THE IMPACT OF INCREASING BUSINESS LICENSE ENFORCEMENT

Regulation of business licenses is increasing, as are enforcement actions against business license violations. These developments have made business license management an organizational imperative.

At the same time, regulatory agencies are de-emphasizing their role in providing renewal and compliance notifications. It is up to organizations to understand business license requirements and to see that these obligations are met on time.

To help ensure that your business remains compliant and free from penalties or disruptions, it’s important to be aware of all regulatory reporting requirements at state and local levels.

MUNICIPALITIES ARE TAKING A FIRMER LINE ON BUSINESS LICENSING

One licensing trend is that more local jurisdictions are passing and enforcing stricter licensing requirements.

City councilors in Berlin, Maryland, recently passed a law that increased business license late penalties. Local businesses that fail to secure a business license (or stay current with their annual $75 license fee) are at risk of increased interest rates. Another possible sanction involves businesses having their names published on a list of late licensing violators.

City officials in Independence, Missouri, have given their business license compliance officers a new task: An aggressive door-to-door campaign to collect unpaid license fees from many of that town’s 9,000 businesses.

Independence isn’t the only city intent on pursuing businesses for back taxes and overdue licensing fees. In North Myrtle Beach, South Carolina, a local investigation uncovered more than $140,000 in unpaid business license fines—a significant sum for any small- to mid-sized jurisdiction.

HOW LARGER BUSINESS LICENSING TRENDS IMPACT PLANNING AND OPERATIONS

The emergence of ecommerce posed a new question for businesses and local jurisdictions. If a company sells products to residents of a state—yet has no physical presence within the state’s borders—should sales taxes still apply?

The U.S. Supreme Court addressed this issue in a 2018 case, South Dakota vs. Wayfair. The Court held that states can require online or remote sellers to collect and remit sales taxes on purchases made by customers in the state, even if the seller has no in-state physical presence.

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This decision now requires remote sellers to register for sales tax licenses, and to collect and remit taxes on the sale of goods and services, in any state that imposes a sales tax where those businesses meet the tax law’s nexus requirement.

Having remote workers presents similar issues, depending on state and local laws. Companies employing out-of-state staff must determine where and how to properly withhold payroll taxes. Meanwhile, remote workers must also stay current on the licensing requirements of their jurisdiction, as some municipalities require workers to obtain home occupation permits.

Businesses must remain aware of so-called “tax nexus” considerations. A tax nexus is defined as any situation where an organization does business in a state other than its primary physical headquarters. Having remote workers in a secondary state may subject a business to that state’s sales, income and tax laws. Having remote workers may also make it necessary for businesses to register with the specific tax department in the jurisdiction where these workers live.

Because these situations can be complex and highly variable, the counsel of a tax adviser can help businesses determine how to best fulfill these requirements.

ADDRESSING ROUTINE BUSINESS LICENSE COMPLIANCE CHALLENGES

An intricate web of federal and state regulations, and local rules at the county, city and town level, governs business licensing. These requirements are not only extensive, they are also fast-evolving. It’s estimated that 65 percent of license, tax and permit registration requirements change annually. Meanwhile, there are more than 75,000 federal, state and local jurisdictions for businesses to contend with.

Other challenges can also increase the complexity of maintaining compliance. These include coordinating between multiple office locations, increased burdens within industries that are especially highly regulated, inefficient internal systems and a lack of needed information.

Additionally, there are common events that instigate increased licensing work. Such events include corporate name changes, adding new products or services, company expansion, management or ownership changes, physical address changes, offices opening or closing and regulatory changes.

THE RISKS OF LICENSING NON-COMPLIANCE

The consequences of licensing non-compliance can be profound. Obvious drawbacks include financial penalties and interruptions in business operations.

Yet there are also consequences that may be less known but just as damaging. Licensing non-compliance can throw a wrench into key strategic business decisions, delay the opening of new locations or result in company leaders being summoned to appear in court.

“Creating a compliance plan and developing a strategy to ensure compliance portfolio offers long term protection is key to lowering risk due to non-compliance.”

In years past, some organizations were inclined to follow a “pay fines as you go” philosophy. Today, that approach carries much more risk. Because small business licenses are public documents, failing to stay compliant could lead to negative publicity and serious reputational harm.

PREVENTING LICENSING NON-COMPLIANCE

Given the complexity of business license compliance, the large number of authorities involved and the ever-changing nature of requirements, remaining compliant is no small task. With increasing penalties for non-compliance, it makes sense to establish the right processes for monitoring and managing business license compliance.

For most organizations, this means choosing between self-management, working with a trusted compliance partner, or going with a blended model. Understanding the various requirements of each approach is key to determining the right approach.

Self-Management for Business Licensing

Self-management requires organizations to take an active role in remaining compliant, so this approach generally works best when supported by advanced business license software. Software enables much greater workflow efficiency and accuracy than is possible with simple spreadsheets. The right software will also typically offer features such as calendars and alerts, helping to ensure that critical deadlines are never missed.

CT’s business license software solution is designed to support self-management in a simple and seamless manner. Clients

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supply verified and validated license data, and CT enters that information into our Business License Hub. Due to the complexity of the business license compliance it is during this build phase that we consult with the customer and customize the interface. It is through the ability to add up to 100 custom fields that the self-managed client builds the efficiency for each renewal saving time and effort looking for data. The ultimate goal of engaging with technology is to ensure that anyone who touches the process can quickly and accurately be able to gain visibility into the compliance. It must be user-friendly yet complex enough to manage the ever-changing compliance regulations.

It is important to realize under this model, business license owners must continue to research renewal requirements prior to each submission and pursue status updates, license records and fee renewal requests.

**Managed Business Licensing**

A managed licensing solution is a more robust offering that allows businesses to leverage a compliance partner to meet all requirements. In such scenarios, businesses can benefit from the experience of compliance specialists who oversee the entire life cycle of a business license portfolio—without having to give up control or transparency. Driven through the BL hub technology customers are able to provide access to unlimited users and have access to real-time status for any of their licenses.

With a managed approach, CT verifies the status of all licenses and the data associated with existing license lists. A dedicated service team is also tasked with helping secure, complete, file and pay for various licenses to relevant jurisdictions.

Pre-filing summaries are provided each month with upcoming renewals. These summaries include requests for any necessary supporting documents.

When using a managed business licensing model, clients simply have to approve renewals and provide supporting data when necessary. Because this is a comprehensive solution, it streamlines costs, frees up administrative time and lowers the risk of non-compliance.

**Combining Self-Managed and Managed Licensing**

Due to the complexity of license obligations, some organizations may opt for a blended model that combines the two approaches outlined above. The best way to describe this approach is when the license requirement is more of a financial income tax or is in a highly regulated area requiring more attention that it does not produce efficiency in outsourcing. In such cases, organizations can maintain their internal management processes while outsourcing specific licensing tasks to third party experts.

**CONCLUSION**

Creating a compliance plan and developing a strategy to ensure compliance portfolio offers long term protection is key to lowering risk due to non-compliance. Compliance begins with proper and extensive research into the licensing requirements applicable to your business operations in every location. This is a critical—yet often very difficult—part of running a multi-jurisdiction operation. Most organizations are now conducting an evaluation of their internal processes.

Creating the path to compliance is not easy. It takes commitment and patience. Many companies struggle with identifying who is handling certain tasks, they don’t have a comprehensive list of what’s required or are simply plagued with turnover and the lack of ownership. By formulating the right strategy—and supporting it with the necessary tools—you can lay the foundation for ongoing business success.

**LEARN MORE**

To learn more about how CT can help you manage your business license needs, contact a CT Service Representative or call (844) 400-9804.