



FREQUENTLY ASKED QUESTIONS

1. HOW DO I REGISTER MY SMALL BUSINESS?

How you register your business depends on what type of business entity you choose and what activity you are going to be engaged in. If you decide to incorporate or become a limited partnership or a limited liability company, you will need to register that entity with the Bureau of Corporations at the office of the Secretary of State. That office can be reached at 207-624-7736.

If you organize your business as a sole proprietorship (a business owned and operated by an individual) or a general partnership, you do not need to register your business entity with the state. However, there may be certain state, city, or town permits or licenses that are required to operate your business (see question #3).

2. WHAT LEGAL FORM OF BUSINESS SHOULD I CHOOSE?

There are four primary legal forms of business from which to choose from: sole proprietorship, partnership, Limited Liability Company and incorporation (both C-corp. and Subchapter S).

A **sole proprietorship** is owned by an individual (or a married couple) and it may have one or more employees. Operating a sole proprietorship means that the owner is personally responsible for all liabilities of the business. Also, the owner is taxed on a personal level for all profits generated by the business.

A **partnership** occurs when two or more people agree to share ownership of a business. This form of business allows the partners to share complimentary skills and resources. The owners share and pay personal taxes on the profits of the business. Additionally, each partner is individually responsible for the liabilities of the business.

Another option is to form a **Limited Liability Company (LLC)**. This legal form, which became effective in Maine on January 1, 1996, is a combination of the corporate form (providing limited liability) and the partnership form (allowing you to be taxed as in a partnership).

The **corporate entity** is created when your business registers with the Secretary of State's Bureau of Corporations. This enables the owners to take advantage of the limited liability aspect of the corporate ownership and to raise equity by selling shares of the company. For-profit entities have the option to choose either a **C-corporation** or **Subchapter S-corporation** status. If you become a C-corporation, the corporate profits are taxed, and then the owners will be taxed on their share of the profits and compensation (i.e. dividends and wages) received from the corporation.

A **Subchapter S-corporation** does not pay a corporate tax. Instead the profits are distributed to the owners and are paid at the individual tax rate.

You can find more information about business entities in the "Common Business Entities" section of this Guide. If you have any questions regarding these forms of business entities, please call your local Maine Small Business Development Center and seek advice from an attorney and tax accountant.

3. DO I HAVE TO REGISTER MY BUSINESS NAME? HOW DO I DETERMINE IF THE NAME I CHOOSE IS OKAY TO USE?

State statute requires that every business enterprise operating under an assumed name must register that name in the city or town in which it is located. This is often called filing a "D/B/A", which stands for "doing business as," and a nominal fee is typically charged. What you do beyond this depends on a number of factors.

If you incorporate, become a limited partnership or limited liability company, the name of the business would be registered with the Bureau of Corporations. To determine whether a name you're considering is in use by another corporation, or is protected by a trademark or service mark, you should contact the Bureau of Corporations at 207-624-7736 or do an online search at <http://www.maine.gov/sos/cec/corp>. Sole proprietorship names are not tracked by any one central agency. However you can employ the following tactics to safeguard against using another business' name. Check telephone listings, your local library should have the regional directories or search all phone books in the U.S. at www.switchboard.com, do an online search or check for the name in the *Maine Business and Professional Directory*.

4. DO I NEED A BUSINESS LICENSE?

The State of Maine does not license all businesses; however, your business may need state and/or local licenses or permits depending on the particular activity you are engaged in. Determine whether you need to obtain any state licenses or permits to operate your business. Business Answers, a program of the Maine Department of Economic and Community Development, has a One-Stop Licensing Center for all the information needed to obtain appropriate licenses for your business. This service can be reached at 1-800-872-3838 or go to the website: www.maine.gov/businessanswers. You should also inquire about local licenses and permits at your local town office or city hall.

5. DO I NEED A SALES TAX NUMBER AND HOW DO I REGISTER FOR ONE?

If you sell tangible personal property, or provide certain fabrication, rental, or other particular services, you must obtain a sales tax identification number, also known as a resale certificate, from the State of Maine.

To obtain the appropriate forms you may visit the Maine Revenue Services website or you can call 207-624-5644 for the Application for Tax Registration. If wholesalers and retailers are reselling your product(s) you would not charge sales tax, but would provide them your sales tax number for a resale certificate. Additionally, you would not charge sales tax to consumers who purchase your product outside of Maine, although they would be responsible for a use tax. Keep in mind that after you register, your sales, regardless if sales tax is charged or not, must be reported regularly to the State of Maine's Sales Tax Division.

6. CATALOG SALES AND INTERNET SALES

A retailer which solicits sales through a catalog or internet web site is responsible for collecting sales tax in Maine if the retailer has a significant presence in Maine. Retailers registered in Maine selling goods to Maine residents must collect Maine sales tax since the retailer has a presence in Maine and the sale occurs in Maine. This is true regardless if the sale occurred in the retailer's store, if the goods are

ordered over the telephone or if the goods are ordered through the retailer's homepage. If the retailer receives orders through mail-order or the internet from non-residents and the goods are shipped out-of-state, the sale is not taxable in Maine. If the retailer is not required to register in Maine, the sales are not subject to Maine's sales tax but the purchaser is subject to Maine's use tax on such a purchase.

7. HOW DO I FINANCE THE START-UP OF A SMALL BUSINESS?

To determine financing needs, you should first prepare a business plan with a complete set of financial projections including a balance sheet, income statement, and cash flow statement. With a properly completed business plan, you will have identified your funding needs. Keep in mind that most small business start-ups are funded through personal resources including savings, equity or loans from family, friends or other investors, home equity loans, cash value of life insurance, or other personal resources. Banks will lend to some business start-ups if they are satisfied with your business plan, your level of equity investment, the collateral you have to pledge to the loan and your credit history and experience. If your request is denied, ask your bank if they would consider the loan with a guarantee from the Small Business Administration (SBA) or the Finance Authority of Maine (FAME). In addition, there are a number of local and regional economic development agencies that have revolving loan funds that you may apply for. A good source of financing information is Business Answers, 1-800-872-3838. Feel free to contact your local Maine SBDC office for help on writing business plans and assistance in finding the type of financing that best suits your business. For more information see the section on "Financing Your Business".

8. HOW DO I REGISTER TO BECOME AN EMPLOYER?

To register as an employer, you need to obtain a federal Employer Identification Number (EIN) by filing IRS Application Form SS-4 which can be done online at www.irs.gov. You will also need to register for state income tax withholding and for unemployment contributions by filing the Application for Tax Registration at Maine Revenue Services' website via their online registration service or contact them at 207-624-5644. Have employees complete and keep in employer's files: Employee Withholding Certificate W-4 obtained from the IRS and Employment Eligibility Verification Form I-9 obtained from the U.S. Citizenship and Immigration Services. Obtain Worker's Compensation Insurance from your business insurance carrier. Maine employers are required to report newly hired or rehired employees to the Maine Department of Health & Human Services (DHHS) within 7 days. Contact DHHS Support Enforcement and Recovery at 207-624-4100 for more information. Obtain and post required labor posters. For more information on becoming an employer, hiring employees or to obtain labor posters, contact the Maine Department of Labor at 207-623-7900.

9. IF I AM SELF-EMPLOYED, HOW DO I REPORT MY TAXES?

Self-employed business owners are required to pay state and federal income taxes, Social Security, and Medicare based on the profits generated by the business. Profits in a proprietorship are determined before you draw compensation from the business (i.e. your draw or wages are not considered an expense of the business.) Once your liability for federal income tax and self-employment FICA exceeds \$500, you will need to deposit the tax payments to the IRS (whether this happens in any one quarter or combination of quarters.)

You can estimate and report your federal taxes by using the 1040-ES form, and your state taxes by using the 1040ES-ME form. You can also derive an estimate of your tax liability from your most recently

completed Schedule C (profit and loss statement for a proprietorship) or by completing a monthly profit and loss statement. Be aware that if you don't deposit the appropriate taxes for any individual quarter, or for the year, the IRS can and will impose stringent penalties and interest.

For additional information on completing the forms or understanding the requirements, please call your local Maine Small Business Development Center and seek advice from a tax accountant.

10. WHAT TYPE OF INSURANCE SHOULD I OBTAIN FOR MY SMALL BUSINESS?

When you start your own business, there are various types of business insurance that should be considered essential and others that, while not essential, may be desirable and add to the security of a business. Most businesses will require some type of general liability insurance and many businesses obtain an "umbrella policy" that covers a variety of risks including personal property, liability, fire, theft, and medical payments.

If you have employees, you will need to obtain workers compensation insurance. Additionally, if your business owns or uses vehicles for business purposes, automobile coverage is necessary. Beyond this, what other forms of insurance obtained depends on what risks are incurred in operating your business, and what kind of supplementary coverage you want to employ to provide additional security for your business.

The following is a list of certain types of insurance that you may need to consider: Key Person Insurance, Flood Insurance, Fidelity and Surety Bonds, Boiler and Machinery Insurance, Product Liability, Business Interruption Insurance, Overhead Expense, Disability Insurance, and Life Insurance. The best course of action is to contact an insurance agent, or several agents, for a consultation regarding the appropriate types of insurance for you and your business.