

STARTING A BUSINESS IN THE CHAPEL HILL AREA

Prepared by SCORE – Chapel Hill/Carrboro

The success or not of a business usually depends on the competitiveness of the products or services offered, effective marketing, adequacy of financial resources, and good execution of the operations. Some degree of planning is essential, and detailed business planning is often worthwhile. All that said, there are governmental and other issues that could need attention. Below is some information on those. It can be used as a partial check list.

Federal:

Get a tax ID (Employer Identification Number) for the business from the IRS. Free. Use Form SS-4. The form can be mailed or faxed, but to avoid slow turnaround time it is strongly recommended that you submit it on-line using the website listed below. Required for all businesses except sole proprietorships with no employees and it is a good idea then.

Go to IRS for information on income taxes including estimated tax, unemployment tax, payroll tax withholding, and more. IRS has an extensive website at <http://www.irs.gov/businesses/index.html> and has an office in Durham with forms, publications, CDs, and staff to answer questions. Location is 3308 Chapel Hill Boulevard (Business 15-501), at the end of the service road on the opposite side of the highway from Target and Office Depot. At a minimum, look at Publication 334 *Tax Guide for Small Businesses* and get the CD-ROM *Small Business Resource Guide*, Publication 3207. The CD has many of the forms and publications on it, as well as articles from the SBA (some of which are not up-to-date). You can access the equivalent of the CD at <http://www.missouribusiness.net/irs/taxmap/tmhome.htm> .

Be careful in deciding whether a person is really an independent contractor or is an employee – see IRS publication 1779.

North Carolina State:

Contact Department of Revenue regarding income taxes, payroll withholding, and if and how to be designated as a collector of sales taxes. The website is <http://www.dornrc.com/business> or by calling or visiting them in Raleigh or Greensboro (see blue pages of telephone book). That website is usefully linked to others. The federal EIN is used for state income taxes, but other numbers are issued for payroll withholdings and sales tax collection.

A few types of businesses such as amusements need a state privilege license from the state's Department of Revenue, as do certain professions such as legal practice, medical services, public accountants, real estate agents and appraisers and loan brokers, photographers, and some others. See the above website.

Many other specialized businesses or practitioners need a state license or permit issued by the particular regulators. The N. C. Department of Commerce website <http://www.nccommerce.com/servicenter/blio/startup> leads to detailed lists and information on those. That website is also highly recommended as a starting point for other state and federal information such as trademarks, registering a business name, employer requirements, and website links.

State unemployment insurance tax payments are generally needed if a business has any employees. Contact the Employment Security Commission for information including how to get an employer account number at <http://www.ncesc.com/business/default.asp> .

Contact Secretary of State office at <http://www.secstate.state.nc.us> regarding incorporation, LLCs, some types of partnerships, and more. A name search might quickly show if a company name similar to what you have in mind is already in use in North Carolina. Business names used by general partnerships and individuals are not listed there, but are supposed to be registered with the Register of Deeds in each county where they do business.

County:

The name of the business is supposed to be filed with the Register of Deeds in the county it is headquartered and also in other counties where it does business, except when the business is done in the name of a corporation or LLC that is registered with the Secretary of State or is done in the personal name of the individual owner. In Orange County, the office is in Hillsborough 919-245-2675 and the fee is \$14 for a one-page filing. <http://www.co.orange.nc.us/deeds>

Property tax may apply to some assets of the business, not including financial assets such as bank accounts nor inventories. It typically is collected by the county for itself plus the applicable school districts and municipalities. They will know about real estate and licensed highway vehicles. For other equipment including computers, furniture, machinery, off-road vehicles, etc. the business is to take the initiative in listing the property each year with the tax assessor. Also, a business is required to notify the tax office at least 48 hours before buying or selling a business or changing its legal name. Sales taxes are all collected by the state, and then partly distributed to the counties and cities. Similarly, all income taxes are collected at the state level. There are no wage taxes as such in NC. Orange County information on taxes and economic development and more is in the county website <http://www.co.orange.nc.us/> and by calling 919-245-2100.

Orange County does not have a business license requirement, except when the business serves wine or beer or involves massage practitioners. However, Chapel Hill, Carrboro, and Hillsborough do have license and permit requirements. Other counties and cities vary.

Links to websites for other North Carolina counties and to cities and towns and chambers of commerce are at <http://www.nccommerce.com/servicenter/blio/links/local.asp> . Many of those sites are not very useful or are hard to use or not current, but here are some:
<http://www.alamance-nc.com/Alamance-NC/Departments/>
<http://www.chathamcdc.org/links.shtml>
<http://www.durhamchamber.org/business/startup.html>
<http://www.wakegov.com/>

Local:

The below is separate from the construction permits and similar that apply in almost every municipality or at the county level for unincorporated areas. There is considerable variation in permit requirements and fees between jurisdictions, so check out the particular ones that pertain.

Chapel Hill requires a business privilege license for most businesses based in or operating in the town, obtained through the Finance Department at Town Hall, 919-968-2824. The form is available on-line via <http://www.townofchapelhill.org/>. Fees vary according to size and type of business. For businesses with facilities in Chapel Hill, a Zoning Compliance Permit or Home Occupation Permit from Planning Department 919-968-2778 or an Occupancy Permit from the Inspections Department 919-968-2718 is needed first. Also, private deed covenants or landlord restrictions may apply. Planning Department can advise on other issues, such as sign permits.

Carrboro requires a business privilege license, and has a long list of other fees for various kinds of businesses. The town's main telephone number is 919-942-8541. For the fee schedule, the website is <http://www.ci.carrboro.nc.us/default.htm> , then Departments, then Finance & Budget.

In Chatham County, some numbers are: Pittsboro 919-542-4621, Siler City 919-742-2323, Chatham County Tax 919-542-8260, and Chatham County Register of Deeds is in Pittsboro at 919-542-8235.

Chambers of Commerce can be excellent sources of local information, and there can be considerable business benefits with membership. Some of the websites are:

<http://www.carolinachamber.org/> for Chapel Hill/Carrboro.

<http://www.hillsboroughchamber.com/> for Hillsborough and rural Orange County.

<http://www.alamancechamber.com/> for Alamance County.

<http://www.ccucc.net/> for Chatham County

<http://www.durhamchamber.org/> for Durham county and city.

Insurance:

The automotive and homeowners insurance policies as sold to individuals have limited or no coverage for business activities. It is very important to either get the policies endorsed with additional premium cost to cover the activities or to get separate business insurance.

North Carolina requires workers compensation insurance for entities with three or more employees, and an active owner can be considered an employee for that purpose. Business liability insurance is usually worthwhile, and for some businesses the customers may require a certificate of insurance proving adequate liability and automotive coverage. There are several varieties of liability insurance to potentially consider, as well as property and casualty insurance, business interruption insurance, bonding of employees, and more. There are insurance agents specializing in insurance for businesses. Contact with one or more of those is highly recommended to help decide what coverage is either essential or is cost-justified. Professional or trade associations may offer some good deals. Additionally, medical, life, and disability insurance can each be important.

Selecting the business structure:

The choices are sole proprietorship (by definition, only one owner), partnership (general or a specialized limited liability version), corporation, or Limited Liability Company (LLC). None of these is best in all respects. Sole proprietorship or general partnership is usually simplest and least expensive, but the owners each will probably have unlimited personal legal liability for problems of the business. That could be an acceptable risk, depending on the nature of the business and the liability insurance. Corporations and LLCs will usually protect the owners from personal liability, although there can still be exposure for non-payment of taxes, fraud, etc. Also, individual personal guarantees may be needed for the business to get a loan. And, the owner's investment might still be wiped out. North Carolina's corporation laws are very similar to other states in most areas of importance to small businesses.

For both federal and state, a partnership files an income tax return but does not itself pay income tax. Instead, the year's profit or loss is allocated among the owners for them to include in their individual returns, whether or not the owner got any cash out of the business that year. Subject to various restrictions such as who can be an owner, LLCs and corporations can also sometimes opt for that same tax treatment to avoid the "double taxation" on dividends. (Subchapter S corporation). LLCs may be more flexible than S-corporations for small businesses.

There are many other potential considerations, including investor preferences, marketing cachet (maybe), options for use of pre-tax money for employee-owner's medical or retirement benefits, self-employment tax, licensing requirements for some professions, degree of diligence required such as having formal meetings of owners, and more. Advice from a CPA or business attorney could be very useful for particular situations. A general website which includes some specifics for states is <http://www.bizfilings.com/learning/comparison.asp>.

The name for the business in the marketplace does not have to be the same as the company's legal name or owner's name. With care, a desired assumed name can be potentially used with any of these structures. See the state and county information above for registering the name.

Various other resources to consider:

Bank(s): Unless the business is very small, get a separate checking account for the business. Most banks make personal loans and loans to businesses, including SBA guaranteed loans, but may not be interested in startups and smaller loan amounts. Many banks offer credit card processing and other useful services. Some bankers can help with valuable contacts and advice, and act as trusted references for suppliers and prospective customers. Ask around, and talk to more than one bank. Other potential lenders include the Self Help Credit Union in Durham.

Legal: Consider consulting with an attorney who specializes in business law for incorporating, review of contracts including leases before signing, and more.

Accounting: CPAs can be excellent advisors on taxes and whether to incorporate and for business contacts. Most accounting firms offer various services to businesses such as tax return preparation, monthly accounting, audits (perhaps required by lenders or investors), basic bookkeeping, even payroll preparation. Choose a firm that caters to businesses of your size or type. A business can obviously do many of these things for itself, for example with QuickBooks software, or by using services of specialty businesses that are not general accounting firms.

SCORE (sponsored by the SBA) offers free counseling services to both existing and pre-startup businesses. There are many local chapters around the country, including Chapel Hill, Durham, Raleigh, Greensboro, and Southern Pines. In Chapel Hill, the telephone number is 919-968-6894, location is the Chamber of Commerce at 104 South Estes Drive, and the website is www.scorechapelhill.org. The national website which includes much potentially valuable information and links is www.score.org. Other SBA-related links are www.sbaonline.sba.gov for the Small Business Administration www.ncccs.cc.nc.us/ for Small Business Centers at Durham Tech and in Siler City www.sbtcd.org for the Small Business & Technology Development Center (SBTDC)

Libraries and Trade or Professional Associations: See, among other things, *Small Business Sourcebook* and other information in the Chapel Hill or main Durham libraries. Also, don't forget internet searches for finding specific information and leads to other information.

As of February, 2006