



Starting a home-based business? Ask yourself these critical questions before launching

Blog / March 22, 2018 / Small Business Loans

What do Amazon, the Walt Disney Co. and Apple have in common? Believe it or not, these iconic, mega-sized companies all started out as home-based businesses.

For most entrepreneurs, this is a common—and best—starting point because it eliminates your largest overhead expense. And that’s leasing space, said Marsel Watts, a senior business advisor at leading lender CDC Small Business Finance.

While starting a venture from home is often simple, it’s important to complete some foundational steps before launching—including forming a business structure and getting the required permits. If done right, you’ll save yourself time, money and pain down the road.

“Entrepreneurs don’t think about the legalities surrounding their home-based business...(until) they’re bringing in income,” said Kelly Bagla, a Southern California business attorney and author of *Go Legal Yourself: Know the Legal Lifecycle of Your Business*.

Avoid this mistake. Ask yourself some crucial questions up-front and follow these recommendations from Bagla and Watts:

Contributors



Kelly Bagla,
business attorney



Marsel Watts,
senior business advisor

How important is a name for my business?

After deciding what services you'll be providing, you'll want to come up with a company name. An ideal one should reflect your brand and help tell your startup's story.

You'll likely need to register your home-based business and name with your state and local government, depending on your business structure (more on this later,) Watts said. California's Secretary of State office, for instance, requires applicants to check their proposed name against two databases before adopting it. Rules vary so check the guidelines in your specific city and state.

Don't forget your online presence. Securing and maintaining a website in today's business world is essential. Check to see if the name you want is available as a domain name. If it is, snap it up and set up a simple, no-frills website to start, Bagla said.

How should I structure my business?

Structure is important because it will impact everything from paperwork you'll need to file to the taxes you'll pay to Uncle Sam.

According to Bagla's book, most entrepreneurs will fall into the sole proprietorship category because it is the easiest to create and maintain. This structure makes the most sense for the self-employed and those who are both managing and owning the business. The biggest downside is, there's no separation between the individual and the business, which can open you up to legal risk.

Other common business structures include: DBA, or doing business as; LLC, or limited liability company; and corporation. You'll need to file documents with the county or state where your business is based to become one of these entities, Watts said.

"They're required by all businesses and needed to open business bank accounts," she added.

It's important to note sole proprietorships and DBAs are not legal entities. Those owning a home and running a business may want to set up as an S corporation, Bagla said. This will protect your assets if you are sued. Also, this set-up can provide tax benefits. Ultimately, your longer-term goals will help dictate which structure will work best for you.

After incorporating, don't forget to keep up with state requirements, from holding board meetings to filing an annual report. This is all part of corporate compliance, Bagla said.



What licenses do I need to operate my business?

You'll need to get a business license. They are issued and required by the city where your home-business is located, Watts said.

Here are other licenses and permits you may need, depending on your products or services:

Seller's Permit: required if you sell a product. This is issued by the state Board of Equalization.

Employer Identification Number, or EIN: It's like a Social Security Number for businesses. This is needed to open business bank accounts.

State Employer ID Numbers & Payroll Taxes: You'll need this if you have employees; this is issued by the State Employment Development Department.

State Franchise Tax Board: required for income taxes.

What if I'm operating a food business?

If you're making baked goods or other foods, then you'll need to obtain the right documentation before touching a mixer or oven.

Counties typically require a cottage food operator license. This is required if you're preparing and/or packaging certain foods in private-home kitchens, Watts said. Also, you need to get a health permit through your county and state.

How does living in an HOA affect my home-based venture?

Are you planning to see clients in your home? Home-based business owners who live in a homeowners association will want to make sure this practice won't violate any association guidelines. Violations can lead to fines and headaches from neighbor disputes.

Do I need to buy business insurance?

Business insurance, mainly liability insurance, is a must-have, Bagla says. She also recommends getting quotes from a broker who specializes in this type of insurance rather than a generic insurance broker. How much you'll need to buy will likely depend on projected revenues.

The big takeaway

The main idea here is to do your due diligence before launching a startup. Feeling overwhelmed? Don't hesitate to reach out to trained professionals for guidance.

"It really pays off to see an attorney when starting off your business," said Bagla, who has helped some of CDC Small Business Finance's clients with incorporation and other legal matters.

CDC's team of experienced business advisors work with our potential and current borrowers with business strategy, credit repair and much more. If you are ready for a small business loan, reach us at getadvice@cdcloans.com or **619-243-8631**.