
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. Please contact Ryan, Swanson & Cleveland for further information.

I. BUSINESS STRUCTURES

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.

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.

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.

A **Corporation** is a more complex business structure. Shareholders own the capital stock of the corporation. Shareholders 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 more recent form of business structure in Washington. 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.

II. FORMING A LIMITED PARTNERSHIP, CORPORATION, OR LLC

Limited partnerships, 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 and LLCs 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. The formation documents for a corporation or LLC must include a statement signed by the registered agent indicating its consent to serve. RSC Corporation, an affiliate of Ryan, Swanson & Cleveland, provides registered agent services for a current annual fee of \$280.

Filing Fees and Requirements

The filing fee for forming a limited partnership, profit corporation, or LLC is \$175. The filing fee for a nonprofit corporation is \$30. 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 \$59; annual report fees are approximately \$10.

III. 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 (i.e., Master Application) is submitted through the Master License Service of the Department of Licensing.

Prior to the UBI program, each state agency assigned its own business identification number.

Now, all agencies participating in the UBI program can identify a business using the UBI number, so 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.

Master Application and Master License Service

Business owners are allowed to fulfill many registration and licensing requirements by completing a Master Application form and making a single payment. The Master License Service (MLS) in Olympia is the main processing and distribution point for the Master Application. Applications and fees collected throughout the state are sent to the MLS 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.

MLS also produces and mails the Registrations and Licenses document. This document serves as your state business license and lists all state licenses, registrations, and permits available through MLS that have been granted to your business. If you conduct business at more than one location, you will receive a separate Registrations and Licenses document for each place of business.

The Master Application does not include local business licensing requirements. The applicable city and county offices should be contacted regarding 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 MLS. The Master Application is used for this purpose. Once a trade

name is registered, the registration remains in effect until the business owner cancels it.

IV. PAYING TAXES

1. State Taxes

Tax Registration and Reporting

Tax registration for your business is obtained by submitting the Master Application as described above. 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>.

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, and range from .0138 percent to 5.029 percent. 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 6.5 percent. Local governments impose sales tax ranging from 0.5 percent to 2.0 percent. 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.

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.

V. 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 Master Application filed with the Department of Licensing.

VI. HIRING EMPLOYEES

If you will be hiring employees for your business, you must register with the Washington Department of Labor and Industries, the Washington Employment Security Department, and 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.

Exemptions to Unemployment Insurance Coverage

You may not have to pay unemployment insurance on certain types of employment, such as outside salespersons of merchandise who are paid solely by commission. Unemployment insurance coverage for corporate officers is also voluntary. If you do not elect to provide coverage for corporate officers, you must inform each corporate officer in writing that he or she does not have unemployment insurance coverage.

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 Master 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.

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.

- 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.

For further information, please contact:

Ryan, Swanson & Cleveland, PLLC
1201 Third Avenue, Suite 3400
Seattle, Washington 98101-3034
phone 206-464-4224
fax 206-652-2914
www.ryanlaw.com

This guide is adapted from *Operating a Business in Washington State* produced by the Washington Department of Licensing. This guide is provided for informational purposes only and does not constitute legal advice. Please consult your legal and tax advisors regarding all legal, tax, and business formation issues.

IRS CIRCULAR 230 DISCLOSURE: To ensure compliance with new requirements of the Internal Revenue Service, we inform you that, to the extent any advice relating to a Federal tax issue is contained herein, it was not written or intended to be used, and cannot be used, for the purpose of (a) avoiding any tax related penalties that may be imposed on you or any other person under the Internal Revenue Code, or (b) promoting, marketing or recommending to another person any transaction or matter addressed in this document.