

Six Steps to Starting a New Business



An extraordinary number of new business applications — nearly 5.4 million — were filed in 2021, far surpassing the previous record of 4.4 million set in 2020.¹ Although some of these start-ups will replace businesses that closed earlier in the pandemic, it appears that many Americans reassessed their careers and were inspired to launch brand-new ventures of their own. Some people took the leap into self-employment after losing their former jobs, while others gave up stable paychecks to take a chance on their dreams.

Do you have an idea for a product or service that could turn into a profitable business? Here's an overview of some important first steps in the entrepreneurial process.

Research the market. Find out all you can about your industry. Does your business proposition fill a gap or improve on competitors' existing offerings? Be sure to check for patents or trademarks on products that may already be in the works.

Focus on funding. It could be months or even years until a new company is profitable enough to provide a stable income. In the meantime, where will the capital come from to get off the ground and pay your own living expenses? Bootstrappers may depend on their own savings — recently bolstered by federal stimulus funds — and early company revenues alone. Others may try to raise seed money from outside investors, tap into their home equity, or take out business loans.

Make a test run. Running your idea by several potential customers, before you invest too much time or money, may help you refine your product marketing and sales strategy.

Select a structure. What kind of business structure are you going to establish? Some of the most common operating structures are sole proprietorship, partnership, corporation, S corporation, and limited liability company. Each type uses a different federal tax form, and the one you choose also determines which business taxes you will pay: income tax, self-employment tax, employment tax, and excise tax.

Consider tax and legal responsibilities. The IRS requires businesses to use a consistent accounting method for the reporting of income and expenses, so choose a method carefully when you file for the first time. Keep good records to help support figures listed on your tax return. If you plan to hire workers, you may need a federal Employer Identification Number for tax purposes.

Write a business plan. Creating a document that outlines details of your new business venture — including the business model, costs, and the other aspects listed earlier — may help you anticipate and prepare for some of the potential challenges.

1) U.S. Census Bureau, 2022

IMPORTANT DISCLOSURES

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