

You have a good home business idea. What's next?

By Arina Nikitina

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So, you want to start your home-based business.

You have an idea.

But do you know where to start???? That's important to start with the legal aspects of running a home-based business: business registration and taxes.

The first thing you should consider is choosing an appropriate form of business.

From a legal point of view, there are four types of businesses:

1. Sole proprietorships (This is the simplest form of business. A sole proprietor directly owns the business and is directly responsible for its debts.)
2. Partnerships (A form of business entity in which 2 or more co-owners engage in business for profit. For the most part, the partners own the business assets together and are personally liable for business debts.)
3. Corporations (A corporation is a legal entity that is separate from its owners, the shareholders. No shareholder of a corporation is personally liable for the debts, obligations or acts of the corporation.)
4. Co-operatives. (A co-operative is a corporation organized and controlled by its members, who pool resources to provide themselves and their patrons with goods, services, or other benefits.)

I think in most home business cases the most suitable is sole proprietorship.

A sole proprietorship is a business entity owned and managed by one person. The sole proprietorship can be organized very informally, is not subject to much federal or state regulation, and is relatively simple to manage and control.

REGISTERING YOUR SOLE PROPRIETORSHIP

Unlike an LLC or a corporation, you generally don't have to file any special forms or pay any fees to start working as a sole proprietor. All you have to do is declare your business to be a sole proprietorship when you complete the general registration requirements that apply to all new businesses.

Most cities and many counties require businesses - even tiny home-based sole proprietorships - to register with them and pay at least a minimum tax. In return, your business will receive a business license or tax registration certificate. You may also have to obtain an employer identification number from the IRS (if you pay wages to one or more employees), a seller's permit from your state (if your business involves selling taxable goods or providing a taxable service such as renting goods or fabrication labor) and a zoning permit from your local planning board (for construction business).

And if you do business under a name different from your own, such as Custom Coding, you usually

must register that name -- known as a fictitious business name -- with your county. In practice, lots of businesses are small enough to get away with ignoring these requirements. But if you are caught, you may be subject to back taxes and other penalties.

TAXES

In the eyes of the law, a sole proprietorship is not legally separate from the person who owns it. The fact that a sole proprietorship and its owner are one and the same means that a sole proprietor simply reports all business income or losses on his individual income tax return ? IRS Form 1040 with Schedule C attached.

More information about IRS Form 1040 and Schedule C you can find at <http://www.irs.gov> .

As a sole proprietor, you'll have to take responsibility for withholding and paying all income taxes, which an employer would normally do for you. This means paying a "self-employment" tax, which consists of contributions to Social Security and Medicare, and making payments of estimated taxes throughout the year.

About the author:

Arina Nikitina operates Home Business Resources (<http://homebizinfo.8m.com/>). There you can find everything you need to know about Internet marketing, website promotion, affiliate programs and more. Hundred of FREE e-books, two hundred of articles, free guides and tutorials, business consulting and more.

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