

A Guide to
Starting and Running
a Home-Based Business

Many types of businesses can operate out of the home, but only if local laws allow. Enjoy flexible hours with long stretches of isolation. Keeping home life and business life separate is a challenge, as is projecting professionalism. All with lowered expenses and tax benefits. These are just some of the special considerations of home based-businesses that will be outlined in this *Guide to Starting and Running a Home-Based Business*, brought to you by BizFilings and Business Owner’s Toolkit®.

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Special Considerations for Starting a Home-Based Business

Gone are the days when a home-based business meant little more than working from a desk or pursuing a hobby for some extra pocket money. These days just about any business is possible to run from home, although of course some are more suited to being home-based than others. The following discussions will interest you if you are starting, running or growing a home-based business:

Starting a Home-Based Business—Why start a home-based business? Who should start a home-based business? What type of home-based business should you consider? After you've focused in on a home-based business that is a good fit, make sure the business complies with any special rules and regulations before you get started.

Running and Growing a Home-Based Business—Presenting a professional image is of the utmost importance, as is networking by getting your business out there. Insurance needs for a home-based business will vary depending on the type of business you operate and whether you own or rent your home. Special tax deductions may be available to you if you run a home-based business. Then, is your business outgrowing your home? Would you like it to? Deciding when it's time to expand your location and/or hiring employees is a big step, but one you may have planned on all along.

Starting a home-based business

Maybe you've been toying with the idea of running a business from home for quite some time. Perhaps recent circumstances, whether personal or work-related, are the reason you are considering a home-based business.

The reasons for starting a home-based business vary and can overlap, but there are a few scenarios that make starting a home-based business an excellent idea. You may be currently employed, but are worried about job security. Maybe you're employed, but are simply tired of working for someone else. You may have been out of the workforce because of family demands from children or elder care or perhaps you anticipate the demands of family taking you out of the work force in the near future. Starting a home-based business can offer a safer, lower cost alternative to test the waters.

While home-based business can be a more economical route to starting your business, know that even more than other startups, home-based businesses can take some time to get to the point of supporting you. If you're starting out while still employed or part-time, or as a side or additional source of income, this shouldn't be a problem. If, however, if you think that the money will be rolling in the day you start your home-based business, absent some serious prior negotiations and commitments, you're likely to be disappointed.

No matter what your motivation, the following considerations are important:

- Who should start a home-based business?
- What type of home-based business?
- Home-based businesses and Special Regulations

Who should start a home-based business?

If you're thinking about a home-based business, but worry that your personality may not be suited for it, you may want to reconsider. In the past, certain traits and characteristics were often held up as the ideal if you were thinking of being a home-based business entrepreneur. But like many other stereotypes, this ideal may be a myth. As more and more people start home-based businesses and employees work outside the workplace more often than not, we have had a chance to see how different businesses and arrangements have worked.

For example, you may be contemplating starting a home-based business but worry that as an outgoing, social type you'll suffer from working in isolation. If this is the case, the results of recent study may surprise you. When a large company hired a consulting firm to study the success of their at-home work program, they found that extroverts thrived doing their work from home, while less extroverted workers had a harder time of it. Why? Extroverts worked closely with clients, colleagues and communicated with bosses and basically are connected wherever they are. For the less than outgoing, it took much more effort to maintain relationships, both social and work related. The study also found that virtual workers were much more organized than their co-workers who worked on-site, shattering another myth that home-based workers can wing it, because no one is around.

If you're thinking about starting a home-based business, know that more than any other type of business, you have an enormous amount of influence on how that business is run and the how it fits with your personality and lifestyle. Your home-based business will be what you make it, but first you have to choose the right type of business to pursue.

Home-based business options

If you know that you are the right type of person to start a home-based business, you're ready for the next step. Now it's time to plan the type of business you want to launch. This decision may be complicated by other factors besides your chosen desire. You should be aware of these considerations:

- What kind of business should you choose?
- Staying clear of scams when starting a home-based business
- Buying an existing home-based business or franchise
- Choosing the right entity form for your home-based business

Choosing a home-based business

People who want to start a home-based business generally fall into two categories.

The first group knows exactly what type of business they want to run and they want to run it from home if possible. For example, you are a bookkeeper for an accounting firm and want to continue to work as a bookkeeper. So you plan to set up your own home-based bookkeeping business and only service small business clients. In this case, the person is taking a business idea and fitting the home-based concept around it. If you're in this category, you also may be interested in franchises or buying an existing business.

The second group of people only know for certain that they want or need to work from home, but don't know exactly what type of work they can do there. For example, Ted, a high school science teacher knows that his father's health is failing and will likely need to live with him within the next couple of years because he cannot be left alone for long periods of time. Ted would like to start a business that he could run from home that gives him more flexibility in terms of hours worked, but he's not quite sure what that business should be.

Ted is not alone. But there are many places to look for ideas. Online sources, books and magazines can help you come up with potential home-based businesses that may be a good fit for you. Chances are good that you'll find a suggestion for a home-based business that may not have been apparent to you.

These sources are also great for thinking outside the box when it come to marrying interests and running your own business from the home. For example, Ted, the high school teacher doesn't have to limit himself to tutoring students at his home or theirs, although this is certainly a traditionally viable home-based business. He might instead consider taking his knowledge of plants and provide landscaping and horticulture services to local business and residences. So take some time and think about related fields, not just your primary field.

If you are looking for a more generic line of work, you'll need something that you can do and that there is a demand for, such as customer service and/or sales call center work. You can do this from home as an independent contractor. Call outsourcing solution firms are growing rapidly because their corporate clients increasingly prefer "on shore" representatives, with good language skills and a professional demeanor, to handle their customers' needs one-on-one. If you need or want to work at home, but don't feel your skills or interests are specialized enough for particular businesses, this type of home-based business could be perfect for you.

Staying clear of home-based scams

Most people starting their own business would never believe or even hope to get rich quick without an investment of time and money. However, a large number of very bright people are sucked into get rich working at home scams.

If a website or company promises you will get rich stuffing envelopes if you pay them a large fee for a kit to get started, please don't allow the prospect of working at home to rob you of your good sense. You need to follow two rules of thumb when checking out potential business opportunities.

- Do your due diligence. Run any potential business or employment opportunities by the Better Business Bureau; the state Attorney General's office; and any local trade, business or consumer groups. Check the Federal Trade Commission's consumer site for valuable information: www.ftc.gov. Watch and read the news to be alert for the latest pitch trying to reel folks in.
- Protect personal information. Never give any kind of personal information to anyone, no matter how legitimate the request may appear, unless you've thoroughly investigated them first.

Buying an existing home-based business or franchise

You can also start a business by not starting one at all — you can buy an already existing business or work with a franchiser. All the rules that apply to buying any business apply here as well. As the old saying goes — if it sounds too good to be true, it isn't true.

There is one added caveat for existing businesses: Make absolutely sure that the current business owner is not selling because regulations will make the business inoperable out of the home. Also, be sure to check out all of the financial documents and due your due diligence on the operation. Home-based businesses have come a long way in recent years, especially because of advances in the digital and Internet age. So buying the right home-based business could be as rewarding and profitable as buying any small business.

Another option for starting a home-based business is buying a franchise. The benefits include being able to tap into the goodwill and recognition of a well-known a product or service, and essentially getting a startup kit so you can hit the ground running.

By going the franchise route, you likely will have a better idea of the expenses and potential profits you can expect. The downside? Your home-based franchise is subject to the rules of the franchiser, which you must follow to the letter. This means that you may have to order all your supplies from the franchiser, limit the area you operate your business in, follow the franchiser's operations guidelines, etc.

If you're thinking of starting a franchise home-based business, do your homework by visiting such sites as the International Franchise Association for valuable information at www.franchise.org. Finally, because franchise agreements can be quite complicated you may want to hire an attorney to look over the franchise agreement before you sign it. You should be certain that the lawyer is familiar with franchise contracts.

Choosing the right entity form for your home-based business

Since your business and home are going to be one-in-the-same, you should take steps to make sure your home life and assets are protected from your business activities.

If someone were to slip and fall at your place of business, and a lawsuit followed, your personal home could be at risk. If your product or service is faulty or negligent, an unhappy customer may go after your business and your home.

The primary way to protect yourself from liability is to formally organize your business with state authorities. By choosing an organizational form — such as a corporation, a limited liability company (LLC), a formal partnership, or an S corporation — you are formally designating that the business is its own separate entity, separate from its owners. That means the owners enjoy limited liability in operating the business, and can only be held liable for the amount invested in the business. All personal assets are safely protected from the creditors of the business.

Many non-home-based businesses choose to go this route for the protections that it offers. But as the owner of a home-based business, you should be keenly aware of this option, and you should seek to keep your business as separate from your personal life, even though they are both contained in the same home.

You are certainly not required to do this before you start a business; you can do it later once the business is more established and looks to be on its way to success. But

as they say: You can't put the genie back in the bottle. If something happens in your business as you are operating as a sole proprietor or simple partnership without limited liability protections, you can't mitigate the risk. It's too late.

Consider the risks inherent in your business — to customers, employees and others. Is insurance enough to cover them? Or should you go for limited liability under the law as well.

Dealing with home-based business regulations

Before you start implementing any concrete plans for your home-based business, realize that there are federal, state and local laws that may regulate the type of work that can be performed in a residential setting. And regulate can mean anything from restrict to prohibit.

Sometimes special permits will be needed and can take months to obtain. So don't get ahead of yourself. You don't want to waste your time starting a business that may be shut down. Do the necessary research and paperwork. You may find that you have to tweak your idea so that you can conform to the rules.

The following are factors that anyone starting a home-based business should familiarize themselves with:

- Zoning Rules
- Licensing Requirements
- Federal and State Labor Rules
- Home-Based Businesses and Copyright Infringements

Navigating local zoning rules for home-based businesses

Most of the regulations you will need to comply with for a home-based business will be on a local level. The first issue to consider is whether zoning rules will impact your choice of a home-based business. Some cities and towns have zoning laws that prohibit home-based businesses outright and even more have laws that restrict working at home.

The main rationale behind these prohibitive or restrictive zoning laws is to maintain the residential character of a neighborhood. But other influences, such as competing commercial businesses that don't want home-based businesses undercutting them, can impact the zoning laws. You can access the local rules and ordinances by checking your public library or your local government websites. Some of the more common restrictions that local zoning laws can impose are:

- Restricting the right of property owners to build separate structures
- Restrictions on how much of your home can be used exclusively for your business
- Restrictions on your ability to advertise with signs
- Parking restrictions
- Vehicular traffic restrictions
- Environmental restrictions or prohibitions, including noise, smoke, and odor, certain types of equipment and the disposal of chemicals or hazardous substances
- Limits on the number of employees you are allowed to have, if any working in your home

A more direct route to getting zoning information is to contact your local planning department or zoning board. They are usually accessible through your county offices if you live outside city limits or through city hall if you live within city limits. The local chamber of commerce or trade and industry groups can also be sources of information as well or direct you to the proper channels.

In addition, you may need a home-occupation permit or a business license to have a home-based business. The cost is usually a flat fee or a percentage of annual receipts from your business. With so many cities and localities looking for revenue sources, don't be surprised if your business is subject to this cost.

At this point you may be thinking that you don't want to alert your zoning board to what you're doing by asking a lot of questions since your home-based business won't be noticed by anyone. We know this is tempting approach particularly if your business is a quiet one, with no employees or customers coming to your home. Is it likely you'll be discovered or called to the carpet? It's unlikely. However, all it takes is one competitor who wants to get rid of you, a neighbor who wishes that you didn't paint your house that shade of green or a customer who is unhappy with your work or doesn't want to pay you. A complaint from one of these people could lead to the discovery of your undercover business. A violation of zoning or other laws could force you to shut down your business or move it out of your home, perhaps subjecting you to fines or penalties. So make sure you're in compliance before you even get started.

What can you do if your home-based business is not permitted due to zoning ordinances? You can apply for a variance. Due to the difficulty of getting a variance and the length of time often involved in the process, you may want to instead revise your home-based business model if possible, to fit within the allowable zoning parameters. If this isn't possible, does your request for a home-based business variance conform to any of the following criteria?

- Applying the zoning ordinance would deprive you of your livelihood.
- The business use of your home would not harm the neighborhood.
- The requested business use of your home is similar to one currently allowed in the area.

If the answer is yes, you have a better chance for obtaining your variance than if you're requesting the variance based on other criteria. Localities are justifiably strict about granting variances for fear of rendering existing rules useless. So consideration of your variance may be subject to a lengthy process including public review. We're not suggesting that you don't seek a variance. Just know what you're in for.

Finally, if you live in a residential area with a homeowners' association, a condo, a co-op, or if you rent and don't own your home or apartment, you have to check and make sure that nothing in the bylaws, rules or your lease prohibit or restrict your home-based business.

Understanding business licensing requirements

Depending on the type of business you are running from your home, you may have to obtain additional licensing and also meet certain other regulations.

Consider these examples: A hair cutter is usually licensed by the state, but may also need to meet other health department regulations. A wedding cake baker may need not only a business license, but may need to meet Food and Drug Administration requirements because a food product is being produced in the home. A home-based day care could have occupational licensing requirements, but may also require accreditation and an inspection of the premises by state or local officials for fire safety, evacuation plans, and other building code standards.

To obtain information about the requirements for your specific home-based business, consult your industry and trade websites, as well as local and state government websites for the specifics in your area.

Complying with federal and state labor laws

On the federal level, labor laws focus mainly on the employees working in a home-based business. Certain activities are restricted by age and working conditions. Other laws affect compensation and workplace rules. Violations can result in civil and criminal penalties as well as being forced to shut down the home workplace.

State law also may restrict the hiring of employees and outside contractors if they work out of their homes. You can check with your state's Department of Labor to see if there are any rules relating to this issue in your state.

The state website should have the information you need.

Avoiding copyright infringements in home-based businesses

Just as with starting any kind of business, home-based or not, be careful not to violate copyright laws in your operations.

Just because you're operating your business for decorating children's rooms out of your home, it doesn't mean you can paint Disney characters without permission and collect payments. It's tempting to think that a big behemoth business can't be bothered by little old you. But it's against the law and you are likely to be found out.

Large companies with great name recognition fiercely guard the use of their name and property, employing people just to track down others operating without their permission. So before you call your business Mickey Mice Kid's Decorating, think twice. You may be getting a cease and desist letter that tanks your business when it's starting up or, even worse, once it has been running and is established!

Special Considerations for Running & Growing a Home-Based Business

As the owner of a home-based business, you have all the usual concerns of a business owner — products and services, finding and keeping customers, handling employees (if you have them), getting financing and managing your finances, and everything else that goes with running and growing a business.

But home-based businesses also present their own set of special challenges not found in the traditional work setting. This added layer of complexity complicates operations, but also allows you the flexibility to tailor your home business just as you want. Consider these issues as you look to run and grow your home-based business:

- Keeping work and home life separate
- Projecting professionalism
- Isolation
- Networking and advertising
- Insurance
- Special tax deductions for home-based businesses
- Leaving Your Home-Based Workspace

Keeping work and home life separate

Despite the increasing popularity of home-based businesses, a huge issue for many home-based business operators is still the notion that if you are home-based you're not really at work. You may find that friends and family think it's fine to stop by and chat, or keep you on the phone for an hour.

It's up to you to set up the boundaries between your personal and business life. A clear separation also helps you deal with setting up mental boundaries for yourself as well, so that you can resist the temptation for work to constantly spill into your personal time and vice-versa. If possible, have an "office" area only for work, separate from the living quarters in the house. You and others should treat it as a business setting and act accordingly.

This will help to limit interruptions as well. If you are in your formal office space, then people will think twice about entering unless they are there on business as well.

Also, be wary of friends and neighbors who seek to do business with you, but want some sort of discount. Just because you work out of your home doesn't mean real business isn't taking place there. People don't ask for special favors or discounts at formal businesses with separate facilities, so why should they ask for that because you work out of your home.

If you take your home-based business space seriously, others will as well.

Projecting professionalism in your home-based business

Even if you have set up a formal office space in your home to separate work and personal life, others still may difficulty seeing the formality. After all, they know they are at your home too. So when you deal with customers, suppliers or other business contacts, it helps to dress the part. If you show you are a serious business operator, others will see it and respond in kind — even in a home setting.

Another way to project professionalism is to take the issue of safety very seriously. People will be coming into your home, so not only should it look professional, it should operate professionally — which means safely. A formal separate workspace can avoid problems like clients tripping over kids toys or being scared by your dog. You may automatically step over your cat on the way to the bathroom every morning, but your customers may not notice him and take a tumble.

Obviously, what you have to do depends on the type of home-based business. Take inventory of your surroundings. It may help to bring in an outsider's point-of-view. If you're running a toddler child care center out of your home, customers expect children's toys and small children to be underfoot. If you're running a bookkeeping business out of your home, this may not be the case. Just use common sense, trying to conform to how things are done in your trade and industry, and you should be fine.

Insurance is a necessity, but taking a good look at your home-based workspace and dealing with any safety concerns can help you avoid using that insurance until absolutely necessary.

Dealing with isolation in a home-based business

Staying focused and avoiding isolation are cited in numerous studies as real problems for home-based business owners. This is particularly true if your business doesn't involve seeing customers and/or suppliers on a regular basis.

You can stay focused by setting goals, getting into a self-imposed routine, and avoiding distractions. Avoiding isolation can go hand-in-hand with other goals, such as maintaining a healthy lifestyle and networking. You just have to work at it, every day.

Schedule meetings, get-togethers and lunches with others in your line of work, with potential and current clients, or with other owners of home-based businesses. You may want to join (or form) a home-based business leads-type group that meets once a month for breakfast or lunch to brainstorm ideas, share experiences, and just get some face time with others that work from home.

It is easy to fall into the trap of saying that since these activities might not generate actual revenue, you can put it off if things get busy. Avoid doing that. It's good for your mental health to force yourself to do this type of networking. You never know where that next big lead may come from. And you'll certainly feel better just exchanging home-based "war stories" with others. Otherwise, you run the risk of losing your focus.

Advertising for home-based businesses

Like most small business, you'll have to aggressively market yourself, taking into account your product or service, as well as your time and cost constraints. But advertising can be somewhat of an extra challenge if your business is home-based.

Being home-based could impact your business image in the eyes of others, so you'll have to be even more aggressive in getting your business the professional recognition you deserve. You may not be able to hang a sign on your house, but you have other options for marketing. You can obtain press at a reasonable cost through press release services. You can advertise online, in print or through broadcast; a number of advertising programs just for small business can target geography or time period or demographics of buyers, making your ad buy that much more efficient. You can create or hire someone to design a professional looking website (a virtual base) for your business, and nobody has to know that you work out of your home.

Don't forget promotions on a local level. Depending on the business you are conducting, this might be a place to start. For example, you can add your business's name to a t-shirt as a sponsor for the local high school, sponsor a town little league team or donate a give-away for a charity event. These are excellent ways to start a conversation in your local community and get some more press coverage.

Your business may be home-based, but that doesn't mean you necessarily have to scale down your advertising. In fact, the opposite may be true, because you may have a few more dollars to spend than the business down the street renting a storefront.

Securing the right insurance for your home-based business

Insurance is a word that will touch almost every aspect of a home-based business owner's life.

First and foremost, if you don't have health insurance through an employer or significant other, make sure you obtain health insurance on your own.

You will also need to be sure that your property insurance covers any equipment or products you have as part of your business, as well as any liability for employees, customers or suppliers. You may be able to get a rider on your existing home property insurance. But depending on your business and finances, you may be required or be better off with a separate policy. Be careful of business use exclusions in your homeowner's insurance policy!

If you or your employees use autos for business, even personal ones, make sure your insurance policy covers this use—again you may have to add a rider or obtain a separate policy.

Business interruption and disability insurance are important for all business owners who rely on their income to support themselves and perhaps others.

You may also want to look into other types of insurance, depending on the nature of your home-based business. For example, if your offering professional services (for example, you're an attorney) you should have malpractice insurance. If you're running a cleaning service and will be entering other people's homes, you and all employees should be bonded in case of theft or, if you're handling people's finances, embezzlement. Product liability insurance may be something you will want to obtain if your business sells a product you created or invented.

An insurance agent specializing in home-based business policies can help you with your insurance needs. Be sure to shop around and check out your options before you sign. But a good insurance agent can be like another member of your team. Like a good lawyer or accountant, you should be able to depend on them for advice in running and growing your home-based business.

Claiming the home-office tax deduction

If you're running a home-based business, one of the more appealing tax breaks you may be entitled to is known as the home office tax deduction. The Internal Revenue Code currently offers qualified individuals a home office tax deduction if they use a portion of their home as a principal place of business or as a space to meet with their patients or clients.

Actually, the home office deduction is made up of a group of deductions—a portion of utility bills, mortgage interest, repairs, and depreciation. The total amount is then reported as a deduction on IRS Form 8829, *Expenses for Business Use of Your Home*. In addition, if you qualify for the home office deduction, you also qualify for some special, more liberal rules for deducting auto expenses. The common denominator among these deductions is that the IRS has devised a single test to determine whether you qualify for all of them.

The home office tax deduction is quite complex, but if you can meet the stringent requirements it can be one of the major pluses of running a home-based business. Traditionally, some fear this deduction is a red flag to the IRS that could inspire an audit. In reality, as long as you can document the deduction and don't try to misuse the deduction for non-business items, you should certainly take advantage of this real money-saver.

To qualify for the home office deduction, your home "office" must be used exclusively and regularly for business *and*:

- be your principal place of business, or
- be used to personally meet with clients or customers in the normal course of your business

To be eligible for the deduction, you are required to use it *regularly*, not just occasionally. "Exclusive use" means that the business part of the home may not be used for any personal or family activities, or for any other business activities that don't meet the home office requirements.

There are a few exceptions to the “exclusive use” requirement:

- If your home office is a separate structure that is not attached to your residence, you may qualify for the home office deduction without meeting the exclusive use requirement. In this situation, the structure merely has to be used in your trade or business.
- If your home is the only fixed location of a retail or wholesale business, you can deduct expenses that pertain to the use of part of your home for the storage of inventory or product samples.
- If you operate a child care business in your home, the portion of the home that is used regularly for day care qualifies as a “home office,” even if it is also used for personal and family living space. However, home-based day care operators can deduct expenses only for the actual time the day care center is open.

What qualifies as the “principal place of business”? This test is significantly easier to meet than it once was. A home office qualifies as the principal place of business if:

- the office is used to conduct administrative or management activities of a trade or business, and
- there is no other fixed location where the taxpayer conducts substantial administrative or management activities of the trade or business

If you don’t qualify for the home office deduction, this doesn’t mean that you can’t claim any of your expenses associated with your home-based business. Home mortgage interest, real estate taxes and business expenses are still deductible on your personal return.

Finally, if you sell your home, you will be required to account for the depreciation deductions you took through the home-office deduction. You will have to “re-capture” these deductions from your selling price. Be sure to talk with your tax advisor about this situation.

Leaving your home-based workspace

Depending on the type of home-based business you have, you may not want to grow your business too much, keeping it a certain size that meets your income needs and provides you with the luxury of working from home. Or perhaps you only started a home-based business because it was all you could afford to do at the time and your eye has always been on expansion.

If the latter is true, you could eventually reach a tipping point in your home office where you can’t grow and take on any more work, or you can’t add any employees or inventory. Whether constrained by space, regulations, or both, growing a home-based business often means that it needs to move out of the home.

Only you can make this decision about whether your business is ready to leave home. But once you make the move, you’ll face the all of same challenges small business owners face when running and growing a business. But the good news is: You get your house back.