



# Small Business Resource Guide





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This publication compiled and published by Commerce Lexington, with assistance from the Kentucky Small Business Development Center and our Business Information Center. This Guide is meant to be a step-by-step directional tool for starting a small business. Much more information is available at local centers for business assistance listed throughout this Guide.

## About This Resource Guide:

This Small Business Resource Guide is intended to give you some direction in “How to Start a Small Business.” It’s important to note that this guide gives a summary of things to think about as you look to start your own business. The information throughout this guide includes web site links or phone numbers to obtain further details. If you are viewing this publication from a computer or mobile device, you’ll be able to click directly on the web site links included with the applicable information.

For guidance or advice during the process of starting your small business, there are plenty of great companies in the business and professional services category listed in Commerce Lexington’s on-line Business Directory located at <http://web.commercelexington.com/Business-Professional-Services>.

Once you’ve got your business up and running, you’ll want to look into joining a business organization like Commerce Lexington, which features numerous networking opportunities, events, seminars, and programs to help you and your business grow. Congratulations on your decision to start your own business. Commerce Lexington is here to help you, and our staff looks forward to working with you in the future.

# Business Registration

## Register/Reinstate a Business

[<http://revenue.ky.gov/Business/Pages/Register-Business.aspx>]

### Step 1:

#### Legally Establish Your Business

Note: Sole Proprietorships & General Partnerships should contact the County Clerk where the business is located. All other business structures should register with the Kentucky Secretary of State, on the Kentucky Business OneStop Portal.

### Step 2:

Obtain a Federal Employer Identification # (FEIN) from the IRS.

### Step 3:

Register for Tax Accounts & Commonwealth Business Identifier (CBI).

Commonwealth Business Identifier (CBI) is a unique, ten-digit, number assigned to all Kentucky businesses. The CBI allows the business to be easily identified by all state agencies that utilize the Kentucky OneStop Portal. Note: For assistance with registering your business on the Kentucky Business OneStop portal, contact the OneStop Help Line at (502) 564-5053.

### Step 4:

If necessary, complete the following specialty applications:

- Tangible Personal Property Tax
- Motor Fuels License
- Bank Franchise Tax
- Cigarette Licenses and Other Tobacco Products
- Dealer Loaner/Rental Vehicle Tax
- Purchase Exemption

### Step 5:

Register with other State, County, and Local Governments as appropriate for your business.

### Step 6:

To Reinstate Business Tax Accounts or to Apply for Additional Accounts, visit <https://revenue.ky.gov/Forms/10A100.pdf>.

## Business Registration

Phone: (502) 564-3306

Kentucky Department of Revenue  
Division of Registration

501 High Street, Station 20  
Frankfort, KY 40601



# Steps to Start a Small Business

## What to Consider for Your Small Business:

The Kentucky Small Business Development Center recommends the following steps for starting a small business in Kentucky. Contact the Kentucky Small Business Development Center in Fayette County at (859) 257-7666 for questions and advice.

- 1.** SBDC led training seminars are offered throughout the Commonwealth for people interested in learning how to start a small business in Kentucky. Attend one of these sessions. Additionally, the KSBDC offers over 25 on-line courses available at no cost. [[www.ksbdc.org](http://www.ksbdc.org)]
- 2.** Consult with a SBDC consultant to discuss your options and to determine your needs. Request an appointment with a SBDC consultant near you. [[www.ksbdc.org](http://www.ksbdc.org)]
- 3.** Research and understand how to comply with environmental regulations (EPA), safety and health regulations (OSHA), and local zoning regulations. [[www.epa.gov/laws-regulations](http://www.epa.gov/laws-regulations)]
- 4.** Develop a detailed business plan. A successful business start-up begins with the development of a detailed business plan. The business plan captures your knowledge of industry and your plans for success. You must address the elements outlined here: [[www.ksbdc.org/business-planning](http://www.ksbdc.org/business-planning)]
- 5.** Secure financing if required to submit your business plans to lending agencies. There are variety of small business loans available through the U.S. Small Business Administration [[www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs](http://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs)], as well as a small business financing program available through Commerce Lexington Inc. called the Access Loan Program [<https://locateinlexington.com/minority-business-services/access-loan-program>].
- 6.** Select a business name and choose an operating entity [[www.sba.gov/starting-business/choose-your-business-structure](http://www.sba.gov/starting-business/choose-your-business-structure)].
- 7.** Register with the Kentucky One-Stop Business Portal. [<http://onestop.ky.gov/Pages/default.aspx>]
- 8.** Register any trademarks or service marks with the Secretary of State.
- 9.** Secure a zoning license/certificate of occupancy from the local zoning department.
  - a. Secure permits for any remodeling or new construction.
  - b. Secure sign permits for any exterior signage.
- 10.** Obtain a federal employer identification number (EIN) from the IRS. [[www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online](http://www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online)]
- 11.** Obtain city and county occupational/business licenses.
- 12.** Register with the Ky. Revenue Cabinet as required for the following: [<http://revenue.ky.gov/Pages/index.aspx>]
  - a. Employer's Withholding Tax
  - b. Sales and Use Tax
  - c. Consumer's Use Tax
  - d. Corporation Income Tax
  - e. Limited Liability Entity Tax (LLE)
  - f. Transient Room Tax
  - g. Motor Vehicle Tire Tax
  - h. Coal Severance and Processing Tax
- 13.** Check with the Kentucky One Stop Business Portal and your local city and county clerks to determine if any special licenses are required for your business.
- 14.** Report new employees immediately to Kentucky New Hire Reporting (**1-800-817-2262**)
- 15.** Establish a business checking account. Consider a business savings account.
- 16.** Secure liability insurance, worker's compensation insurance and other coverage appropriate for your business.

# Business Name & Structure

## Choose a Business Name:

The name of your business must be available for use. A business name is not available if it is already being used by an existing business on file with the Office of the Secretary of State. A preliminary name availability check can be made by using the Name Availability Search [<https://onestop.ky.gov/start/Pages/structure.aspx>], by writing to the Secretary of State or by calling (502) 564-3490. A name also may be reserved to ensure availability. An Application for a Reservation or Renewal of Reserved Name enables an individual to reserve a name prior to formation of a particular business.

## Options for Business Structure:

[[www.sba.gov/starting-business/choose-your-business-structure](http://www.sba.gov/starting-business/choose-your-business-structure)]

One of the first decisions to make when starting a business is choosing the most appropriate legal structure for your business. There are several important factors to consider when choosing a business structure. Two of the most important questions to answer are:

1. How does the structure impact my personal liability for things that happen in the business?
2. How does the structure affect the amount of tax I will have to pay?

It is good, sound business judgment to seek advice from an accountant and/or attorney before starting a business. The particular structure you choose may save you money and provide greater protection of your personal assets, such as your house, vehicle, etc. The information below is intended to provide a quick summary of basic business structures, but it should not be considered a substitute for professional legal or tax advice regarding your business.

### Sole Proprietorship

A sole proprietorship is the simplest and most common structure chosen to start a business. It is an unincorporated business owned and run by one individual with no distinction between the business and you, the owner. You are entitled to all profits and are responsible for all your business's debts, losses and liabilities.

### Limited Liability Company

A limited liability company is a hybrid type of legal structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. The "owners" of an LLC are referred to as "members." Depending on the state, the members can consist of a single individual (one owner), two or more individuals, corporations or other LLCs. Unlike shareholders in a corporation, LLCs are not taxed as a separate business entity. Instead, all profits and losses are "passed through" the business to each member of the LLC. LLC members report profits and losses on their personal federal tax returns, just like the owners of a partnership would.

### Cooperative

A cooperative is a business or organization owned by and operated for the benefit of those using its services. Profits and earnings generated by the cooperative are distributed among the members, also known as user-owners. Typically, an elected board of directors and officers run the cooperative while regular members have voting power to control the direction of the cooperative. Members can become part of the cooperative by purchasing shares, though the amount of shares they hold does not affect the weight of their vote.

### Corporation

A corporation (sometimes referred to as a C corporation) is an independent legal entity owned by shareholders. This means that the corporation itself, not the shareholders that own it, is held legally liable for the actions and debts the business incurs. Corporations are more complex than other business structures because they tend to have costly administrative fees and complex tax and legal requirements. Because of these issues, corporations are generally suggested for established, larger companies with multiple employees. For businesses in that position, corporations offer the ability to sell ownership shares in the business through stock offerings. "Going public" through an initial public offering (IPO) is a major selling point in attracting investment capital and high quality employees.

### Partnership

A partnership is a single business where two or more people share ownership. Each partner contributes to all aspects of the business, including money, property, labor or skill. In return, each partner shares in the profits and losses of the business. Because partnerships entail more than one person in the decision-making process, it's important to discuss a wide variety of issues up front and develop a legal partnership agreement. This agreement should document how future business decisions will be made, including how the partners will divide profits, resolve disputes, change ownership (bring in new partners or buy out current partners) and how to dissolve the partnership. Although partnership agreements are not legally required, they are strongly recommended, and it is considered extremely risky to operate without one. **There are three general types of partnership arrangements:**

- General Partnerships assume that profits, liability and management duties are divided equally among partners.
- Limited Partnerships (also known as a partnership with limited liability) are more complex than general partnerships. Limited partnerships allow partners to have limited liability, as well as limited input with management decisions. These limits depend on the extent of each partner's investment percentage.
- Joint Ventures act as general partnership, but for only a limited period of time or for a single project. Partners in a joint venture can be recognized as an ongoing partnership if they continue the venture, but they must file as such.

### S Corporation

An S corporation (sometimes referred to as an S Corp) is a special type of corporation created through an IRS tax election. An eligible domestic corporation can avoid double taxation (once to the corporation and again to the shareholders) by electing to be treated as an S corporation. An S corp is a corporation with the Subchapter S designation from the IRS. To be considered an S corp, you must first charter a business as a corporation in the state where it is headquartered. According to the IRS, S corporations are "considered by law to be a unique entity, separate and apart from those who own it." This limits the financial liability for which you (the owner, or "shareholder") are responsible. What makes the S corp different from a traditional corporation (C corp) is that profits and losses can pass through to your personal tax return. Consequently, the business is not taxed itself. Only the shareholders are taxed. There is an important caveat, however: any shareholder who works for the company must pay him or herself "reasonable compensation." Basically, the shareholder must be paid fair market value, or the IRS might reclassify any additional corporate earnings as "wages."

# Developing a Business Plan

## Why Do I Need a Business Plan?

[<https://kentuckysbdc.com/business-planning>]

Entrepreneurs generally are described as risk-takers who take chances based on a gut feeling. However, when you are investing money or asking another to invest money it requires careful planning and preparation. A business plan organizes all the necessary elements required to start a business and continue a successful business in a simplistic format. It is also the tool you will present to lenders to convince them to take a risk on your business and provide you with financing. Therefore, it must be extremely thorough and thought provoking.

Remember, aside from the general business plan objectives, every business plan is unique. Your plan should include all the relevant information, but be customized for your business. Finally, focus on the content and not the number of pages. Once complete, the business plan should identify the expectations you have for your new or existing business. If you plan to utilize the plan to obtain financing, the completed plan should “tell the story” of your business to a potential lender. The plan should serve as a stand-alone document in that all business issues are addressed without requiring additional verbal explanation. Review your plan regularly and make appropriate changes when your plans and strategies change.

*The U.S. Small Business Administration calls a business plan “an essential roadmap for business success. This living document generally projects 3-5 years ahead and outlines the route a company intends to take to grow revenues.”*

*Some important features of a business plan document are outlined below.*

## Business Plan | What to Include:

[[www.sba.gov/starting-business/write-your-business-plan](http://www.sba.gov/starting-business/write-your-business-plan)]

### Executive Summary

Your executive summary is a snapshot of your business plan as a whole and touches on your company profile and goals. Read these tips about what to include.

### Company Description

Your company description provides information on what you do, what differentiates your business from others, and the markets your business serves.

### Market Analysis

Before launching your business, it is essential for you to research your business industry, market and competitors.

### Organization & Management

Every business is structured differently. Find out the best organization and management structure for your business.

### Service or Product Line

What do you sell? How does it benefit your customers? What is the product lifecycle? Get tips on how to tell the story about your product or service.

### Marketing & Sales

How do you plan to market your business? What is your sales strategy? Read more about how to include this information in your plan.

### Funding Request

If you are seeking funding for your business, find out about the necessary information you should include in your plan.

### Financial Projections

If you need funding, providing financial projections to back up your request is critical. Find out what information you need to include in your financial projections for your small business.

### Appendix

An appendix is optional, but a useful place to include information such as resumes, permits and leases. Find additional information you should include in your appendix.



# Financing Your Small Business

When you have your business plan complete and in working order, you can begin to look for the financing needed to run your business. There are a variety of loan options available through the U.S. Small Business Administration, or you can apply for financing through Commerce Lexington's **Access Loan Program**, which helps bring area banks and financial institutions to you.

## What to Consider for Financing

[<https://www.sba.gov/funding-programs/loans>]

Before you seek financial assistance, the U.S. Small Business Administration recommends that you thoroughly assess your current financial situation. **Ask yourself the following questions to determine your business' financing needs:**

- Do you need more capital or can you manage the existing cash flow?
- If you are having trouble paying your obligations on time, you may need an infusion of working capital.
- What is the nature of your need?
- Do you need money to start or expand your business or as a cushion against risk?
- How urgent is your need?
- Whenever possible, it's better to anticipate your needs rather than looking for money under pressure. It is harder to gain approval for a loan when your company is already in trouble, so plan ahead and secure financing well in advance of a crisis.
- How great are your risks?
- All businesses carry risk, and the degree of risk will affect both the cost of your loan and available financing alternatives.
- In what state of development is your business?
- Needs are generally more critical during transitional stages - start-up and expansion being two of the most urgent and costly.
- For what purposes will the capital be used?
- The lender will need to know your specific intentions for the money, to assure themselves that your business will thrive and that repayment is assured.
- What is the state of your industry?
- Whether your industry is depressed, stable, or quickly-growing will have a distinct effect on your search for funding sources. Businesses that prosper in tough economic times will generally receive better funding terms.
- Is your business seasonal or cyclical?
- Seasonal needs for funding are generally short term, and consist of smaller loans with a quicker maturation. Loans advanced for cyclical industries, such as construction, are designed to support a business through depressed periods - these industries are sometimes known as 'feast and famine' businesses as the cash flow is often erratic and unpredictable.
- How strong is your management team?
- Effective management is an important element of business. Your lender will be looking for a strong managerial presence.
- How does your need for financing mesh with your business plan?

## Information You'll Need to Gather

[<https://www.sba.gov/funding-programs/loans>]

The SBA is not your only source for small business loans. State and local economic development agencies as well as numerous nonprofit organizations provide low-interest loans to small business owners who may not qualify for traditional commercial loans. While every loan program has specific forms you need to fill out and documents you need to submit, you will likely need to submit much of the same information for different loan packages. Before you start applying for loans, you should get some basic documentation together. **The following are typical items that will be required for any small business loan application:**

- **Personal background.**
- **Resumes:** Some lenders require evidence of management or business experience.
- **Business Plan:** All loan programs require a sound business plan to be submitted with the loan application.
- **Personal Credit Report:** Your lender will obtain your personal credit report as part of the application process. However, you should obtain a credit report from all three major consumer credit rating agencies before submitting a loan application to the lender, and attempt to clear up inaccuracies and blemishes.
- **Business Credit Report:** If you are already in business, you should be prepared to submit a credit report for your business.
- **Income Tax Returns:** Most loan programs require applicants to submit personal & business income tax returns for the previous 3 years.
- **Financial Statements:** Many loan programs require owners with more than a 20-percent stake in your business to submit signed personal financial statements. You may also be required to provide projected financial statements either as part of, or separate from, your business plan.
- **Bank Statements:** Many loan programs require one year of personal and business bank statements to be submitted as part of a loan package.
- **Collateral:** Collateral requirements vary greatly. Some loan programs do not require collateral. Loans involving higher risk factors for default require substantial collateral. Strong business plans and financial statements can help you avoid putting up collateral.
- **Legal Documents:** Depending on a loan's specific requirements, your lender may require you to submit one or more legal documents. Make sure you have the following items in order, if applicable:
  - Business licenses & registrations required for you to conduct business.
  - Articles of Incorporation.
  - Copies of contracts you have with any third parties.
  - Franchise agreements.
  - Commercial leases.



# Financing Your Small Business

## Financing Options: Small Business Administration

[<https://www.sba.gov/funding-programs/loans>]

The SBA offers a variety of loan programs for very specific purposes. Take some time to study the programs described in this section, to see if you qualify to participate, or view more details on-line at the link above. It's important to understand SBA's role – the agency doesn't lend the money directly to entrepreneurs to start or grow a business, but sets the guidelines for loans that made by its partners (lenders, community development organizations and micro-lending institutions). SBA guarantees that these loans will be repaid, which eliminates some of the risk to the lending partners.

### General Small Business Loans: 7(a)

The 7(a) Loan Program, SBA's most common loan program, includes financial help for businesses with special requirements. SBA provides loans to businesses; so the requirements of eligibility are based on specific aspects of the business and its principals. As such, the key factors of eligibility are based on what the business does to receive its income, the character of its ownership and where the business operates. SBA generally does not specify what businesses are eligible. Rather, the agency outlines what businesses are not eligible. However, there are some universally applicable requirements. **To be eligible for assistance, businesses must:**

- Operate for profit.
- Be small, as defined by SBA.
- Be engaged in, or propose to do business in, the United States or its possessions.
- Have reasonable invested equity.
- Use alternative financial resources, including personal assets, before seeking financial assistance.
- Be able to demonstrate a need for the loan proceeds.
- Use the funds for a sound business purpose.
- Not be delinquent on any existing debt obligations to the U.S. government.

#### Use of 7(a) loan proceeds:

If you are awarded a 7(a) loan, you can use the loan proceeds to help finance a large variety of business purposes. However, there are a few restrictions. For example, proceeds can't be used to buy an asset to hold for its potential increased value or to reimburse an owner for the money they previously put into their business.

#### Basic uses for 7(a) loan proceeds include:

- To provide long-term working capital to use to pay operational expenses, accounts payable and/or to purchase inventory.
- Short-term working capital needs, including seasonal financing, contract performance, construction financing and exporting.
- Revolving funds based on the value of existing inventory and receivables, under special conditions.
- To purchase equipment, machinery, furniture, fixtures, supplies or materials.
- To purchase real estate, including land and buildings.
- To construct a new building or renovate an existing building.
- To establish a new business or assist in the acquisition, operation or expansion of an existing business.
- To refinance existing business debt, under certain conditions.

### Microloan Program

SBA's Microloan Program provides small, short-term loans to small business concerns and certain types of not-for-profit child-care centers. The Microloan program provides loans up to \$50,000 to help small businesses and certain not-for-profit childcare centers start up and expand. The average microloan is about \$13,000. The U.S. Small Business Administration provides funds to specially des-

ignated intermediary lenders, which are nonprofit community-based organizations with experience in lending as well as management and technical assistance. These intermediaries administer the Microloan program for eligible borrowers. Microloans can be used for: Working capital; Inventory or supplies; Furniture or fixtures; and Machinery or equipment. Proceeds from an SBA microloan cannot be used to pay existing debts or to purchase real estate.

### Real Estate & Equipment Loans: CDC/504

The CDC/504 Loan Program provides financing for major fixed assets such as equipment or real estate. To be considered for Certified Development Company(CDC)/504 loan, **applicants must meet these eligibility requirements:**

- Operate as a for-profit company.
- Do business (or propose to) in the United States or its possessions.
- Has a tangible net worth less than \$15 million and an average net income less than \$5.0 million after taxes for the preceding two years.
- Loans cannot be made to businesses engaged in speculation or investment in rental real estate.
- Be an eligible type of business. While the vast majority of businesses are eligible for financial assistance from the SBA, some are not. Check this list of eligible and ineligible types of businesses to see if your company qualifies.
- Under the 504 Program, Plan to use proceeds for an approved purpose. CDC/504 loan proceeds may be used for the financing of fixed assets like real estate or equipment. This list explains Eligible and Ineligible Use of Proceeds.
- Not have funds available from other sources. SBA does not extend financial assistance to businesses when the financial strength of the individual owners or the company itself is sufficient to provide all or part of the financing. Both business and personal financial resources are reviewed as part of the eligibility criteria. If these resources are found to be excessive, the business will be required to use those resources in lieu of part or all of the requested loan proceeds.
- Ability to repay the loan on time from the projected operating cash flow of the business.
- Good character. SBA obtains a "Statement of Personal History" from the principals of each applicant firm to determine if they have historically shown the willingness and ability to pay their debts and whether they have abided by the laws of their community.
- Relevant management expertise.
- Feasible business plan.

### Disaster Loans

SBA provides low-interest disaster loans to businesses of all sizes, private non-profit organizations, homeowners, and renters. SBA disaster loans can be used to repair or replace the following items damaged or destroyed in a declared disaster: real estate, personal property, machinery and equipment, and inventory and business assets.



# Financing Your Small Business

## Financing Options: Commerce Lexington Access Loan Program

[<https://locateinlexington.com/minority-business-services/access-loan-program>]

Commerce Lexington, the area's leading banks, and other financial institutions have teamed up to provide the Access Loan Program. The program will provide valuable feedback from experts within the lending community to assist you in putting together a business plan and gathering information to improve your chances of success. The Acce\$\$ Loan Program's mission is to provide easier access to the financing and helpful business advice that you need to start or grow your business. This program is committed to fostering economic growth and enhancing business opportunities for minorities, women, and small businesses.

### About the Program

Since its inception in 2001, Commerce Lexington Inc.'s Access Loan Program has facilitated \$24 million in approved loans for small business start-ups and expansions. This innovative program presented by Toyota Motor Manufacturing, Kentucky, Inc. was developed following a past Commerce Lexington Leadership Visit to Nashville, Tennessee, and has been replicated regionally in several Bluegrass counties.

### Qualifications

- Your business must be in the Greater Lexington area.
- Your business must be for profit.
- Pursuing a loan for a business start-up, an expansion of your current business, the purchase of a franchise, or the purchase of an existing business.
- There is a \$5,000 loan minimum.
- Use of funds must be for working capital, inventory, leasehold improvements, and equipment for commercial use only.

### How to Apply

- Loan packages available to be picked up and dropped off at the Commerce Lexington Inc. offices at 330 East Main Street, Suite 205.
- There is a \$69.00 application processing fee. (Please make checks payable to Commerce Lexington)
- All information provided to the Access Committee and Commerce Lexington will be kept confidential.

This innovative program has been responsible for **over \$24 million** in financing for the start or expansion of area small businesses since its inception in 2001.



Access Loan Program

Presented by

**TOYOTA**  
K E N T U C K Y

### Contact:

#### Tyrone Tyra

Senior Vice President,  
Community & Minority Business Development  
Commerce Lexington Inc.  
330 E. Main St., Suite 100  
Lexington, KY 40507  
Phone: (859) 254-4447  
[tyra@CommerceLexington.com](mailto:tyra@CommerceLexington.com)



*Bluegrass Veterinary Specialists  
Access Loan Program Client*

## Financing Options: Community Ventures Corporation

[[www.cvky.org/start-a-business](http://www.cvky.org/start-a-business)]

Community Ventures (CVC) lends to a wide range of businesses, from startups to multi-million dollar community revitalization projects. We give each application personal consideration and offer flexible terms to fit your needs. There are a variety of financing programs available to help both new and established businesses grow and generate jobs. We are a leader in offering loans to women, veteran and minority-owned businesses, as well as businesses located in low-to-moderate income areas. Business loans range from \$500 to \$5 million.

**CVC lending supports startups, existing businesses, and rural businesses with:** Working capital needs; Purchasing land, buildings, and/or equipment; Business expansion and job creation; Affordable housing; Commercial real estate; and Healthy food financing.

# Business Licenses & Permits

## Federal & State Licenses and Permits

To run your business legally, there are certain federal and state licenses and permits you will need to obtain. Below, you'll find a summary of federal and state licenses and permits that you should explore when starting your small business.

### Federal Licenses & Permits

[[www.sba.gov/business-guide/launch-your-business/apply-licenses-permits](http://www.sba.gov/business-guide/launch-your-business/apply-licenses-permits)]

If your business is involved in activities supervised and regulated by a federal agency – such as selling alcohol, firearms, commercial fishing, etc. – then you may need to obtain a federal license or permit. Here is a brief list of business activities that require these forms.

**Agriculture:** If you import or transport animals, animal products, biologics, biotechnology or plants across state lines, you'll need to apply for a permit from the U.S. Department of Agriculture (USDA).

**Alcoholic Beverages:** If you manufacture, wholesale, import, or sell alcoholic beverages at a retail location, you will need to register your business and obtain certain federal permits (for tax purposes) with the U.S. Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB). Remember, you will also need to contact your local Alcohol Beverage Control Board for local alcohol business permit and licensing information.

**Aviation:** Does your business involve the operation of aircraft; the transportation of goods or people via air; or aircraft maintenance? If so, you'll need to apply for one or more of the following licenses and certificates from the Federal Aviation Administration:

- FAA Licenses and Certificates.
- Pilot Licenses and Training Requirements.
- Aircraft Mechanic Licenses.

**Firearms, Ammunition and Explosives:** Businesses who manufacture, deal and import firearms, ammunitions and explosives must comply with the Gun Control Act's licensing requirements. The Act is administered by the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF).

**Fish and Wildlife:** If your business is engaged in any wildlife related activity, including the import/export of wildlife and derivative products, you must obtain an appropriate permit from the U.S. Fish and Wildlife Service.

**Commercial Fisheries:** Commercial fishing businesses are required to obtain a license for fishing activities from the NOAA Fisheries Service.

**Maritime Transportation:** If you provide ocean transportation or facilitate the shipment of cargo by sea, you'll need to apply for a license from the Federal Maritime Commission.

**Mining and Drilling:** Businesses involved in the drilling of natural gas, oil or other mineral resources on federal lands may be required to obtain a drilling permit from the Bureau of Safety and Environmental Enforcement.

**Nuclear Energy:** Producers of commercial nuclear energy and fuel cycle facilities, as well as businesses involved in the distribution and disposal of nuclear materials must apply for a license from the U.S. Nuclear Regulatory Commission.

**Radio and Television Broadcasting:** If your business broadcasts information by radio, television, wire, satellite and cable, you may be required to obtain a license from The Federal Communications Commission (FCC).

**Transportation and Logistics:** If you operate an oversize or overweight vehicle, you'll need to abide by the U.S. Department of Transportation guidelines on maximum weight. Permits for oversize/overweight vehicles are issued by your state government.

### State Licenses & Permits

[<http://onestop.ky.gov/start/Pages/occupational.aspx>]

Virtually every business needs some form of license or permit to operate legally. However, licensing and permit requirements vary depending on the type of business you are operating, where it's located, and what government rules apply.

**Occupational Licenses/Permits:** Kentucky does not have a statewide business license that applies to all businesses, but certain types of businesses are required to have a special license or permit to legally operate their business. In some cases, more than one license may be required. To determine if your type of business needs a special license or permit from the Commonwealth of Kentucky, search the Secretary of State's database.

**Environmental Licenses/Permits:** Your business may be required by state and federal law or regulation to have an environmental permit to operate in Kentucky. The Kentucky Energy and Environment Cabinet, and several independent commissions, administers environmental regulation, protection, and oversight for natural resources in the Commonwealth.

**Building/Zoning Permits:** New business locations and business locations undergoing renovation may be subject to state building codes, local zoning requirements, and Americans with Disabilities Act public access requirements. These regulations can vary with each business location depending on the type of business, location, number of employees, public access, and the type of structure. In Kentucky the Department of Housing, Buildings and Construction administers building code enforcement and inspections of existing public buildings for compliance with state fire safety codes.

### Local Requirements

Many cities and counties require a local business license and/or impose an occupational tax or other type of tax on individuals and firms conducting business within their jurisdiction. To learn about your requirements in this area, begin by contacting the city/county government where your principal place of business in Kentucky will be located. You should also check with each city/county government where you intend to transact business or have a business presence.

## Kentucky Business Taxes

[<https://revenue.ky.gov/Business/Pages/default.aspx>]

### Corporation Income & Limited Liability Entity Tax

For tax years beginning on or after January 1, 2018, the previous rate brackets have been replaced with a flat 5% tax rate.

### Calculating KY Corporate Income Tax

There are 3 steps involved in calculating Kentucky Corporate Income Tax.

#### 1. Make Kentucky adjustments to Federal taxable income.

Kentucky's corporate income tax calculation starts with federal taxable income as reported on a business's federal tax return. Then that income is adjusted according to Kentucky's specific tax laws. Kentucky's laws require some amounts to be added to federal income and some amounts to be subtracted. For example, federal law includes amounts received as dividends in a company's taxable income. Kentucky does not tax such dividend income, so the amount of dividends received is subtracted from a company's federal income. On the other hand, the IRS allows companies to deduct the amount they pay in state income taxes; Kentucky requires those amounts to be added back. After all the various additions and subtractions, a company arrives at Kentucky net income.

#### 2. Apportion net income to Kentucky.

Kentucky only taxes a business on the portion of its net income that was generated by its business activity in Kentucky. To figure Kentucky's portion, Kentucky net income is multiplied by an apportionment factor. For most companies that do business in Kentucky, that formula is calculated by taking the amount of receipts derived from its business activity in Kentucky and dividing it by the amount of receipts derived from its business activity everywhere. (Certain types of companies must use different apportionment formulas, depending on the industry in which they operate). The apportionment factor is then multiplied by Kentucky net income to derive Kentucky taxable net income. (Certain other types of income generated by intangible assets sited in Kentucky may get allocated to Kentucky and be included in taxable net income.)

#### 3. Multiply taxable net income by the tax rate.

After subtracting any net operating loss carryforwards from taxable net income, the taxpayer calculates its tax due by multiplying taxable net income by the Kentucky tax rate. Kentucky's current tax rate is a flat 5%. The total tax due may be reduced by various tax credits offered by the state to arrive at the business's net income tax liability.

### Calculating KY Limited Liability Entity Tax

Kentucky imposes a tax on every business that is protected from liability by the laws of the state. This includes corporations, LLCs, S-Corporations, limited partnerships, and other types of businesses. It does not include sole proprietorships and general partnerships because these types of businesses do not have limited liability. (There are also some types of businesses that are statutorily exempt from the LLET). There are three steps involved in calculating the LLET.

#### 1. Calculate Kentucky gross receipts and Kentucky gross profits.

The amount of LLET is based on the amount of business a company does in Kentucky. This is measured by the company's Kentucky gross receipts or its Kentucky gross profits. Kentucky gross receipts is calculated by figuring the total receipts earned in the state after returns and allowances. A pass-through entity also reduces its Kentucky gross receipts by the share of those receipts allocable to any tax-exempt organizations. A company then subtracts the Kentucky share of its cost of goods sold from its Kentucky gross receipts to derive Kentucky gross profits. Only companies in certain economic sectors (manufacturing, producing, wholesaling, retailing, and reselling of tangible products) are allowed to deduct cost of goods sold from their Kentucky gross receipts. Kentucky's definition of cost of goods sold also differs from the federal definition, so certain costs cannot be included in Kentucky cost of goods sold.

#### 2. Calculate total gross receipts and total gross profits.

There is a small-business exemption to the LLET based on a business's amount of total gross receipts or total gross profits. Total gross receipts includes receipts from all business activities everywhere, adjusted for returns and allowances. Companies operating in the economic sectors that are allowed to subtract cost of goods sold subtract costs from gross receipts to derive total gross profits. If either total gross receipts or total gross profits amounts to \$3 million or less, then the company just pays a \$175 minimum LLET.

#### 3. Multiply Kentucky gross receipts and Kentucky gross profits by the applicable tax rate.

If a business does not qualify for the small-business exemption and has total gross receipts or total gross profits in excess of \$6 million, it multiplies its Kentucky gross receipts by 0.095% and its Kentucky gross profits by 0.75% to figure its LLET liability. (If total gross receipts or total gross profits falls between \$3 million and \$6 million, a sliding-scale formula is applied to the amount to calculate the LLET liability). The company then pays the smaller of the amount calculated on gross receipts or the amount calculated on gross profits. If a company also owes Kentucky corporate income tax, it is allowed to reduce its income tax liability by the amount of its LLET liability less the minimum \$175.

**NOTE:** Consult with your accountant or tax professional for more information about Kentucky business taxes, or visit on-line at <https://revenue.ky.gov/Business/Corporation-Income-and-Limited-Liability-Entity-Tax/Pages/default.aspx>.

### Employer Payroll Withholding

Kentucky Revised Statute Chapter 141 requires employers to withhold income tax for both residents and nonresidents employees (unless exempted by law). Employers must withhold the income tax of the employees receiving "wages" as defined in Section 3401(a) of the Internal Revenue Code. **The Kentucky Withholding Tax rate will be 4.5% for tax year 2023.**

### Other Important Business Tax Info:

#### Inventory Tax Credit:

<https://revenue.ky.gov/Business/Pages/Inventory-Tax-Credit.aspx>

#### Nonresident Withholding Filing Requirement:

<https://revenue.ky.gov/Business/Nonresident-Withholding-Tax/Pages/default.aspx>

#### Individual Income Tax:

<https://revenue.ky.gov/Individual/Individual-Income-Tax/Pages/default.aspx>

#### Consumer Use Tax:

<https://revenue.ky.gov/Individual/Consumer-Use-Tax/Pages/default.aspx>

#### Property Taxes:

<https://revenue.ky.gov/Property/Pages/default.aspx>

#### Property Tax Rates:

<https://revenue.ky.gov/Property/Pages/PropertyTaxRates.aspx>

#### Sales & Use Tax:

<https://revenue.ky.gov/Business/Sales-Use-Tax/Pages/default.aspx>

#### Utility Gross Receipts License Tax:

<https://revenue.ky.gov/Business/Utility-Gross-Receipts-License-Tax/Pages/default.aspx>

**For much more about taxes, visit the Kentucky Department of Revenue on-line at <https://revenue.ky.gov/Pages/index.aspx>.**



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INFORMATION**

859-368-7790

1200 N Limestone  
Lexington, KY 40505

[WWW.ELAINEALLENLLC.COM](http://WWW.ELAINEALLENLLC.COM)