

GUIDE FOR **STARTING A NEW BUSINESS IN WASHINGTON STATE**



Starting a new business is an exciting and challenging undertaking.

This guide summarizes the process for starting and maintaining a business in Washington State. We hope this information will assist you in preparing to form your new business in working with us and your accountant.

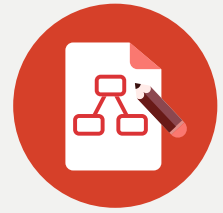
Please contact any member of our **Business Group** at Ryan, Swanson & Cleveland for further information.



Lawyers since 1897

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DECIDING ON YOUR BUSINESS STRUCTURE

You may operate your business under any one of several organizational structures. Each type of business structure has certain advantages and disadvantages that should be considered. Please contact us to determine which structure is most suitable for your business. There are many factors here.

A sole proprietorship is one individual or married couple in business alone. This type of business is simple to form and operate, and may enjoy greater flexibility of management, fewer legal controls, and fewer taxes. However, the business owner is personally liable for all debts incurred by the business.

A general partnership is composed of two or more persons (usually not a married couple) who agree to contribute money, labor, and/or skill to a business. Each partner shares the profits, losses, and management of the business, and each partner is personally and equally liable for debts of the partnership. Formal terms of the partnership are typically contained in a written partnership agreement. Due to liability of general partners, general partnerships are not generally used.

A limited partnership is composed of one or more general partners and one or more limited partners. The general partners manage the business and share in profits as well as losses. Limited partners share in the profits of the business, but their losses are limited to the extent of their investment (i.e., limited partners are generally not personally liable for the debts of the limited partnership). Limited partners are usually not involved in the day-to-day operation of the business. Formal terms of the limited partnership are typically contained in a written limited partnership agreement. Limited partnerships have not been commonly utilized since the advent of limited liability companies.



DECIDING ON YOUR BUSINESS STRUCTURE (cont.)

A corporation has a more complex business structure and there are different types of corporations. Shareholders own the capital stock of the corporation and elect directors to manage the corporation. The directors, in turn, appoint officers to oversee the day-to-day operation of the business. A sole individual may form a corporation. Generally, shareholders, directors, and officers are not personally liable for the corporation's debts. Doing business as a corporation may also yield tax or financial benefits. Corporations may be formed for profit or nonprofit purposes.

A limited liability company (LLC) is a business structure in which members own the membership units of the LLC. An LLC can be managed by one or more members or managers (a manager need not be a member). A sole individual may form an LLC. An LLC is similar to a corporation in that its members and managers are generally not personally liable for the debts of the LLC. Formal terms of the LLC are typically contained in a written operating agreement. Compared to corporations, LLCs are more flexible in that owners (i.e., members) can create specific terms for management, distribution of profits and losses, and other LLC matters. LLCs are permitted to engage in any lawful, for-profit business or activity other than banking or insurance.



FORMING A LIMITED PARTNERSHIP, CORPORATION, OR LLC

Corporations and LLCs beginning business in Washington State must file formation documents with the Washington Secretary of State. (sole proprietorships and general partnerships do not file formation documents with the Secretary of State, but business licensing and other requirements still apply)

Registered Agent

All corporations, LLCs, and limited partnerships doing business in Washington must have a registered agent with a Washington address. The registered agent may be an individual or another organization qualified by the Secretary of State to do business in Washington. The registered agent receives license renewals and other notices and forwards them to the business. The agent also accepts legal papers served on the business. At formation, a statement should be signed by the registered agent indicating their consent to serve. RSC Corporation, our wholly owned Washington corporation, provides registered agent services for a current annual fee of \$290.

Filing Fees and Requirements

The standard filing fee for forming a limited partnership, profit corporation, or LLC is \$180 and \$30 for a nonprofit corporation. Additional fees may apply if expedited filing is desired (we generally recommend expediting the filing for quick confirmation but it is usually an additional \$50). Additional fees and filing requirements may apply to insurance companies, building and loan associations, public utility companies, cooperative associations, and other specialized profit corporations. Depending on your business entity type, you will need to annually pay a renewal fee and/or file a list of officers and directors (known as an annual report). Renewal fees are approximately \$60; annual report fees for non-profits are approximately \$10.



LICENSING YOUR BUSINESS

Unified Business Identifier (UBI)

The UBI is a nine-digit number assigned to your business when it is registered with the Secretary of State or the Department of Revenue, Labor and Industries, or Employment Security, or when a Business License Application is submitted through the Business Licensing Service (BLS) of the Department of Revenue. The filing fee is \$19 plus an additional \$5 fee for each trade name desired.

A business owner can use the same identifying number when dealing with different state agencies.

Your UBI number will stay the same as long as you operate your business under the same business structure. If you change your business (for example, from a sole proprietorship to a corporation), you must apply for a new UBI number.

Business License Application

Business owners are allowed to fulfill many registration and licensing requirements by completing a Business Application form and making a single payment. The Business Licensing Service (BLS) in Olympia is the main processing and distribution point for the Business Application. Applications and fees collected throughout the state are sent to the BLS data center. Data and fees are then passed on to other agencies for further action. If you need any specialty licenses, such as liquor or lottery licenses, you will be asked to submit additional information and then must await approval from the regulating agency before beginning your business operation.



LICENSING YOUR BUSINESS (cont.)

BLS also produces and mails the Legal Entity Registrations and Business Licenses. The Legal Entity Registration indicates that your company is duly registered to do business in the State of Washington. The Business License reflects the permits that have been granted to your business through the BLS. If you conduct business at more than one location, you will receive a separate License for each place of business. Depending upon your business activity, additional specialty licenses may be applied for through various state agencies such as the Department of Licensing, Department of Health, Department of Labor and Industries, etc.

The BLS has also coordinated with many cities so that you may apply for city licenses through the Business Application. This does not apply to all cities in Washington, therefore the BLS should be contacted to confirm which cities participate. It may be necessary to contact the applicable cities and counties regarding their local licensing requirements for your business.

Trade Name Registration

If you intend to use a trade name (a business name other than its full legal name), you must register the trade name with BLS. The Business Application is used for this purpose. Once a trade name is registered, the registration remains in effect until the business owner cancels it.



PAYING TAXES

1. STATE TAXES

Tax Registration and Reporting

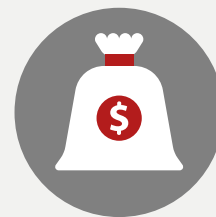
Tax registration for your business is obtained by submitting the Business Application as described previously. The Department of Revenue will send you tax information after your business registration has been completed. You cannot transfer your tax registration to another business owner. Your registration is valid as long as you stay in business.

Filing Tax Returns and Payments

New accounts are generally assigned a quarterly reporting frequency; however, your reporting frequency may later be changed to monthly or annual reporting. The Department of Revenue will notify you of any changes and will send the appropriate tax returns for filing.

Electronic Filing (e-file)

The Department of Revenue offers businesses the ability to file and pay their Washington State taxes directly over the Internet. E-file walks taxpayers through the return process, calculates taxes automatically, flags errors and omissions, and provides online access to the latest tax information. E-file is protected by encryption and passwords. It allows you to customize your tax return and delivers an electronic confirmation message when it's received. To learn more about e-file and to see if your business qualifies, visit <http://dor.wa.gov>.



PAYING TAXES (cont.)

Geographic Information System for Sales Tax

With more than 350 state and local sales and use tax codes, taxpayers are often uncertain which codes and tax rates apply to specific locations. The Department of Revenue has developed an Internet-based Geographic Information System (GIS) that links to tax information. When a person types in a street address or points to a location on a state map, the system automatically provides the applicable sales tax rate and code. To access the GIS system, visit <http://dor.wa.gov>.

Common State Excise Taxes

Business and Occupation Tax

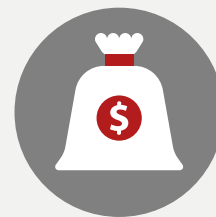
Persons engaged in business in Washington are subject to business and occupation tax (B&O) and/or a public utility tax. These taxes are based on gross receipts, gross sales, or gross income of the business. The rates vary depending on the type of business activities. Businesses whose B&O tax liability is below certain levels may qualify for a small business tax credit.

Retail Sales Tax

The state retail sales tax rate is subject to change. Local governments impose sales tax ranging from 0.5 percent to 2.4 percent. These rates are also subject to change. You should collect both state and local sales tax at the time of the sale. Sales tax is reported on the Excise Tax return to the Department of Revenue.

Personal Property Taxes

Businesses also are responsible for reporting their non-exempt business assets to the assessor's office in the county in which their business is located. Information regarding your county's personal property reporting requirements can be obtained by contacting the assessor's office in your county.



PAYING TAXES (cont.)

Other State Excise Taxes

Various other excise taxes ranging from Regional Transit Authority tax to litter tax may apply to your business. Please contact Ryan, Swanson & Cleveland for further information on applicable tax requirements.

2. FEDERAL TAXES

Federal Employer Identification Number

Sole proprietors who are not employers usually do not have to apply for a Federal Employer Identification Number (FEIN) unless they engage in certain types of business activities. All other business entity types must apply for this registration whether they have employees or not. The FEIN is obtained by filing a Form SS-4 with the U.S. Internal Revenue Service.

Social Security Taxes

Nearly all self-employed persons are required to participate in the Social Security program.

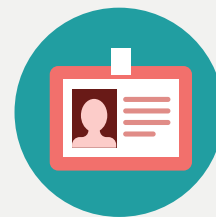
3. CITY AND COUNTY TAXES

If the city where you are located has business taxes and you do business within the city limits, you will need to register with the city taxing authority, such as the city auditor. Businesses located outside the city limits should contact the county auditor to determine county registration requirements.



OPENING A BANK ACCOUNT

Among other requirements, you will likely need to provide your bank with the following in order to open a bank account for your business: (i) your Federal Employer Identification Number (FEIN); (ii) the formation documents for your business; and (iii) a copy of the completed Business Application filed with the Business Licensing Service.



HIRING EMPLOYEES

If you will be hiring employees for your business, you must complete a Business Application to register with the Washington Department of Labor and Industries and the Washington Employment Security Department. You must also file with the U.S. Internal Revenue Service. In addition, there are both state and federal requirements regarding employee pay, working hours, and conditions.

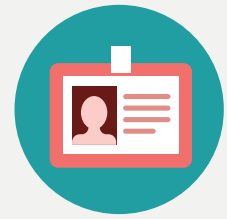
Employer Registrations

State Unemployment Insurance

You will probably be required to make unemployment insurance contributions if you have employees. Contribution rates depend on your experience as an employer, the rate paid by the previous business owner, or the average rate for your industry. You cannot charge any part of the tax to your employees.

State Industrial Insurance

Almost all employers in Washington are required to carry industrial insurance for each employee. This coverage provides dual protection. As a business owner, you are protected from lawsuits due to job-related injuries or illnesses, and your employee gains compensation if an injury or occupational illness occurs and time is lost from work. An account for industrial insurance is opened by completing the Business Application. The type of business described on your application will be used by the Department of Labor and Industries to assign risk classifications and premiums.



HIRING EMPLOYEES (cont.)

Self-Insurance

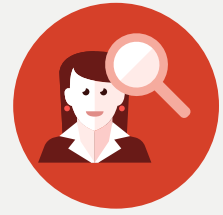
The self-insurance program is an alternative industrial insurance option designed for large employers. These employers must meet minimum financial requirements, demonstrate the ability to make prompt payment of all benefits and assessments under the industrial insurance law, and maintain an active safety program with a record of accident prevention.

Exemptions to Industrial Insurance Coverage

Certain types of employment are excluded from mandatory coverage, but you may obtain coverage if you wish. The following are examples of employment where industrial insurance coverage is optional: sole proprietors or partners of a business; managers or members of an LLC who are both a member (i.e., owner) and a manager; members of an LLC with members only (no managers); up to eight bona fide corporate officers of a non-public corporation (such officers must be shareholders and exercise substantial control in the daily management of the corporation); and employees whose industrial insurance benefits are provided by another government plan.

Federal Employer Identification Number

If you are an employer, you must obtain a Federal Employer Identification Number (FEIN) from the U.S. Internal Revenue Service.



SEEKING ASSISTANCE

Starting and maintaining a new business in Washington State will be an exciting and challenging endeavor. Consulting with financial, accounting/tax, business, and legal professionals will help you avoid future problems and anticipate key steps as your business grows.

For more information, please contact any member of our [Business Group](#).

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