

# 3. Know The Legalities Of Operating Your Business

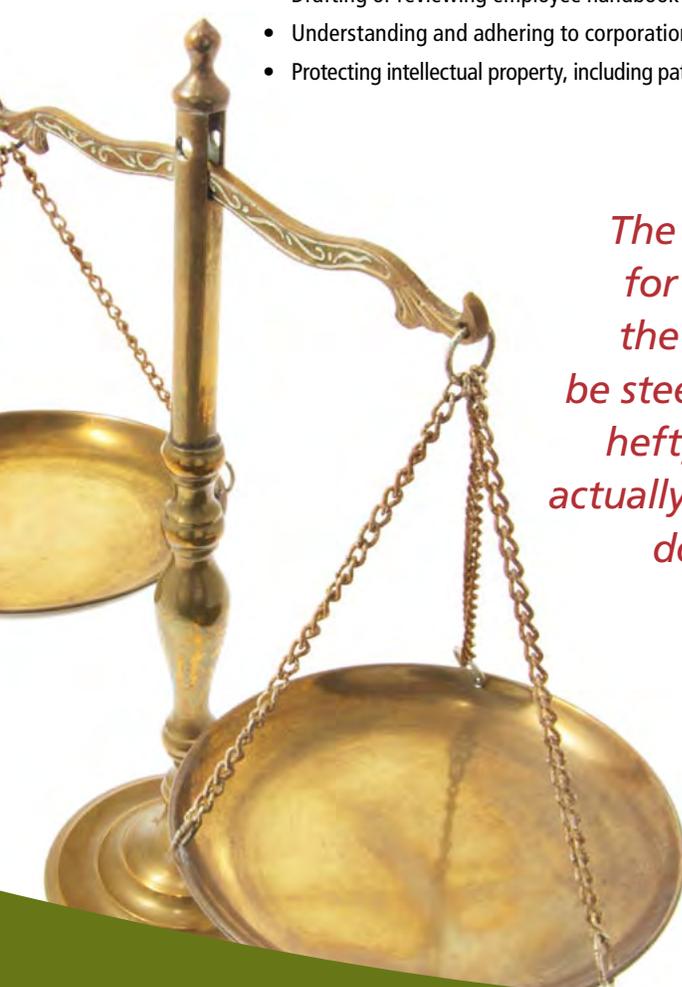
Many new business owners are shocked at the number of actions they need to take to open and maintain a legitimate business.

Legal issues aren't something you want to ignore or neglect. On the other hand, not every legal matter requires the assistance of an attorney.

"There are some things you can probably do yourself," says Jim Ferguson, a licensed attorney and NASE legal consultant. "But, there are other more complex issues for which you'd be better off using an attorney who is an expert in business law."

Ferguson recommends getting the assistance of an attorney for legal matters such as:

- Determining the right business structure for your company
- Drafting partnership agreements
- Reviewing commercial leases
- Understanding employment laws
- Drafting or reviewing employee handbook provisions
- Understanding and adhering to corporation formalities
- Protecting intellectual property, including patents and trademarks



*The penalties for breaking the rules can be steep—from hefty fines to actually shutting down your business.*

As your business grows, you'll encounter many other legal matters that will benefit from the guidance of an attorney, matters such as confidentiality agreements, succession planning or the sale of your business.

But in the meantime, here are few startup legal matters that attorney Ferguson says you can probably handle on your own.

## Choose a business name

In the business world, DBA stands for "doing business as." It's known in some states as an "assumed name certificate." A DBA is the official, legal recognition of your business.

You don't necessarily need a DBA to do business under your own name, such as Sue Smith. But if you want a more descriptive name, such as Sue Smith Financial Services, then you need a DBA.

For sole proprietors, getting a DBA is the easiest and least expensive way to legally operate under a business name. But, DBAs are also handy if you operate a legal business entity such as an LLC. DBAs permit a single business entity to operate multiple businesses without creating a separate legal entity for each business.

A DBA can also prevent other businesses from using your name. In many instances, a DBA is required before you can obtain a state or local business license.

If you decide that an assumed name is right for your small business, here's the process you should follow to register a DBA:

- Choose a name for your business.
- Confirm the name is available. In some states, DBA registration is handled through the secretary of state. In other states, you register your assumed name with the county clerk's office. Whichever agency conducts the registration can tell you about the procedures that are required.
- File your DBA. This usually requires submitting a simple form and paying a nominal fee. Filing your DBA gives you legal claim to the business name.

With a DBA, you can use your assumed business name to open a business bank account, apply for business credit cards, get a telephone listing and handle other legal matters.

## Get a federal employer identification number from the IRS

Most small businesses benefit from having a federal employer identification number, or EIN.

Sole proprietors are not required to get an EIN unless they have employees. Instead, they use their Social Security number as their tax identification number. Most other business entities are required to have an EIN.

Getting one is easy and shouldn't require the help of an attorney.

You can [apply online for an EIN](#) at the IRS website. You simply answer a few questions, and after validations are completed, the IRS will immediately issue you an EIN. You can download, save and print your EIN confirmation notice.

This EIN is your permanent number and can be used immediately for most of your business needs, including opening a bank account and applying for business licenses.

## Apply for state and local business licenses

Local business licenses are usually handled by your city or county.

But depending upon your business type and location, you may be required to get a license through your state. Ferguson recommends that you learn about state licenses by visiting the website for your secretary of state.

For many states, simply type [www.sos.state.StateInitial.us](http://www.sos.state.StateInitial.us) in your Internet browser. So, if you're in Texas, type [www.sos.state.tx.us](http://www.sos.state.tx.us). If you're in Georgia, type [www.sos.state.ga.us](http://www.sos.state.ga.us). The state website should tell you how business licensing is handled.

## THE NASE CAN HELP

Learn more about keeping your startup legal with these NASE resources:

- **Business Law Experts**

Let the NASE Business Law Experts answer your questions about many of the legal issues facing new business owners.

- **Business Strategy Experts**

Gene Fairbrother, the lead micro-business consultant for the NASE Business 101 program, answers questions about getting a DBA, a tax identification

number and more. Ask your specific question online and get a confidential answer.

- **You Can Go Home Again: Know The Rules Before You Swap Commercial Space For A Home Office**
- **Local Politics: How To Make City Hall Work For You**



## 4. Know Your Tax Responsibilities

Planning for taxes can spell the difference between success and failure of your small business.

That's why every startup needs to understand their tax responsibilities.

Depending on your type of business, the business structure you choose and the location of your new business, you may be responsible for:

- Self-employment taxes, which includes Social Security and Medicare
- Estimated taxes
- Federal and state income taxes
- State and local sales taxes
- Federal and state unemployment taxes

### Self-employment taxes

Perhaps the most overlooked tax responsibility for startups is the self-employment tax.

"Most people have heard about self-employment taxes," says NASE National Tax Advisor Keith Hall, a certified public accountant. "But, they've never had to do anything about them. The employer did everything. So for new business owners, the biggest tax surprise is usually self-employment taxes."

When you had a corporate job, your employer sent an amount equal to 15.3 percent of your wages to the federal government to cover taxes for Social Security and Medicare (also known as FICA). Half of that total came out of your pocket. The other half came from your employer.

Now that you have your own business, you get to pay the whole share of FICA.