

How to start a business



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How to start a business

So you want to start a business.

That's great! But what do you do first? And then what? Do you know all the actions that go into building from just an idea to a successful business?

Good news: We do.

ADP® is committed to helping small businesses during this challenging time. That's why we created this simple guide with our partner, Upnetic, to help you turn your business dream into a reality. Upnetic is a provider of services to ADP® clients, and their mission is to help startups, sole proprietors and small business owners navigate the ins and outs of starting, running and growing their businesses. We want to help you do it all: make more informed decisions, plan for your business's future and grow personally and professionally.

Whether you're just getting started, or you've run into difficult roadblocks on your journey, you can follow these steps to move forward toward the goal:

Running your own successful business.



Prologue: Small business and COVID-19

The COVID-19 pandemic has created a lot of uncertainty for small business owners and entrepreneurs, as well as would-be business owners who are just getting started. While the most restrictive social distancing measures may not be permanent, the pandemic will likely have a lasting impact on small businesses and how they engage with their customers.

Below are three areas of focus to help your business adapt to the COVID-19 pandemic and the changing environment for small business.

Health and safety

Health and safety have rapidly become top priorities for everyone, including employers, workers and consumers. Employees are more comfortable when the workplace has adopted additional practices to protect their health. And consumers are seeking to do business with companies that are taking precautions.

But what steps precisely should your business take? The answer is dependent on several things, including your industry; federal, state and local regulations; and the latest advice from medical experts, including the CDC.

Implementing CDC-recommended policies and procedures demonstrates the importance you place on health and safety. These best practices are not only intended to create better health outcomes, but also help both employees and customers see that your business is focused on serving their needs.

Resources:

[CDC Guidance for Businesses](#)
[OSHA Guidance for COVID-19](#)

Technology

Businesses have embraced technology to help promote continuity and streamline their processes. Many businesses have facilitated a robust remote workforce, utilized video communications tools, developed new online ordering techniques, or implemented new delivery protocols.



Businesses that were able to establish alternative processes to keep running during shelter-in-place and strict social distancing should think about how they can implement alternative service offerings in the long term. Such offerings are likely to be a long-term shift in business operations, not just a short-term solution.

During the pandemic, we've seen a dramatic increase in consumers using remote technology and online options for product or service purchases, along with curbside delivery. But the thing to realize is that these options were already a trend. The pandemic just accelerated them and brought them into the forefront of our awareness. For the millions of consumers who had not previously jumped on the bandwagon, they were forced to, and all at once. As restrictions lift, many people will go back to their old patterns — but some people will decide to stick with the new technologies and habits they developed during the pandemic. So don't think that everything will just go back to how it was. Things have changed, and will continue to change.

Crisis planning

When 2020 started, no one predicted we would soon be in the middle of a pandemic, with cities and states in complete lockdown with shelter-in-place orders. So be aware that there will always be unknowns. It's so important to have disaster preparedness plans in place and to be surrounded by key advisors in areas such as insurance, finance, law, tax, HR, sales and marketing.

Above all, it comes down to controlling what you can control. Maintain proper insurance coverages. Take care of your financial position. Ensure you're liquid enough to respond to periods of turbulence and uncertainty. Always work towards creating new and diversified sources of revenue. And for current revenue, find ways to increase your efficiency and improve your position.

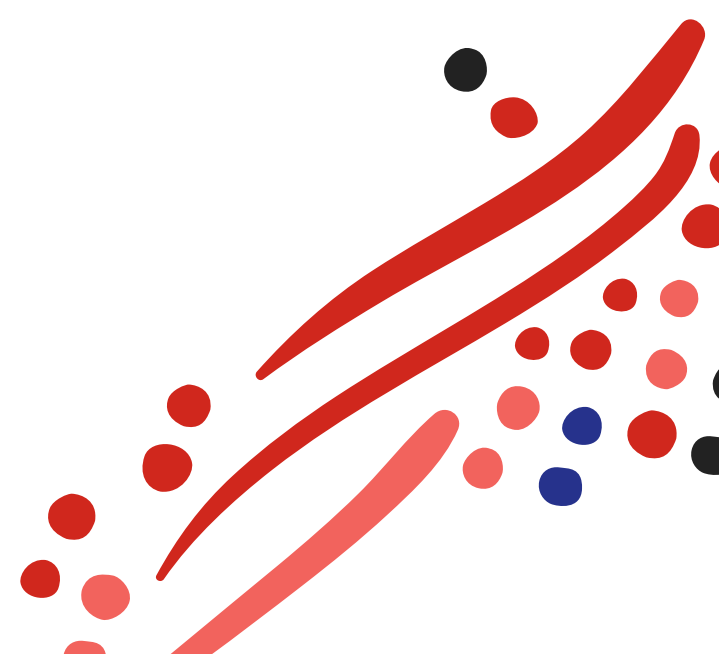
And when a crisis does arrive — which it will undoubtedly do — keep the right perspective. You can choose to respond with anger and confusion, or you can see it as an opportunity to reshape and redefine your business.





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Step 1: Researching and planning your business



At the end of the day, the real concern for the earliest planning phase is how you find the right business for you. The best question to ask first is:

"What do I love?"

Figure out the things you're passionate about. A lot of people think you can stop there. That's a mistake! People who don't ask any further questions are forgetting something very important: does the world need this? Will people pay for it? All too often, people start a business because they're in love with an idea they have, a product they've designed, or a service they want to provide. But they fail to ask:

"Is there a need?"

Before you start a business, you have to look around and see what needs are out there. What needs do you encounter yourself over the course of a day? If you can make your own life easier, there's a good chance your ideas will help someone else, too. And look at the people you care about. Maybe there are specific industries or communities that you feel closely connected to. What are the needs they have?

The very best business ideas come when you're able to align three things:

- What you're interested in.
- What you're good at.
- What the world needs.

That's the bullseye.



Evaluating a business idea

Whenever you're considering starting a new business, there's a three-step process to explore the idea. Determining up front whether a concept will work can save you a lot of time, money, and heartache down the road.

1. Identify business scenarios

Begin defining your business idea, first broadly, and then more precisely. Spell out what competitive advantage you are offering:

- Filling an unmet need
- Providing a cheaper solution
- Superior quality
- Etc.

From there, you should brainstorm possible business scenarios for your idea. Examples of the questions you should answer include: How will this business — the entire process — actually work? If you're creating a product, how will you acquire raw materials? How will you manufacture your product? How will you sell your final product? For a service, how are you going to deliver that service to your customers? How will you acquire any resources you need to provide the service?

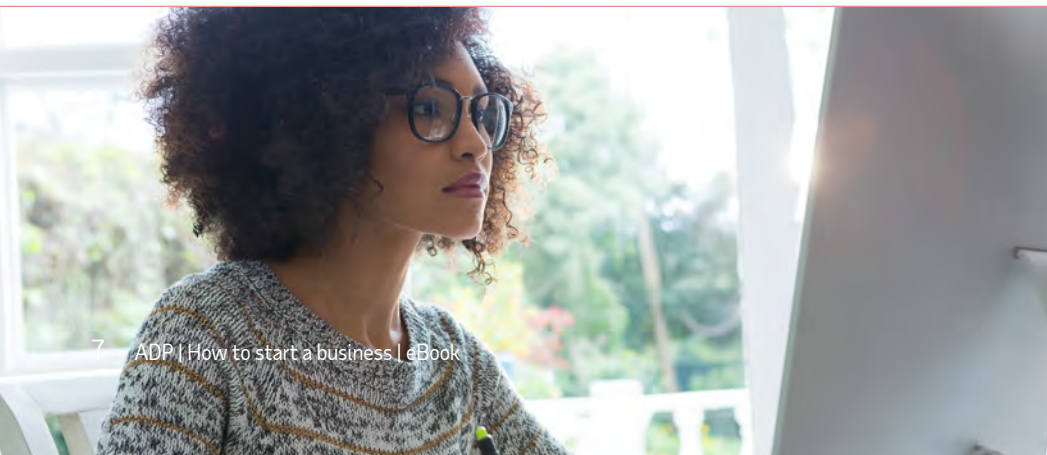
Once you've come up with one scenario, try coming up with different ones. What's another way you could operate this business? The more alternatives you're able to come up with, the better you'll be able to look at the idea from different angles. Which models make sense to pursue, and which don't seem like they would work? Get rid of the nonviable scenarios, and continue to refine the most promising ones. Evaluate which option makes the most sense.

2. Conduct a feasibility study

Once you've identified a business model that you think is the most likely to succeed, you can look into a more formal assessment. A feasibility study may be necessary to confirm the economic viability of your business idea. This study will take a comprehensive look at many aspects of your business idea. The primary elements of the study will be:

- **Business description:** Describing your business's product or service.
- **Market feasibility:** An analysis of the industry, current market, projected future market and competition.
- **Technical feasibility:** A detailed walkthrough of the entire process of sourcing and delivering your product/service.
- **Financial feasibility:** A breakdown of the amount of capital required to launch your business and what funding sources are available.
- **Organizational feasibility:** A look at your business's structure and the central figures, including their professional backgrounds and skills.
- **Conclusions:** A discussion of what success would look like for this business.

These studies are frequently performed by professional business consultants, so if you choose to hire someone to conduct a feasibility study, it's important to find someone familiar with the type of business you want to start. And once the report is complete, take a close look at each element. Is it thorough? Is it accurate? Are there issues the study uncovered that you need to think through before you proceed further with the business?



3. Decision time

At any point in the first two evaluation steps, you can walk away. You're just exploring an idea, after all. But eventually you hit the point of no return. You have to either commit to moving forward with starting the business, or not. The more you've thought through the idea, and received professional opinions and analysis, the better informed you'll be on this all-important decision.

If you've been working on this idea with a group of partners, it's possible that not everyone will agree. Some members may be comfortable moving forward, while others would prefer to walk away, or want to spend more time working on the idea. Be honest with each other. Listen to what everyone has to say. If, in the end, it's not possible to get everyone to agree, then all sides should agree to amicably go their separate ways. The remaining members of the group then can decide whether to continue to move forward, and what involvement each individual will have.



Worksheet:

The best business ideas combine your interests, your abilities and the world's needs. For your business idea, consider:

- How does this align with my interests?

- What relevant talents, abilities, skills, or experiences do I have that will help in this business?

- What need does this idea solve?

Step 2: Writing a business plan



A business plan isn't just for investors. Anyone can benefit from preparing a complete business plan, whether you're just getting started or you're looking to map out the future for your company. While there is no single formula for all business plans, and some are more elaborate than others, there are some basic elements that are going to be a necessary part of any complete business plan.

Executive summary

The executive summary is a brief, 1–2 page overview of the rest of the plan. You should write the rest of the business plan, all the different elements, first. Then you can condense that narrative (including high level financial recaps) into the executive summary. Investors want to see the executive summary first, at which point they'll decide whether they want to spend more time going through the complete plan.

Company description

This is where you can tell people the story of your business. Capture their attention and talk about why your business exists. Focus on what you do and how you're different. What need are you trying to meet? What problem are you trying to solve? What makes your product or service a compelling solution for someone with a particular problem? Try to put these pieces together into a relatable scenario that will make it easy to understand your business's "why."

Market analysis

There are three key elements to include in your market analysis: the industry, the market and your competitors. On the industry side, there are a few questions to answer:

- 1. What is the balance of buyer power and supplier power?** Buyer power is how much influence the buyer has in determining price, while supplier power is how much influence your business has over the price.
- 2. What threats do you face from substitute products and potential new entrants?** A substitute product is something that could potentially render yours obsolete, while new entrants are any companies that could come up with a similar product or service.
- 3. Who are the key players in the industry?** You want to focus on companies that have the strongest market share in the industry, as well as barriers to entry such as high costs or intense regulations.

Moving into the market itself, you want to discuss your target market. Who are they? Where are they? What are their needs? What are their struggles? Are you able to segment your target market in any way? Perhaps you can split it up by demographic characteristics, or by behavior. Finding ways to differentiate your market will help you develop your market strategy as you move forward.

Finally, your competitors. It's helpful to create a visual guide that compares you and your competitors. One way to graph it might be to have one axis compare quality while the other compares price. Even a simple chart like that will make it very clear where you are in terms of value for your customer.

Organization/management

The next part of your business plan should give a breakdown of your organizational structure. You're not the only one in the business. Who's helping you out along the way? You may have brought someone else in to serve as your CEO, CFO, or COO. You want to outline their experience and qualifications. Summarize their skills, and how they are contributing to the company. And in addition to people taking key roles inside the business, your business plan should also include a list of your advisors. These are typically going to be people who have industry experience. They may not be with your company full time, but they're available when needed; if you run into a situation where you need help, you can make that call and get someone who has a lot of knowledge to give insight, advice and assistance.

Service or product

Your plan will also need a detailed description of your product or service. While other sections may have touched on the subject, this is the section where you will go into greater detail about why this specific product or service is a compelling solution to the problem you laid out earlier in your business plan.

You'll also give a thorough description of how your product or service is produced, and where. Walk through distribution: how will your product get out to stores, for example, and how will it ultimately get to the customer. That leads into your operations strategy. Is there a certain level of quality for your product that you'll be enforcing? Are there any accessories associated with the product that customers will be buying?

Depending on your industry, you may also include a discussion on research and development. Is it necessary to engage in Research & Development to sustain your competitive advantage? Is this an industry where companies are regularly coming out with new products and services, or is this a business where you can provide a consistent level of service for a number of years?

Marketing and sales

After looking at your industry, target market and competitors in earlier parts of the plan, you also need to spell out a specific marketing strategy. How do you plan on marketing your product or service? There are all kinds of strategies you could go with. How can you economically reach your customers? You may be looking at a direct marketing strategy with ads in various media channels. Or perhaps you're focused on digital strategy, especially mobile and social channels. Do you have in-store promotions with coupons and specials?

Think about pricing, too. How to price your product or service is a critical decision that will directly determine your ability to succeed. If you set a high price for your product, how much business will you lose? If you price a product too low, how much are you giving away in profit margins? Important factors to consider include:

- **Profit:** If your price is too low to generate sufficient profit, it will not be sustainable.
- **Positioning:** Understand how your product fits into the marketplace, whether it's a luxury good priced higher than the industry average, or a cheaper alternative to high-priced competitors.
- **Segmentation:** Determine whether you're able to segment your market and provide a range of products at varying prices, such as a basic and premium product, or a subscription.

With your overall marketing and sales strategy, it's helpful to look at what other competitors in the industry are doing, and especially what they're having success with. The right strategy here is going to depend on your business; there is no one answer that will work for everyone, so carefully think through what will work for you, whether you're following a tried and true method that's proven to work in your industry or you're looking to blaze a new path and stand out with a very different approach.



Funding

For businesses that are using a business plan as part of a funding request with either lenders or investors, you'll need to make that request clear. Make the case for why the opportunity that you present is a good investment for the lender or investor. What are you asking for, and what will you be using that money for? You need to be specific, because investors aren't interested in giving money to a business without knowing how it will be used. Describing your uses of funds is an opportunity for you to show how you plan to responsibly use this money to grow the business.

Along with the "ask," there should be a high-level description of the "return." When asking for a loan, the lender will need to see your plan for repayment and understand the available collateral. When asking for an equity investment, the investor will need to understand the amount of equity being offered and the plan for preferences with respect to this new investment. These "assumptions" will likely be revised after direct negotiation with the funding source, but it's important that your potential source know your "ask."

Financial projections

Your plan needs to also include a number of financial projections, which should be looking forward over the next five years of your business. It's important to be optimistic but also realistic at the same time. Some of the financial data you should include are:

- Key assumptions
- Sales forecast
- Income statement
- Balance sheet
- Cash flow statement
- Break-even analysis

For much of your financial data, you'll likely need to consult a financial accountant for help.



Worksheet:

The key assumptions in your financial projections will determine many of your other projections. When investors look to see if your financial data is realistic, they'll start by looking at your assumptions, too make sure they are plausible. Think about the answers to these key assumptions:

- How much money is your management team putting into the business?

- How much money do you plan on seeking from investors?

- How much debt do you plan on borrowing?

- How much will your product cost?

- What is the cost of goods sold?

- What is your net profit margin?

- What are your facilities costs?

- How much are you paying your employees?

- How many new customers are you planning to reach?



Step 3: Seeking funding



Starting a business incurs all kinds of expenses. Maybe you have to find office space. You're investing in equipment. You're hiring people to fill out your team. You're paying for licenses, permits and certifications. All these things that you have to do first just to get off the ground mean that your expenses are going to exceed your revenues for a period of time. In the investing world, this time period is known as the Valley of Death, where your revenue is not yet sufficient to cover your expenses. Seeking funding is a valuable tool to help your business survive until it is profitable.

Even beyond the startup phase, though, there are reasons a business may need to seek funding. You may be looking to expand your business. Extra money could pay for a new marketing program or a new location, for example, that would ultimately increase your revenue. Or you might use funding to smooth or accelerate your cash flow. Many businesses fall into situations where they are profitable, but their incoming cash flow lags behind their invoiced revenue. Working capital solutions can help a business avoid a receivables/payables rollercoaster and keep the business running steadily throughout the year.

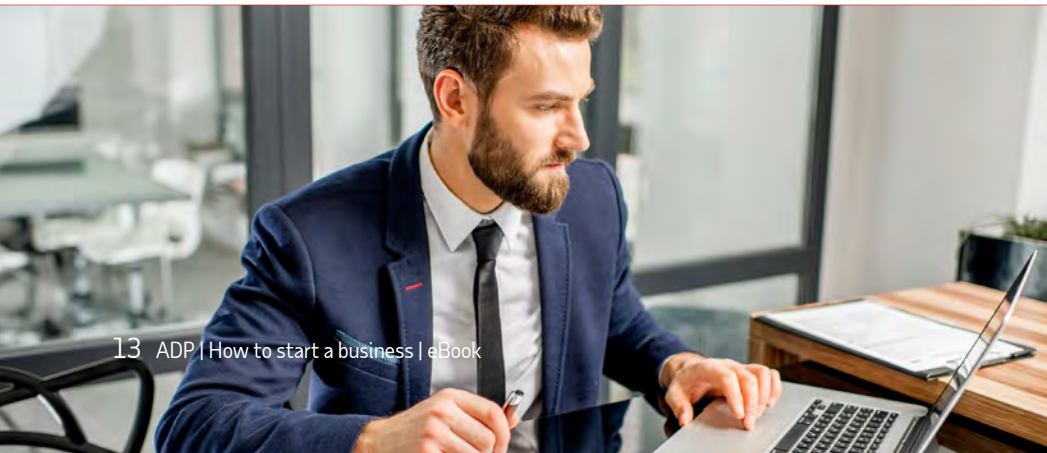
Sources of funding

Banks and commercial finance companies are the typical resources for a traditional business term loan or line-of-credit. However, business financing can come from a variety of sources, including:

- Personal finances
- Friends
- Family
- Business associates
- Leasing companies
- Federal and state agencies
- Angel investors
- Venture capital firms

Working with a bank

The underwriting process will vary from bank to bank, but in general, lenders and other outside funding sources will require a comprehensive business plan, including financial projections, to demonstrate how the business will use the funds and generate the cash flow required to repay any debt. Business borrowers are also typically required to provide lenders and investors with their business income tax returns and current and historical financial information. In most small business lending situations, the lender will review the business owner's personal credit history, and business owners will frequently be required to provide personal financial statements and personally guarantee the business loan, with personal assets as collateral.



A bank or other lender is generally weighing five major factors in a loan decision:

1. Borrowing capacity
2. Invested capital
3. Collateral
4. Economic conditions
5. Character of the borrower

These factors, including the business owner's personal guarantee, can often overcome a lack of credit history or poor credit. Also, lending criteria and near-term goals in lending money vary among financial institutions, so make sure to shop around with different sources for business financing.

Finding the right funding source

- **Local banks** offer traditional financing, small business programs and government financing options.
- **State and local government** resources are sometimes available for financial assistance and other business development resources.
- **Nontraditional lenders** are an option for businesses with poor or limited credit, although loan fees and costs, interest rates, prepayment terms and other terms must be analyzed carefully.
- **Angel investors** include professionals who invest their own funds, and typically fall in between funding from family or friends and venture capital sources.
- **Crowdfunding** is effective for certain business fundraising situations, with many platforms available online depending on your specific needs.

Worksheet:

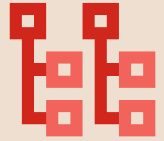
The appropriate source for funding for your business will depend on many different factors, including what stage your business is in, how much money you need and what you need money for. Consider each of the following issues:

- What funding does your business need to cover startup costs? Where will you go for funding help?

- What funding does your business need to manage your cash flow? What sources of funding might you use?

- What funding does your business need to pay for growth? Where would you get funding, and what would you do to grow the business?

Step 4: Determining your business's structure



Many small businesses are structured as unincorporated sole proprietorships and general partnerships, as they are the simplest and least costly form of business structure to establish and maintain. That simplicity, however, comes with serious disadvantages that usually lead a business owner to adopt a formal legal entity. The term “business formation” is used to describe the process in which a business owner chooses to form either a corporation or “LLC” — limited liability company. The term “incorporation,” while technically referring to the formation of a corporation, is often used interchangeably with the term “business formation.”

Key factors in determining legal structure

The primary disadvantage with a sole proprietorship or general partnership is that they are not separate legal entities from the business owner, even when the business operates using a trade name. What does that mean? The business obligations and claims of creditors are the personal obligation of the business owner.

In contrast, a business entity, most commonly a “Corporation” (C Corporation), S (Subchapter) Corporation, or LLC, is more difficult and more costly to establish and maintain, but it offers the business owner limited liability protection from the business obligations and claims of creditors. This protection, also known as the corporate veil, protects a business owner’s personal assets, like a house or car, from the claims of the business’s creditors.

Another major factor is annual compliance requirements. Certain requirements come with business activity, like local business licensing and payroll tax registration, and all business have some level of income tax reporting, but there are no required entity maintenance activities for a sole proprietorship or general partnership. A formal business entity, however, will come with several compliance activities. These include filing annual reports with state incorporation authorities, and filing federal, state and local tax returns. Additional requirements for corporations include carrying out corporate meetings and maintaining required internal governance paperwork.

Finally, taxation is a significant factor in choosing a business’s legal structure. Sole proprietorships and general partnerships are pass-through entities; the profits from the business pass directly through to the owner’s tax return, with no tax payments for the business itself. A sole proprietor does not even file a tax return separate from the owner’s Schedule C. A “C” Corporation, on the other hand, faces what is known as double taxation. Corporate profits are taxed as a separate entity subject to corporate income tax, then if the corporation distributes those profits as dividends, shareholders pay a second tax when they report the income on their person returns. An LLC is unique in that it can be taxed as a pass-through entity or as a corporation, depending on the business owner’s choice. A single owner LLC is treated as a separate entity for limitation of liability, but is disregarded and treated as a Schedule C business for federal income tax reporting.

Types of entities

Sole proprietorships/general partnerships

The sole proprietorship or general partnership is the default form for a business (depending on whether there are one or more owners). There is no paperwork required for entity formation, although it's always a good idea to have a partnership agreement that clearly defines the rights and responsibilities of each partner.

Pros:

- Easy to create and maintain
- Pass-through taxation

Cons:

- Unlimited liability
- Limited life

LLC

An LLC is something of a hybrid, combining features of a corporation with those of simpler business forms. The business's owner(s) elect whether to be taxed like a pass-through entity or corporation.

Pros:

- Flexible ownership
- Flexible tax preparation
- Limited liability

Cons:

- Formation, maintenance and compliance requirements
- No stock

C Corporation

A C Corporation is the most common corporate structure, especially for large companies. This entity type is notable for its unique tax requirements.

Pros:

- Limited liability
- Issuing stock

Cons:

- Double taxation
- Formation, maintenance and compliance requirements

S Corporation

The S Corporation is a special type of corporation that avoids the double taxation of a C Corporation, but in exchange for other strict regulations.

Pros:

- Pass-through taxation
- Limited liability
- Selling stock

Cons:

- Formation, maintenance and compliance requirements
- Ownership restrictions

Worksheet:

There is no one entity type that is suited for every business in every circumstance. Based on this discussion, which entity types would be most appropriate for your business? List the pros and cons in your situation to help guide your thinking.

Entity type:

- Pros:

- Cons:

Entity type:

- Pros:

- Cons:

Step 5: Register your business



Once you decide on a business structure, you can form an entity yourself, through a lawyer, or with an incorporation service. The least expensive method will be preparing and filing the paperwork yourself; however, first time filers are generally advised to work with a lawyer or incorporation service due to the legal and tax terminology and requirements that may be unfamiliar and pose a risk someone new to the process.

LLC formation checklist

1. Choose an available business name and reserve the name with your state
2. Appoint a Registered Agent
3. File formal state paperwork and pay the filing fee
4. Create an LLC operating agreement
5. Publish any required notices of your intent to form an LLC

Corporation formation checklist

1. Choose an available business name and reserve the name with your state
2. Appoint a Registered Agent
3. Create and file Articles of Incorporation and other required state paperwork
4. Publish any required notices of your intent to form a corporation
5. Create bylaws
6. Hold an initial shareholders' meeting, and prepare any required corporate resolutions and minutes
7. Issue stock to the corporation's founders

The registration process varies from state to state. For more specific information, go to our [State-by-State Resources](#) in the Appendix, and look for your state.

Worksheet:

Every state has a different process for registering new businesses. Look up the resources for your state and identify:

- Which agency handles business registration in your state?

- What forms are required to register the business?

- Who will serve as your Registered Agent?

- Who will complete your business registration process?

Step 6: Filing for trade names



Filing a trade name is a common step for businesses. Depending on your state, a "trade name" may also be called a "Doing Business As" (DBA), "assumed name," or "fictitious name." What they all mean, however, is any name used for a business that does not match the legal name of the business.

For example, the legal name of a sole proprietorship is the business owner's personal name, and for a general partnership it's the last names of the partners. But if you wanted to conduct business under a different name instead, you can file a trade name. They are also useful for corporations or LLCs that want to use a different name from the official corporate name, or to operate multiple businesses using different names.

The process for filing a trade name varies from state to state. Depending on the state, the filing may be conducted at the state government level or it may be handled at the city or county level. For more specific information, go to our [State-by-State Resources](#) in the Appendix, and look for your state.

Worksheet:

A trade name can be very useful for a business, whether it's a sole proprietorship/general partnership that wants to use a business name, or a formal entity that wants to do business under a different name. Use our [State-by-State Resources](#) to help you answer the following:

- Why might you want to use a trade name for your business?
- What trade names would you like to use?
- Which agency handles trade name registration in your state?
- What forms are required to register your trade name?



Step 7: Getting a tax identification number



Corporations (both C and subchapter S types), partnerships and similarly taxed LLCs are required to obtain a Federal Tax ID Number, also known as a Federal Employer Identification Number or EIN, from the IRS.

A sole proprietorship and similarly taxed LLC is not required to obtain an EIN unless the business pays wages or is required to file pension or excise tax returns. However, sole proprietorships or similarly taxed LLCs are generally advised to have an EIN for the business in order to establish a history of business transactions for commercial purposes and build their business credit rating.

Federal Form SS-4 is used to apply for an EIN. Once you have completed Form SS-4, you have the choice of applying online at the IRS website or by faxing or mailing your completed Form SS-4 directly to the IRS. You can obtain an EIN immediately by applying online. Form SS-4 can be downloaded from the IRS website. You can also find information on EIN requirements, application forms and filing instructions through the IRS website.

Registering for state and local taxes

In addition to getting a Federal Tax ID Number, your business will also need to register for state and local taxes. There is extreme variation between states (not to mention localities) on both the process and even the requirements, so business owners should look at our [State-by-State Resources](#) in the Appendix for more specific information, and consult with a local attorney and/or tax accountant for assistance on completing this step.

Worksheet:

Use our [State-by-State Resources](#) Appendix to help you answer the following:

- Which taxes do you need to register for in your state?

- Which forms will you need to complete for state registration?

- Who can help you identify any local tax needs in your area?

Step 8: Obtaining business licenses and permits



Operating your business will generally require obtaining a local city or county business license and possibly a state professional or occupational license. Even if you don't need a specific license, you may still need a permit to operate, such as a Home Occupation Permit for a home-based business. To keep your business in compliance with all requirements, check for any permits or licenses that are needed in your location or industry, as well as those that are generally required in your state.

Business insurance

In addition to licenses and permits, almost every business will need some form of property, liability and/or vehicle insurance. The rules will vary state to state regarding what is required.

- Workers' compensation pays for on-the-job injuries, regardless of fault. It's typically the sole source of remedy for any employee who is injured while on the job, and pays for medical care, a portion of lost wages and the death benefit to a covered worker and their family.
- Property insurance covers your buildings, the contents of those buildings and anyone else's property that has been left in your care. Peril coverage is insurance for specific things like fire or theft, while all-risk coverage insures against all risk of loss except for things specifically excluded in the policy.
- Liability insurance provides coverage for harm caused to a third party by your business, triggered by things like a defective product, a negligent act, or creation of a hazardous environment within your business.
- Business automobile policies are important because while most personal auto policies provide coverage for business use of a personally owned vehicle, they will not provide coverage for a vehicle owned or leased in the name of the business.
- Workers' compensation pays for on-the-job injuries, regardless of fault. It's typically the sole source of remedy for any employee who is injured while on the job, and pays for medical care, a portion of lost wages and the death benefit to a covered worker and their family.
- A Business Owner's Policy or BOP is the most common type of package policy, combining most of the coverages that a small business needs, such as property insurance, business interruption insurance, casualty or liability insurance and crime insurance.
- An umbrella liability policy protects a business against unusually high liability losses, sitting on top of your underlying liability policies.
- Errors and omissions or professional liability policies provide coverage to businesses that give advice, make recommendations, provide design services, or provide physical care to clients. These policies are specific to a particular professional activity, and some, such as medical malpractice insurance, can be quite expensive.
- Directors and officers liability policies provide coverage for claims that the directors or officers of a business failed to exercise appropriate care in their oversight and management of the business, resulting in harm to someone outside the company.

Worksheet:

To keep your business in good standing, you will need to obtain any necessary licenses and permits, as well as appropriate insurance. Identify the following:

- What kind of local business license will you need?

- Does your business require a professional license? If so, what kind?

- Are there any other permits required to operate your business?

- What kinds of insurance policies will you need to protect your business?



Step 9: Understanding your ongoing responsibilities



Getting your business set up is important, and we've spent a lot of time talking about how to do that so far in this book. But it's important to remember that this is not something you do once and never have to worry about again. As a business owner, you have ongoing responsibilities, too! These responsibilities will vary depending on your business's entity type, as well as the requirements of your state.

Requirements for all businesses

The basic steps to keeping your business in compliance with statutory requirements are:

- Maintaining state and local business licenses
- Filing federal, state and local tax returns
 - Income tax
 - Payroll tax
 - Property tax

Whether your business is a sole proprietorship or general partnership or whether you've incorporated and formed an LLC or corporation, you'll need to take care of business licensing, annual renewal fees and tax reporting to stay in good legal standing.

Requirements for formal business entities

While the above requirements will apply to all businesses, there are additional responsibilities for you to follow when you choose to incorporate your business. As a general guideline, formal entities will have to do everything we outlined above, as well as filing annual reports with state incorporation authorities, carrying out all corporate meetings as required by your company's bylaws or your state's laws, and maintaining any required internal governance paperwork.

Note that a decision to expand your business to additional states will require that your business entity be registered as a "foreign entity" with that other state. The registration is necessary in order to legally conduct business in the new state, and brings a requirement to maintain both a Registered Office and Registered Agent in the new state.

When you're looking at the state-level requirements for corporations, there is a lot of variance between states as to the exact requirements, but you will generally need to hold annual meetings of shareholders and directors, and maintain minutes of those meetings. You will also have to submit annual reports and pay annual fees, and maintain separate financial records.

LLCs, in contrast, are generally not required by state law to hold annual member or owner meetings and maintain minutes of those meetings. However, many LLCs still choose to do so in accordance with their Operating Agreements.

Worksheet:

Building a business is not just a one-time activity; it's important to keep up with your business's ongoing responsibilities, to stay in good standing. Answer the following questions to help your business's compliance efforts:

- What is your business's entity type?

- What annual maintenance activities are required for your entity in your state?

- How often will you need to renew your business and professional licenses and permits?

- What are the key tax deadlines for your business, including federal, state and local taxes?

Step 10: Hiring your first employee



Hiring employees, whether full-time or part-time, involves several considerations, including employment laws, compensation structure, fringe benefit programs and workers' compensation. One of the first questions that will come up is whether a worker is an independent contractor or must be put on payroll as an employee. This is a question that is answered based on facts and circumstances.

There are a number of tests used to evaluate a worker's status, but the most common is the Internal Revenue Service (IRS) Common Law Test. The Department of Labor, EEOC and several states also have independent contractor tests. The IRS common law test looks at three main components, including behavioral control, financial control and the type of relationship between the business and the worker. The business should consider numerous factors to determine classification status. The more control the business has over the worker, the more likely the worker will be considered an employee. These factors include:

1. Does the employer provide instructions about when, where and how to do the job?
2. Does the employer provide training for the worker?
3. Does the worker get started with little or no investment?
4. Does the company reimburse the worker's travel or other expenses?
5. Is this the worker's only client?
6. Is the worker paid by the hour, week, or month?
7. Is the worker insulated from profit and/or loss from his/her services?
8. Can the employer terminate the worker?
9. May the worker quit work at any time without incurring liability?
10. Does the worker have a continuing working relationship with the employer?
11. Are the worker's services integrated with and/or significant to the business?
12. Must the services be rendered by the worker personally?
13. Does the employer either provide or supervise the worker's assistants?
14. Is the work performed in a sequence set by the employer?
15. Is the worker required to submit regular oral or written reports to the employer?
16. Does the worker rely on the employer to furnish supplies, tools, and materials?
17. Does the worker perform for only one employer at a time?
18. Is the worker required to work a set number of hours?
19. Does the worker work 40 hours or more per week for the employer?
20. Is the work done on the employer's premises or at a location designated by the employer?

Hiring procedures

Various federal, state and local laws require that employees complete certain paperwork at the time of hire. Additional paperwork may be required depending on factors like the industry, workforce considerations and particular business operations. Because of this, it's a good idea to review your hiring paperwork and processes to ensure you're completing all required paperwork in accordance with federal, state and local laws, as well as any supplemental employee hiring and follow-up paperwork that may be beneficial.

In general, whenever you hire a new employee, make sure you're complying with all applicable laws regarding background checks and new hire screenings. Provide the worker with a copy of your employee handbook and have the worker sign a form acknowledging they received it.

You should also have the worker complete USCIS Form I-9, Employment Eligibility Verification, Federal Form W-4 and a state W-4 form if applicable. Form I-9 is used by all employers to verify an employee's identity and eligibility to work in the United States. Federal Form W-4 and the corresponding state forms are used by employers to withhold the correct amount of federal and state personal income tax from an employee's wages. The employee must complete Section 1 of the Form I-9 by the end of their first day of employment, and Section 2 must be completed by the employer within three days of hire and must be retained for audit purposes.

When a business hires employees and pays wages, it must comply with a host of federal, state and, in some cases, local payroll or employment tax regulations and requirements.

For example, federal and state regulations will require employers to withhold, deposit and report Social Security, Medicare and federal and state personal income taxes, and to deposit and report federal and state unemployment taxes on compensation payments to employees.

To learn more about hiring, read the [Hiring 101 guidebook by ADP and ZipRecruiter](#).

State mandates

Many states are implementing new training requirements for small employers on sexual harassment prevention. Some of these mandates apply to businesses with even a single employee, while other training requirements take effect as businesses reach various employee-count thresholds, such as five, 15 or 50 employees. Employers must pay attention to these thresholds and provide any required training.

Another mandate that may impact your new business relates to retirement savings. Many state legislatures are looking for ways to ensure that all employees have access to formal retirement savings programs. Several states have introduced state-sponsored retirement plans and require employers to offer their employees the opportunity to contribute to the plan through payroll deductions unless the employer offers its own qualified retirement plan.

Find out which mandates apply in your state and help keep your business in compliance.



Personnel files

Employers generally create a personnel file for each employee. A personnel file is used to document information directly related to an individual's employment, such as their qualifications, history of performance, conduct and pay. Typically, personnel files include:

- Pre-employment records, such as the resume and employment application, offer letter and date of hire
- Job title, job description and status as an exempt or non-exempt employee
- Performance, discipline and training records
- Salary history, including records of wage or salary increases, bonuses and payroll deduction authorizations
- Exit interview report and reason for separation whenever an employee leaves the company

Worksheet:

Hiring new employees is a vital step in growing your business, but also a difficult one, as you try to find the right person for your business's needs as well as begin navigating the complexities of employment. When you're ready to hire, answer these questions to guide your process:

- What responsibilities will the new hire have?

- Would this worker be an employee, or could the job be done by an independent contractor?

- Will this employee be full-time or part-time?

- What experience and/or education would be necessary for this role?

- What benefits and/or trainings am I required to provide new employees?



Appendix A: State-by-state resources

Alabama

Business registration
Trade name registration
Corporate income tax
Sales and use tax
Unemployment tax
Withholding tax

Alaska

Business registration
Trade name registration
Corporate income tax
Employment security tax
Sales and use tax
Other taxes

Arizona

Business registration
Trade name registration
Corporate income tax
Transaction privilege tax
Unemployment tax
Withholding tax
Other taxes

Arkansas

Business registration
Trade name registration
Corporation income tax
Sales and use tax
Withholding tax
Unemployment insurance tax

California

Business registration
Trade name registration
Minimum franchise tax
S corporation income tax
C corporation income tax
Sales and use tax
Payroll taxes
Withholding tax
Unemployment tax

Colorado

Business registration
Trade name registration
Business income tax
Sale and use tax
Withholding tax
Unemployment tax
Other taxes

Connecticut

Business registration
Trade name registration
Corporation business tax
Sales and use tax
Withholding tax
Federal/state employment taxes

Delaware

Business registration
Trade name registration
Corporate income tax
Franchise tax
Gross receipts tax
Withholding tax
Unemployment insurance tax

Florida

Business registration
Trade name registration
Corporate income tax
Sales and use tax
Discretionary sales surtax
Reemployment tax
Other taxes

Georgia

Business registration
Trade name registration
Corporate income tax
Sales and use tax
Withholding tax
Unemployment tax

Hawaii

Business registration
Trade name registration
Corporate income tax
S corporation income tax
General excise tax
Withholding tax
Unemployment insurance tax

Idaho

Business registration
Trade name registration
Business income tax
Sales and use tax
City sales tax
Withholding tax
Unemployment tax

Illinois

Business registration
Trade name registration
Corporate income tax
Sales and use tax
Withholding tax
Unemployment tax
Other taxes

Indiana

Business registration
Trade name registration
Corporate income tax
Sales tax
Withholding tax
Unemployment tax
Other taxes

Iowa

Business registration
Trade name registration
Corporation income tax
Sales and use tax
Withholding tax
Unemployment insurance tax
Other taxes

Kansas

Business registration
Trade name registration
Corporate income tax
Sales tax
Withholding tax
Unemployment insurance tax

Kentucky

Business registration
Trade name registration
Corporation income and limited liability entity tax
Sales and use tax
Withholding tax
Unemployment insurance tax
Other taxes

Louisiana

Business registration
Trade name registration
Corporation income and franchise taxes
General sales and use tax
Withholding tax
Unemployment insurance tax
Other taxes

Maine

Business registration
Trade name registration
Corporate income tax
Sales, use and service provider tax
Withholding tax
Pass-through entity withholding tax
Unemployment tax
Other taxes

Maryland

Business registration
Trade name registration
Business income tax
Sales and use tax
Withholding tax
Unemployment insurance tax

Massachusetts

Business registration
Trade name registration
Corporate excise tax
Sales and use tax
Withholding tax
Unemployment insurance tax

Michigan

Business registration
Trade name registration
Corporate income tax
Sales and use tax
Withholding tax
Unemployment insurance tax

Minnesota

Business registration
Trade name registration
Corporation franchise tax
S corporation tax
Sales and use tax
Withholding tax
Unemployment insurance tax

Mississippi

Business registration
Trade name registration
Corporate income and franchise tax
Sales and use tax
Withholding tax
Unemployment tax
Other taxes

Missouri

Business registration
Trade name registration
Corporation income tax
Sales and use tax
Withholding tax
Unemployment insurance tax

Montana

Business registration
Trade name registration
Corporate income tax
Withholding tax
Unemployment insurance

Nebraska

Business registration
Trade name registration
Corporation income tax
Sales and use tax
Withholding tax
Unemployment tax

Nevada

Business registration
Trade name registration
Commerce tax
Sales and use tax
Unemployment insurance tax

New Hampshire

Business registration
Trade name registration
Business profits tax
Business enterprise tax
Unemployment compensation tax

New Jersey

Business registration
Trade name registration
Corporation business tax
Sales and use tax
Withholding tax
Unemployment tax

New Mexico

Business registration
Trade name registration
Corporate income tax and franchise tax
Gross receipts tax
Compensating tax
Wage withholding tax
Unemployment insurance tax
Other taxes

New York

Business registration
Trade name registration
Corporation tax
Franchise tax
Sales and use tax
Withholding tax
Unemployment insurance tax

North Carolina

Business registration
Trade name registration
Corporate income and franchise tax
Sales and use tax
Withholding tax
Unemployment insurance tax

North Dakota

Business registration
Trade name registration
Corporate income tax
S corp and partnership tax
Sales and use tax
Income tax withholding
Unemployment business tax
Other taxes

Ohio

Business registration
Trade name registration
Commercial activity tax
Sales and use tax
Withholding tax
Unemployment insurance tax

Oklahoma

Business registration
Trade name registration
Corporate income tax
Franchise tax
Business sales tax
Business use tax
Withholding tax
Unemployment insurance tax

Oregon

Business registration
Trade name registration
Corporation estimated tax
Commercial activity tax
C corporation excise tax
S corporation tax
Withholding tax
Payroll taxes and unemployment insurance tax

Pennsylvania

Business registration
Trade name registration
Corporate net income tax
Sales, use and hotel occupancy tax
Withholding tax
Nonresident withholding tax
Unemployment compensation tax

Rhode Island

Business registration
Trade name registration
Corporate tax
Streamlined sales and use tax
Withholding tax
Unemployment tax

South Carolina

Business registration
Trade name registration
C corporation income tax
S corporation income tax
Sales tax
Use tax
Withholding tax
Unemployment insurance tax
Other taxes

South Dakota

Business registration
Trade name registration
Sales and use tax
Reemployment assistance tax

Tennessee

Business registration
Trade name registration
Franchise and excise tax
Business tax
Sales and use tax
Unemployment insurance tax

Texas

Business registration
Trade name registration
Franchise tax
Sales and use tax
Withholding tax
Unemployment tax

Utah

Business registration
Trade name registration
Corporation franchise and income tax
Sales and use tax
Withholding tax
Unemployment insurance tax

Vermont

Business registration
Trade name registration
Corporate income tax
Business entity income tax
Sales and use tax
Withholding tax
Unemployment tax

Virginia

Business registration
Trade name registration
Corporation income tax
Pass-through entities tax
Sales and use tax
Withholding tax
Unemployment insurance tax

Washington

Business registration
Trade name registration
Business and occupation tax
Retail sales tax
Use tax
Unemployment tax

West Virginia

Business registration
Trade name registration
Corporate income tax
Business and occupation tax
Sales and use tax
Withholding tax
Unemployment tax

Wisconsin

Business registration
Trade name registration
Corporation and partnership tax
Sales and use tax
Withholding tax
Unemployment tax

Wyoming

Business registration
Trade name registration
Excise tax
Unemployment tax

Washington, D.C.

Business registration
Trade name registration
Business franchise tax
Sales and use tax
Withholding tax
Unemployment insurance tax

For more information on how ADP and Upnetic can help your business grow and succeed, learn more at [ADP.com](https://www.adp.com) and [Upnetic.com](https://www.upnetic.com).



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