What to Think About When Starting a Business

If you’re thinking of starting a new business, you will need to consider the business type that best suits your needs. Also, you may need to obtain an Individual Tax Identification Number. To be sure, if you own or operate any form of business, you will need to file taxes.

Why Would I Want to Create and Maintain a Business Structure?

1. If your business creates jobs, a business structure will give you the advantage of being able to choose from a wide variety of tax incentives.

2. You could obtain limited liability if you register your business.
   - Limited liability to some degree protects business owners from being sued. While it is impossible to completely remove the threat of being sued, a limited liability business entity or structure (hereafter referred to as “business structure”) decreases the business owner’s risk to the amount the owner has invested in the business, unless the business owners have given a personal guarantee or have committed a tort (a lawsuit for something that is their fault).
   - Limited liability formalizes your business structure with the state. You must file specific information with the government: typically your name, address, and contact information for a real person who can be served if the business is sued; the name under which the business will operate; and information relating to the rules by which the business will be governed.

3. For more information, or to register your business, visit the Idaho Secretary of State’s website: https://sos.idaho.gov/business-services-resources/.

What If I Don’t Have a Social Security Number?

- If you are not eligible for a Social Security number, you will need to get an Individual Tax Identification Number (ITIN) from the Internal Revenue Service (IRS).
- Instructions for an ITIN application can be found at https://www.irs.gov/individuals/individual-taxpayer-identification-number.
- The information you provide is not shared with other government agencies.
- For further assistance with this process, contact a tax professional, a tax attorney, or the IRS.

PLEASE NOTE: This handout does not offer or substitute for legal advice. For more information: CALS-RuralStudies@uidaho.edu

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What Business Type Best Suits My Needs?

The major types of businesses include sole proprietor, general partnership, limited liability partnership, corporation, and limited liability company. The table below outlines some of the differences between these types.

<table>
<thead>
<tr>
<th>Business Type</th>
<th>What is it?</th>
<th>Consider this type if…</th>
<th>Disadvantages</th>
<th>Do I need to file taxes with the state?</th>
<th>Difficulty of forming the business structure</th>
<th>Who does or does not have liability?</th>
<th>Level of legal requirements</th>
<th>How are taxes paid?</th>
</tr>
</thead>
</table>
| Sole Proprietor         | The most common business structure because it requires no agreements with other people and requires no interactions with the state other than paying taxes.                                                  | • I own a small business and I am just starting out  
• I do not have a lot of money or assets that I can put into the business  
• I want to interact with the government as little as possible                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | • I have full liability if I am sued  
• I am responsible for reporting and paying all taxes on behalf of the business  
• No, but check with the state, your city, and county to see what permits, licenses, and regulations may apply                                                                                                                                                                                                                                                                                                                                                                                                                                           | Low                                                                                     | Low                                                                        | Sole proprietor has liability          | Low                                  | Sole proprietor is taxed for business earnings |
| General Partnership     | A common business structure between two or more people. A partnership formed by agreements between or among owners. While there are rules which can govern if no agreements are established, it is better to work with an experienced attorney to craft these agreements. A partnership requires filing particular information with the state in order to operate. | • We own a small business and we are just starting out  
• We do not have a lot of money or assets to put into the business  
• We want to interact with the government as little as possible                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | • We are fully liable if the business is sued  
• We are responsible for reporting and paying all taxes on behalf of the business  
• We must agree on how the business is to be run (this can be done with an attorney)                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Yes                                                                                     | Low                                                                        | General partners have liability        | Low                                  | Partners are taxed for the earnings of the business |
| Limited Liability Partnership (LLP) | While similar in structure to a partnership, an LLP requires filing particular information with the state in order to operate.                                                                 | • Our business has grown and is now stable  
• Our business now has accrued profits and/or assets  
• We want to LIMIT our potential risk if our business is sued  
• We will have more interaction with the government  
• We are responsible for reporting and paying all taxes on behalf of the business  
• We must agree on how the business is to be run (this can be done with an attorney)                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Yes                                                                                     | Medium                                                                                 | Partners do not usually have liability | Medium                                                                                 | Dependent on the business structure  
| Corporation             | The most formal and complex of the business entities, a corporation requires significant interaction with the state at the formation stage. Corporations must file particular documents in a particular manner, and each document must contain specific information. We strongly suggest that a business owner consult an experienced attorney if planning to create a traditional corporation. | I am interested in:  
• Limited liability to protect my investment  
• Separation of power through organization  
• Tax payment and reporting options  
• Referring tax questions to a tax professional or qualified tax attorney  
• Highly formalized  
• High interaction with the government, especially in the formation stage  
• Requires interacting with tax professionals or qualified tax attorneys                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Yes                                                                                     | Medium                                                                                 | Shareholders do not generally have liability | Medium                                                                                 | Dependent on the business structure  
| Limited Liability Company (LLC) | Similar to a traditional corporation, but less formalized. LLCs must file particular information with the state. There are default rules which can govern the way these entities operate; however, with the help of an experienced attorney those rules can be altered. | I am interested in:  
• Separation of power through the organization that is customizable to my needs  
• LIMITING my liability  
• Tax-paying options  
• Highly formalized  
• High amount of interaction with the government, especially during the formation stage                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Yes                                                                                     | Medium                                                                                 | Members do not generally have liability | Medium                                                                                 | Dependent on the business structure  

Section 30 of the Idaho Statutes provides more detail. See Idaho Code § 30-21-201(1)–(5) and Idaho Code § 30-21-102(11)(A)(1)–(x) for business structure filing requirements; Idaho Code § 30-29 for corporations; Idaho Code § 30-23 for partnerships and limited liability partnerships; and Idaho Code § 30-25 for limited liability companies.

Authors. Jonathan Meier, Associate Attorney, Moss Immigration Law, Walla Walla, WA, Christy Dearien, Research Associate, Grant and Project Development, University of Idaho, John Rumel, Professor, College of Law, University of Idaho, Paul Lewin, Associate Professor and Extension Specialist, Agricultural Economics and Rural Sociology, University of Idaho