generally handled at the county level, although some cities and towns have requirements as well. Your general license to operate, as well as occupancy permits, signage permits, and fire alarm certifications, are likely to be from your city, village or town unless your business is in an unincorporated area.

In most cases, you can be fined if you open your business before all the necessary inspections have been completed and the paperwork has been issued. These fines can be pretty steep (several hundred dollars a day) and can add up quickly.

OBTAINING REQUIRED LICENSES TAKES TIME AND MONEY

Identifying the licenses that you need can be challenging because so many jurisdictions and agencies can be involved. Many states have guidebooks for new businesses to help identify business licensing requirements, and the Small Business Administration has an online tool, but the information is usually very generic.

Business licensing takes time—in some cases, several months. Ideally, you should begin seeking information about business license requirements when you start thinking about your business. In fact, many business decisions may be shaped by license requirements. For example, many counties set limits on the number of establishments that can serve alcohol. If all the available liquor licenses have been issued, you may need to change your business plan or your planned location. Similarly, certain localities have strict signage requirements. If you are planning to open a franchise that demands a certain type of sign, you may have to battle the zoning commission before you can open your doors.

CT Tip: Acquiring all the necessary licenses and permits can be very expensive. The costs of obtaining the licenses needed to operate your business are tax-deductible startup expenses. (Once your business opens its doors, the expenses of maintaining the licenses are deductible business expenses.) So, make sure that you keep a copy of all of your license applications, along with a receipt showing payment of any fees, with your business records.

CONCLUSION

Obtaining the required licenses for your business is a time-consuming and expensive process, but failing to do so can prove more costly. You should begin exploring licensing requirements early in the start-up process, so that you can budget for the costs and avoid delays in opening your business.

One way to simplify the process and avoid numerous phone calls and online searches is to partner with a business compliance service, such as CT. CT's business license service will determine what permits, licenses and registrations are needed and obtain the necessary forms and applications, leaving you free to tackle other start-up tasks.

BE SURE TO READ PART TWO OF THIS SERIES, "**Business Licenses: Staying in Compliance**".



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This White Paper, brought to you by our staff of Compliance and Governance experts, was produced July, 2014. This document is for general information purposes and is not intended to be and should not be taken as legal advice.

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