

Are Your Business Licenses Out of Control?

Business licenses seem simple. Just fill out the forms, send in your money, and you're done. But the reality is more complex. Business licenses often result in headaches for legal, tax, compliance, and regulatory departments. Your organization needs to understand and properly manage its business license risks before a costly mistake demands your attention.

A company can't operate without business licenses. As a new company, you need to register with the county or municipality where you conduct business. You may also need a zoning permit, a fictitious name license from the jurisdiction in which the business will operate, or other licenses. Established businesses have licenses that they must renew regularly, such as transportation, liquor, and state sales tax licenses. Furthermore, not everything that falls under the category of business licensing is called a license. Permits, such as food, occupancy, sellers, or facility operation permits, make up a substantial subcategory.

WHY IT'S DIFFICULT TO MANAGE LICENSES

Larger, more complex organizations often encounter difficulty with business licensing because they can't manage their licenses as nimbly as a small company with a single location. Licenses demand local expertise and strict adherence to detailed requirements. Four factors cause most problems:

1. The vast number of jurisdictions with unique licensing requirements
2. The fact that one location may require multiple licenses
3. New and changing license requirements
4. The lack of centralized license management within a company

Factor One: More than 150,000 jurisdictions may have licensing requirements.

Companies that manage business licenses on their own can't contact one central source to learn about all licensing requirements. In addition to federal and state governments, there are more than 150,000 jurisdictions in the United States. These include counties, municipalities, townships, special districts, and other units of local government. Organizations often have trouble determining who to contact and how.

Factor Two: One site may require as many as 14 licenses.

Each business location often requires more than one license. The exact number may vary depending upon your industry, number of employees, location, physical structures, whether you employ salespeople, and whether any government agencies regulate your activities. At the extreme, one amusement park location required 14 permits. In addition, you may need to renew or pay fees for licenses several times per year.

Factor Three: License requirements change – sometimes rapidly.

Local governments often change their rules, and the pace of change has recently increased. Why? Licenses and permits are the number one source of revenue for municipal and county governments. Shrinking revenues and rising deficits have prompted governments to enact new licensing requirements and to beef up enforcement of existing regulations. Inspectors may focus on sites owned by national companies, assuming that you have deep pockets.

The complexity of licensing requirements means that many large companies must create dedicated teams of two to 10 full-time employees who research, file, and monitor their business license compliance requirements. If these companies could manage

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their business licenses more efficiently, they could devote this employee time to activities that generate revenue. In order to focus on their core strengths, many organizations have moved to a business license outsourcing model.

Factor Four: Organizations lack centralized license management processes.

When a company spreads the management of business licenses across multiple departments, licenses may “fall through the cracks” or get lost in a plethora of paperwork. Each employee prepares or manages licenses differently, and there is typically little to no transparency for oversight by management.

THE HIGH COST OF LICENSE MISTAKES

Some companies assume that a business license blunder will result in nothing more than a small fine from a government agency. However, companies that fail to satisfy their licensing requirements can incur much more serious costs – even personal ones.

Consider the case of the office manager who was arrested because his business did not have a current business license posted at its location. The manager thought the problem was resolved by his corporate office, assuming it was responsible for filing the license

renewal. The manager had to appear in court to pay the fine, and the court charged him with a misdemeanor. When he later attempted to rent an apartment, he was rejected because of the misdemeanor in the court case. As this case illustrates, the negative consequences of business license problems can take both companies and their employees by surprise.

Business license mistakes often squeeze corporate revenue as well – particularly when a local government shuts down a company for lacking the proper license. For example, a food delivery service company failed to renew its distribution license and was shut down by the county’s licensing inspection department. The firm missed the opportunity to deliver Mother’s Day candygrams and flowers at one of its most lucrative times of the year.

Failure to properly initiate or maintain business licenses can also result in the following:

- Loss of corporate reputation when the company is tarred as a scofflaw, or poor corporate citizen
- Penalties and interest on unpaid notices
- Improper payment for an acquisition, not realizing the company operates without licenses

Companies can’t afford to ignore the risks of poorly managed business licenses.

CHOOSING THE RIGHT BUSINESS LICENSE MANAGEMENT AGENT

You don’t have to struggle with the challenges and risks of managing your business licenses. Instead, delegate them to save time and money. For the best results, look for a partner with these features:

Feature: A robust national network of relationships with local governments used by a dedicated group of business license researchers

Benefit: You won’t struggle to research which license requirements apply to your organization and how to satisfy them. A partner can proactively inform you of relevant changes made by the filing authorities.

Feature: Technology that automates renewals, centralizes your data, and provides you with 24/7, Web-based access

Benefit: At a glance, your company can verify its

compliance and take action if needed. A centralized repository also helps remove unnecessary paper from the process and lets you stay informed about pending expirations.

Feature: One-stop shopping with services that include research, preparation, filing, renewal, and portfolio management for business licenses

Benefit: You have a partner that helps you manage every aspect of your license and permit compliance needs.

For more information about Corporation Service Company and our suite of business license services, please call us at 800.905.6584.