

FREQUENTLY ASKED QUESTIONS (FAQ): STARTING A BUSINESS

ESSENTIAL INFORMATION FOR ASPIRING ENTREPRENEURS

FREQUENTLY ASKED QUESTIONS

1. WHAT ARE THE FIRST STEPS TO STARTING A BUSINESS?

The first steps include identifying a viable business idea, conducting market research, creating a **business plan**, and deciding on the business structure (such as sole proprietorship, partnership, LLC, or corporation). Registering your business and obtaining necessary permits and licenses are also important early steps.

2. DO I NEED A BUSINESS PLAN?

Yes, a business plan is **highly recommended**. It outlines your business goals, strategies, target market, financial projections, and operational plan. A solid business plan can help secure financing and guide your business decisions.

- A Business Plan is a comprehensive document that outlines your business goals, strategies, target market, financial projections, and operational details. It serves as a roadmap for how your business will start, grow, and succeed.
- In essence, a Business Plan is essential for planning, securing resources, and increasing your chances of long-term success.
- Business Plans are time consuming and could take hundreds of hours of research and planning. Custom-made Business Plans are also very expensive, ranging from a few thousand dollars to over \$50,000.

3. WHAT LEGAL STRUCTURE SHOULD I CHOOSE?

Choosing a legal structure depends on factors such as liability, taxation, and management preferences. Common structures include sole proprietorship, partnership, limited liability company (LLC), S corporation, and C corporation. Consult with a legal or financial advisor to determine the best fit for your situation. Here are the Pros and Cons of each business structure:

Sole Proprietorship

Pros:

- Easy and inexpensive to establish.
- Full control over the business.
- Simplified tax filing; business income is reported on your personal tax return.
- Minimal regulatory requirements.

Cons:

- Unlimited personal liability for business debts and obligations.
- Difficult to raise capital.
- Business continuity depends on the owner.
- Can be less credible to some clients or partners.

Partnership (General Partnership)

Pros:

- Easy to establish with shared responsibilities.
- Combined skills and resources.
- Pass-through taxation (profits taxed only once).

Cons:

- Unlimited liability for each partner.
- Potential for conflicts between partners.
- Shared profits.
- Dissolution can be complicated if partners disagree.

Limited Liability Company (LLC) – Most Popular

Pros:

- Limited liability protection for owners (members).
- Flexible management structure.
- Pass-through taxation (profits taxed at the member level).
- Fewer formalities and ongoing compliance requirements than corporations.

Cons:

- Can be more costly to set up than sole proprietorships.
- Varies by state in terms of regulation and costs.
- Some limitations on certain types of business activities or funding.

Corporation (C Corporation)

Pros:

- Limited liability protection.

- Ability to raise capital through stock.
- Perpetual existence regardless of ownership changes.
- Credibility with suppliers and investors.

Cons:

- More complex and costly to establish and maintain.
- Double taxation (corporation pays taxes on profits; shareholders pay taxes on dividends).
- Formal requirements for governance and reporting.

S Corporation

Pros:

- Limited liability protection.
- Pass-through taxation (avoids double taxation).
- Perpetual existence.

Cons:

- Limited to 100 shareholders who must be U.S. citizens or residents.
- More formalities than LLCs.
- Restrictions on stock classes.

4. HOW DO I REGISTER MY BUSINESS?

The registration process varies by location and business type. Typically, you will need to register your business name with the state or county, file formation documents if creating an LLC or corporation, and obtain an Employer Identification Number (EIN) from the IRS.

An EIN (Employer Identification Number), also known as a Federal Tax Identification Number, is a unique nine-digit number assigned by the IRS to identify a business entity for tax purposes.

Why do you need an EIN?

- **Tax reporting:** It's used to identify your business on tax filings, payroll, and other financial documents.
- **Hiring employees:** Required if your business hires employees or if you operate as a corporation or partnership.
- **Bank accounts:** Many banks require an EIN to open a business bank account.
- **Business licenses and permits:** Some licenses or permits may request your EIN.
- **Business structure:** Essential for corporations, partnerships, LLCs (depending on the state and circumstances).

Who needs an EIN?

- Businesses with employees.
- Corporations and partnerships.
- LLCs, especially if they have multiple members.
- Nonprofit organizations.
- Businesses required to pay certain federal taxes (e.g., excise taxes).

Getting an EIN is usually straightforward and free through the IRS website. It helps establish your business's legal identity and is an important part of proper business operations.

5. WHAT LICENSES AND PERMITS DO I NEED?

Licenses and permits depend on your industry, location, and business activities. Common examples include a general business license, sales tax permit, health permits, and professional licenses. Check with your local and state government agencies for specific requirements.

6. HOW DO I FINANCE MY BUSINESS?

Financing options include personal savings, loans from banks or credit unions, investments from family and friends, venture capital, angel investors, and government grants or loans. Consider the pros and cons of each source and create a clear financial plan.

A. Personal Savings

- Using your own funds to finance startup costs or growth.
- Advantage: No repayment or interest, full control.
- Disadvantage: Personal financial risk.

B. Family and Friends

- Borrowing from or getting investments from trusted contacts.
- Advantage: Potentially flexible terms.
- Disadvantage: Risk to personal relationships.

C. Bank Loans

- Traditional loans from banks or credit unions.
- Advantage: Larger sums, predictable repayment terms.
- Disadvantage: Requires good credit and collateral, lengthy approval process.

D. Small Business Administration (SBA) Loans

- Government-backed loans with favorable terms.
- Advantage: Lower down payments, longer repayment periods.
- Disadvantage: Strict qualification criteria, lengthy application process.

E. Angel Investors

- Wealthy individuals who invest in startups in exchange for equity.

- Advantage: Access to expertise and mentorship.
- Disadvantage: Giving up part of ownership and control.

F. Venture Capital

- Investment firms funding high-growth startups.
- Advantage: Large funding amounts, strategic support.
- Disadvantage: Deep ownership dilution, pressure for rapid growth.

G. Crowdfunding

- Raising small amounts of money from many people via platforms like Kickstarter or Indiegogo.
- Advantage: Good for marketing and validation.
- Disadvantage: Time-consuming, no guarantees of success.

H. Business Credit Cards

- Short-term financing for working capital.
- Advantage: Easy access, quick funding.
- Disadvantage: High interest rates, potential for debt accumulation.

I. Trade Credit

- Arrangements with suppliers to buy now and pay later.
- Advantage: Improves cash flow.
- Disadvantage: Limited to existing supplier relationships.

Next Steps: Assess your **business plan**, cash flow projections, and creditworthiness to determine the best financing options. Combining several methods can also be effective

7. DO I NEED TO OPEN A SEPARATE BUSINESS BANK ACCOUNT?

Yes, it's recommended to keep your business and personal finances separate. Opening a dedicated business bank account helps with accounting, tax filing, and presents a professional image to clients and vendors.

8. WHAT TAXES WILL MY BUSINESS NEED TO PAY?

Your tax responsibilities depend on your business structure and location. Common taxes include federal and state income taxes, self-employment tax, payroll tax, and sales tax. It's advisable to consult with a tax professional to ensure compliance.

9. HOW CAN I PROTECT MY BUSINESS IDEA OR BRAND?

Consider trademarking your business name, logo, or slogan. If you have unique inventions, you may want to apply for patents. Copyrights protect original works such as written materials or designs. Consult with an intellectual property attorney for guidance.

10. WHERE CAN I FIND RESOURCES AND SUPPORT FOR NEW BUSINESSES?

You can access free and low-cost resources from the U.S. Small Business Administration (SBA), local Small Business Development Centers (SBDC), SCORE mentors, and chambers of commerce. Online business forums and networking events are also valuable.

11. WHAT INSURANCE DO I NEED FOR MY BUSINESS?

Common types of business insurance include general liability, professional liability, property insurance, and workers' compensation. The coverage you need depends on your industry and business activities. Consult an insurance agent for recommendations.

A. General Liability Insurance

- Protects against claims of bodily injury, property damage, or advertising injury.
- Essential for most businesses to cover legal costs and damages.

B. Property Insurance

- Covers damage to your business property, such as buildings, equipment, and inventory.
- Important if you own or lease physical space or assets.

C. Commercial Auto Insurance

- Required if your business owns vehicles.
- Covers accidents, damage, and liability.

D. Workers' Compensation Insurance

- Mandatory in most states if you have employees.
- Covers medical expenses and lost wages for work-related injuries.

E. Professional Liability Insurance (Errors & Omissions)

- Protects against claims of negligence, errors, or omissions in the professional services you provide.
- Important for consultants, doctors, lawyers, and similar professions.

F. Product Liability Insurance

- Needed if you manufacture or sell products.
- Protects against claims of injury or damage caused by your products.

G. Business Interruption Insurance

- Covers loss of income if your business is temporarily shut down due to a covered event like a fire or natural disaster.

H. Cyber Liability Insurance

- Protects against data breaches, cyberattacks, and digital security issues.
- Increasingly important for businesses handling sensitive customer data.

I. Employment Practice Liability Insurance

- Covers claims related to employment issues, such as wrongful termination, discrimination, or harassment.

12. HOW DO I HIRE EMPLOYEES OR CONTRACTORS?

Before hiring, ensure you comply with federal and state labor laws, register for employer taxes, and set up payroll. For contractors, use clear contracts outlining terms. Consider using HR software or consulting with an HR professional.

13. WHAT ONGOING COMPLIANCE REQUIREMENTS SHOULD I BE AWARE OF?

Businesses must file annual reports, renew licenses and permits, pay taxes, and maintain proper records. Stay informed about changes in laws and regulations affecting your business.

14. WHO CAN HELP ME WITH LEGAL AND FINANCIAL QUESTIONS?

Accountants, business attorneys, and local business development organizations can provide valuable guidance. Many offer free initial consultations or workshops for new business owners.

15. WHAT THE MOST BASIC STEPS TO START A BUSINESS?

I.) Create a Name for Your Company

II.) Decide what services you will provide or what products you will sell.

III.) Complete your **business plan**.

IV.) Create a Logo

V.) Register Your Business: (Sole Proprietor, LLC, S-Corp, etc.)

VI.) Register a Domain. (Purchase a Domain from sites like GoDaddy, Namecheap, Google domains, Bluehost, Hover, Dreamhost, Gandi, etc.)

VII.) Create a social media account for your business. (Facebook, LinkedIn, X, etc.)

VIII.) Create a Website

IX.) Create an email using your domain name (Optional)

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