



# TAX FACTS 31-1

## Licensing and Tax Information for New Businesses

This Tax Facts provides basic licensing and tax information for people starting a business in Hawaii. It explains which licenses you need and which taxes you must pay. This publication is not a complete list of everything you must do to start a new business. You may be subject to additional licensing requirements and taxes depending on your business. You should seek guidance from a trusted advisor such as an accountant, attorney, or tax consultant to verify that your business is meeting its legal obligations before you start operating.

### Where to Register Your Business

#### 1 How do I start my own business?

First, you must choose a type of business entity and register with:

- Hawaii Department of Commerce & Consumer Affairs (DCCA) (not required for sole proprietorships);
- Internal Revenue Service (IRS) (not required for sole proprietorships, unless they have employees);
- Hawaii Department of Taxation (DOTAX); and
- Hawaii Department of Labor & Industrial Relations (DLIR), if you have any employees as defined by DLIR.

Some businesses (for example, restaurants and childcare providers) need additional permits, licenses, and certifications to operate. For more information, please contact:

- Other state agencies such as Hawaii Department of Health, Hawaii Department of Agriculture, Hawaii Department of Transportation, Public Utilities Commission; and
- The county where you plan to do business. Hawaii has four counties: Hawaii, Kauai, Maui, and Honolulu.

You may register a new business online through the Hawaii Business Express (HBE) website. This one-stop online registration allows a new business to register with DCCA, DOTAX, and DLIR.

### One-Stop State Registration

<b>Online:</b>	<b><a href="http://hbe.hawaii.gov">hbe.hawaii.gov</a></b>
<b>Walk-In:</b>	<b>DCCA Business Action Centers (BAC)</b>
	<b>For hours &amp; locations, go to:</b>
	<b><a href="http://cca.hawaii.gov/bac/contact">cca.hawaii.gov/bac/contact</a></b>

### Choosing a Business Entity

#### 2 What is a business entity?

A business entity is your form of business. The most common forms of business are sole proprietorship, partnership, corporation, S corporation, and limited liability company. Your form of business determines which tax licenses you need, which tax returns you must file, and which taxes you must pay.

#### 3 What is a sole proprietorship?

A sole proprietorship is an unincorporated business owned by one individual. It is the simplest form of business. A sole proprietor personally owns the business's assets and is personally liable for the business's debts. A sole proprietor reports his or her business's profit or loss on his or her federal and Hawaii income tax returns. A sole proprietor must also obtain a general excise tax (GET) license, file tax returns, and pay GET on his or her gross business income.

#### 4 What is a partnership?

A partnership is a business owned by two or more persons (individuals or entities). General partnership, limited liability partnership, and limited liability limited partnership are different types of partnerships. A partnership must file federal and Hawaii information returns, but it does not pay income tax. Instead the partnership's profit or loss passes through to its partners and each partner reports its share of the profit or loss on its federal and Hawaii income tax returns. Although the partnership is a pass-through entity for income tax purposes, it is a taxable entity for GET. This means the partnership must obtain a GET license, file tax returns, and pay GET on its gross business income.

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For more information, visit the Department of Taxation's website at [tax.hawaii.gov](http://tax.hawaii.gov)

## 5 What is a corporation?

A corporation is a legal entity created under state law that is owned by one or more shareholders. The corporation itself owns the business's assets and is liable for the business's debts. The shareholders' liability is generally limited to their investment in the corporation. A corporation must file federal and Hawaii income tax returns to report the business's profit or loss. It must also obtain a GET license, file tax returns, and pay GET on its gross business income.

## 6 What is an S corporation?

An S corporation is a corporation that passes through its profit or loss to its shareholders. An S corporation must file federal and Hawaii income tax returns, but its income is generally taxed to its shareholders. Each shareholder reports his or her share of the S corporation's profit or loss on his or her federal and Hawaii income tax returns. Although the S corporation is a pass-through entity for income tax purposes, it is a taxable entity for GET. This means the S corporation must obtain a GET license, file tax returns, and pay GET on its gross business income.

## 7 What is a limited liability company (LLC)?

An LLC is a legal entity created under state law that is owned by one or more members. The LLC itself owns the business's assets and is liable for the business's debts. Members are not generally liable for the business's debts. For income tax purposes, an LLC with more than one member (including two spouses) is treated as a partnership while a single-member LLC is treated as a disregarded entity. Alternatively, an LLC may elect to be treated as a corporation. All LLCs (including disregarded entities) must obtain its own GET license, file tax returns, and pay GET on its gross business income. See Tax Information Release No. 97-4 for more information.

### DCCA: Register to Do Business in Hawaii

## 8 Do I need to register with the DCCA?

Yes. All business entities (except sole proprietorships) must register to do business in Hawaii. You may also:

- Apply for a professional or vocational license;
- Register your trade name (or "doing business as" (DBA) name); and
- Register your trademarks and service marks.

Certain businesses (for example, real estate agents, construction contractors, and travel agents) need a professional or vocational license to operate. Registering your trade name, trademark, or service mark with the DCCA is not required, but doing so may benefit your business.

Register online through the HBE website at [hbe.hawaii.gov](http://hbe.hawaii.gov). For more information, go to the DCCA website at [cca.hawaii.gov](http://cca.hawaii.gov).

### IRS: Get Your Federal Employer ID Number

## 9 Do I need to register with the IRS?

The IRS administers federal taxes. You must obtain an Employer Identification Number (EIN) (also called a Federal Tax Identification Number) if any of the following apply to you:

- You have employees; or
- You are a corporation, S corporation, or partnership. This includes an LLC filing a corporation or partnership income tax return.

An EIN identifies your business and is used to file your tax returns. In certain cases, you can use your social security number instead of an EIN if you are a sole proprietor.

## 10 How do I apply for an EIN?

To apply for an EIN, complete federal Form SS-4 or apply online at [irs.gov](http://irs.gov). There is no fee to apply.

If you file Form SS-4:	You will receive your EIN:
Online	Immediately
By fax	One week
By mail	4 to 5 weeks

## 11 What federal taxes am I subject to?

Depending on the nature of your business, you may be subject to the following federal business taxes: income tax, self-employment tax, employer taxes, and excise taxes.

### DOTAX: Get Your Hawaii Tax ID & State Tax Licenses

## 12 Do I need to register with DOTAX?

Yes. All businesses must obtain a Hawaii Tax Identification Number (HI Tax ID) and all required tax licenses.

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## 13 How do I apply for a HI Tax ID and tax licenses?

Complete Form BB-1, State of Hawaii Basic Business Application, and pay a one-time \$20 registration fee. Additional fees may apply depending on which tax licenses you need. Register online through the DOTAX website at [hitax.hawaii.gov](http://hitax.hawaii.gov) or the HBE website at [hbe.ehawaii.gov](http://hbe.ehawaii.gov).

If you file Form BB-1:	You will receive your HI Tax ID:
Online - DOTAX	2-4 days
Online - HBE	3-5 days
By mail or drop-off	3 to 4 weeks

To apply in person, bring two copies of your completed application and the \$20 registration fee to any DOTAX district office or DCCA Business Action Center (BAC). You will receive your Hawaii Tax ID immediately.

## 14 What tax licenses do I need?

Most businesses need tax licenses for:

- General Excise Tax - GET is a tax on your gross business income. When you apply for a GET license, you are also automatically registered for use tax. Use tax is a tax on imports from unlicensed sellers. GET and use tax are reported on the same tax return.
- Employer's Withholding - If you have employees, you must withhold Hawaii income taxes from your employees' wages. For more information, see Booklet A, Employer's Tax Guide.

You may need additional tax licenses (such as transient accommodations; rental motor vehicle, tour vehicle, and car-sharing vehicle surcharge; cigarette and tobacco; liquor; and fuel) depending on your business activities. See Form BB-1 for more information.

## 15 Do I need to inform DOTAX of my trade name (DBA)?

Yes. On Form BB-1, enter your trade name (DBA) in the box for "Trade name or doing business as (DBA) name, if any." If you have more than one DBA, complete Form G-50, General Excise Branch License Maintenance Form, to get a branch license for each DBA you use. Branch licenses are free.

## 16 Can I add tax licenses to my Hawaii Tax ID?

Yes. If you have a Hawaii Tax ID, you can add tax licenses (such as employer's withholding, transient accommodations, cigarette and tobacco, liquor) by filing Form BB-1, State of Hawaii Basic Business Application. You do not need another Hawaii Tax ID.

## 17 Do I need a Hawaii Tax ID to open a business bank account?

Each bank has its own requirements so it's best to ask your banker directly. It is common for a bank to require your Hawaii Tax ID, social security number or EIN, and your organizing document.

## 18 Do I need to keep records?

Yes. Keep records of your income and expenses. If you have any employees, you must also keep employment records. Your records will help you to prepare your tax returns. Your records must support what you report on your tax returns.

## 19 How long should I keep records?

Keep records to support what you reported on your tax return until the statute of limitations for that tax return runs out. In general, you should keep your records for at least three years after you file your tax return.

### DLIR: Get Your DOL Number & Other Employer Responsibilities

## 20 What are my responsibilities as an employer?

If you are an employer, you must:

- Withhold federal, state, and payroll taxes from your employees' wages;
- Obtain a federal EIN, Hawaii Tax ID, and an employer account identification number (also known as the Department of Labor (DOL) number);
- Obtain unemployment insurance coverage for your employees; and
- Comply with Hawaii labor laws for worker's compensation, temporary disability insurance, prepaid health care, and wage and hour programs.

For more information, go to the DLIR website at [labor.hawaii.gov](http://labor.hawaii.gov).

## **21** How do I apply for a DOL number?

Register online through the DLIR website at <https://huiclaims3.hawaii.gov> or the HBE website at [hbe.ehawaii.gov](http://hbe.ehawaii.gov). The DLIR Unemployment Insurance Division will assign you a DOL number and send you a post registration packet with more information. Registering for a DOL number is free.

## **22** What is unemployment insurance (UI)?

If you are an employer, you must pay unemployment insurance taxes (also called UI contributions) based on your employees' wages. The taxes are held in a trust fund and used to pay temporary benefits to eligible jobless workers.

### **Where to Get Forms and Information**

Website: [tax.hawaii.gov](http://tax.hawaii.gov)

Telephone: 808-587-4242

Toll-Free: 1-800-222-3229

Telephone for the hearing impaired: 808-587-1418

Toll-Free for the hearing impaired: 1-800-887-8974

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