

Starting an Online Business: Licensing Requirements

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Individuals interested in starting an online business are often confused or uninformed as to the licensing requirements for such businesses. In many ways, an online business is like any “brick and mortar” store and the owner will probably be required to obtain certain licenses or permits to operate.

Federal Requirements

Business Licenses. Most businesses do not require a federal business license or permit. However, a business engaged in one of the following activities should contact the responsible federal agency to determine the requirements for doing business: Investment Advising, Drug Manufacturing, Preparation of Meat Products, Broadcasting, Ground Transportation, Selling Alcohol, Tobacco, or Firearms.

Tax Identification Number. A federal tax identification number, also known as an Employer Identification Number (EIN), is a federal identification number issued by the Internal Revenue Service to identify a business entity. Nearly all businesses are required to have a tax identification number.

If a business is operated as a sole proprietorship, the owner may use his or her social security number in place of an EIN on all governmental forms and other official documents. However, most small business advisors recommend using a federal tax identification number instead.

To obtain a federal tax identification number, a business owner should contact the nearest Local IRS Field Office or call the IRS Business and Specialty Tax Hotline at 800-829-4933. The necessary form, IRS Form SS-4, can be downloaded directly from the Small Business Administration website.

State Requirements

Many states and local jurisdictions require a person to obtain a business license or permit before beginning business operations. A business that operates without the required license or permit may be subjected to fines or may be barred from further business activity. In some localities, a business operating out of a residence may require an additional permit.

While business licensing requirements vary from state-to-state, the most common types include:

• Basic Business Operation License – a legal document issued by a local governmental authority that authorizes a person to conduct business within the boundaries of the municipality. Many states have established small business assistance agencies to help small businesses comply with state requirements;

- Fictitious Name Certificate – a document, usually filed with a state agency, which is required to operate a business using an assumed name or trade name (essentially, any name other than the full, formal name of the individual or company);
- Home Occupation Permit – a permit which may be required to conduct business from a residence;
- Tax Registration – if the state has a state income tax, a business owner must usually register and obtain an employer identification number from the state Department of Revenue or Treasury Department. If the business engages in retail sales, the owner must usually obtain a sales tax license;
- Special State-Issued Business Licenses or Permits – these permits may be required for a business that sell highly-regulated products like firearms, gasoline, liquor, or lottery tickets;
- Zoning and Land Use Permits – may be required to develop a site or property for specific purposes
- Employer Registrations – if the business has employees, the owner must usually make unemployment insurance contributions;

Additional state licenses may be required for regulated occupations such as building contractors, physicians, appraisers, accountants, barbers, real estate agents, auctioneers, private investigators, private security guards, funeral directors, bill collectors, and cosmetologists.

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