



Understanding Small Business Taxes



Get needed tax information related to the various stages of business ownership

Disclaimer: This Module Is Not Intended To Give Advice Regarding Personal, Business, Federal, Or Other Taxes. This Is For Informational Purposes Only With Knowledge Derived From Study, Experience, Or Instruction. Please Consult Your Personal And Business Tax Advisor For Specific Details Regarding Your Tax Assessment, Filing, And Payment Options.



Learning Objectives

- At the end of this module, you will be able to:
 - Distinguish the various types of taxes.
 - Navigate the Internal Revenue Service (IRS) web site in general.
 - Identify some specific IRS tax sections, such as tax forms, tax guidance, and publications.

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The logo of the Federal Deposit Insurance Corporation (FDIC) is located in the top left corner. It features a circular emblem with the text "FEDERAL DEPOSIT INSURANCE CORPORATION" around the perimeter and the year "1933" in the center. The emblem is set against a blue background with a subtle pattern.

About FDIC Small Business Resource Effort

- The Federal Deposit Insurance Corporation (FDIC) recognizes the important contributions made by small, veteran, and minority and women-owned businesses to our economy. For that reason, we strive to provide small businesses with opportunities to contract with the FDIC. In furtherance of this goal, the FDIC has initiated the FDIC Small Business Resource Effort to assist the small vendors that provide products, services, and solutions to the FDIC.
- The objective of the Small Business Resource Effort is to provide information and the tools small vendors need to become better positioned to compete for contracts and subcontracts at the FDIC. To achieve this objective, the Small Business Resource Effort references outside resources critical for qualified vendors, leverages technology to provide education according to perceived needs, and offers connectivity through resourcing, accessibility, counseling, coaching, and guidance where applicable.
- This product was developed by the FDIC Office of Minority and Women Inclusion (OMWI). OMWI has responsibility for oversight of the Small Business Resource Effort.



Executive Summary

- Both you and your business will be subject to taxes, and you need to know what to expect.
- Understanding your numerous obligations to federal, state, and local tax agencies will help your business run smoothly.



Small Business Tax Forms and Publications

- To get small business and self-employed tax forms and publications from the IRS, you can either:
 - Download them from the IRS web site at [irs.gov/Businesses/Small-Businesses-&Self-Employed/Small-Business-Forms-and-Publications](https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Small-Business-Forms-and-Publications).
 - Call IRS at (800) 829-3676 to order forms and publications through the mail.



Employer Identification Number (EIN)

- Generally, your business will need to have an Employer Identification Number (EIN), also known as a Federal Tax Identification Number.
- Apply for an EIN in various ways, including online. This is a free service offered by the IRS.
- Check with your state to find out if you need a state number or charter.
- For additional help, visit the IRS web site: [irs.gov/Businesses/Small-Businesses-&Self-Employed/Employer-ID-Numbers-\(EINs\)-](https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Employer-ID-Numbers-(EINs)-).



Business Taxes

- The form of business you operate determines what taxes you must pay and how you pay them. There are four general types of business taxes:
 1. **Income Tax:** All businesses except partnerships must file an annual income tax return. Partnerships file an information return.
 2. **Self-Employment Tax:** Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves.
 3. **Employment Taxes:** When you have employees, you (as the employer) have certain employment tax responsibilities that you must pay, e.g., Social Security, Medicare, Federal Unemployment, etc.
 4. **Excise Tax:** You may be required to pay excise taxes if you manufacture or sell certain products, operate certain kinds of businesses, or use various kinds of equipment, facilities, or products, etc.
- For additional help on this topic, please visit the IRS web site:
irs.gov/Businesses/Small-Businesses-&Self-Employed/Business-Taxes.



Payroll Tax

- Control your payroll tax obligations by making all your payments when they are due, so you avoid costly penalties.
- Stay on top of the rules by understanding the following topics:
 - Who are your "taxable" workers? Determine which of your workers are "employees" on whom payroll taxes are due. Examine the distinctions between employees and independent contractors. Maintain documentation for independent contractors to prevent tax and legal issues.
 - What compensation is taxable? Determine which forms of employee compensation are taxable in addition to basic wages and salaries. Examine details, such as tips, expense reimbursements, fringe benefits, and non-cash payments.
 - Which payroll taxes apply? Know the various types of tax obligations that arise when you have employees, and know how to compute the payable amounts.
 - What are your self-employment taxes? Examine the payroll-type taxes a business owner is required to pay on the income drawn from the business.



Employment Tax *(Slide 1 of 2)*

- In general, employers are responsible for reporting federal income taxes, social security, and Medicare taxes using forms available on the IRS web site.
- Here are some examples of employment taxes:
 - **Federal Income Tax and Social Security and Medicare Taxes:** You generally must withhold federal income tax from your employees' wages. You withhold part of social security and Medicare taxes from your employees' wages, and you pay a matching amount yourself.
 - **Federal Unemployment (FUTA) Tax:** You report and pay FUTA tax separately from federal income tax, and social security and Medicare taxes. You pay FUTA tax only from your own funds. Employees do not pay this tax or have it withheld from their pay.
 - **Self-Employment (SE) Tax:** SE tax is a social security and Medicare tax primarily for individuals who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of most wage earners.



Employment Tax *(Slide 2 of 2)*

- Depositing Employment Taxes

In general, you must deposit income tax withheld, both the employer and employee social security and Medicare taxes (minus any advance EIC payments), and FUTA tax by depositing electronically or by mailing or delivering a check, money order, or cash to a financial institution that is an authorized depository for federal taxes.

- For additional help on this topic, please visit the IRS web site:

[irs.gov/Businesses/Small-Businesses-&Self-Employed/Employment-Taxes-2](https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Employment-Taxes-2).



State Tax *(Slide 1 of 2)*

- Every state levies some form of tax on small businesses. Some states impose little or no tax on certain business structures (especially sole proprietorships).
- Many requirements are imposed on businesses at a state level and complying with them is crucial to your business.
- Generally speaking, the state taxes can be classified into three categories:
 - Initial formation fees.
 - Taxes on business income.
 - Sales and use tax.



State Tax *(Slide 2 of 2)*

- Visit the IRS/state links web site for more specific details related to tax guidelines: [irs.gov/Businesses/Small-Businesses-&Self-Employed/State-Links-1](https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/State-Links-1).
- Visit these external resources to get a list of taxing authorities in each state:
 - Business owners toolkit:
bizfilings.com/toolkit/sbg/tax-info/state-taxes/business-income.aspx.
 - Federal tax administrators:
taxadmin.org/fta/link/.
- Contact your state Department of Revenue, Department of Taxation, etc. to set up online tax payment options. These systems often include options to pay for local and sales taxes.



Local Tax

- Local authorities may tax personal property, such as machinery, equipment, furniture, supplies, leased equipment, and movable machinery used in a business.
- Some cities and municipalities also levy income taxes on any business operating within their borders.
- Your county government or local municipality can provide information about the specific taxes that apply in your area and instructions for registering your business.



Sales Tax

- Unless you happen to live and do business exclusively in Alaska, Delaware, Montana, New Hampshire, and Oregon (the five states that do not impose general sales taxes), you have been exposed to state and local sales taxes.
- To better understand your specific state sales tax, please call your state authorities to learn about:
 - Your sales tax concerns as a seller.
 - Your sales tax concerns as a purchaser.
 - Sales tax considerations by industry segment.
 - State tax rates and other information.



Tax Credits

- Tax credits are only available for certain very limited situations. Tax credits carry forward from prior years. Here are some types of tax credits:
 - Credits for certain types of taxes.
 - Credits for benefit of disadvantaged.
 - Credits for green activities.
 - Credits on certain types of investments.
- Claiming credits requires you to follow certain guidelines:
 - Calculate the limits on your tax liability.
 - Check if you are claiming more than one general business credit.
 - Check if you have carry-back or carry-forward credits.
 - Check if you have a credit from a passive activity.
- Most of the credits must be computed by using special IRS forms available at: [irs.gov/Businesses/Small-Businesses-&Self-Employed](https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed).



Small Business Tax Deductions

- Business expenses are usually deductible if the business is operated to make a profit. Many don't take advantage of these deductions:
 - Healthcare tax credit.
 - Business use of personal vehicle.
 - Business travel and entertainment expenses.
 - Home office deduction.
 - Start-up costs.
 - Professional fees and training costs.
 - Equipment and software purchases.
 - Moving costs.
 - Hiring veterans.
 - Charitable donations.
- Specific criteria apply to each of these deductions. Consult a tax professional or the IRS web site: [irs.gov/Businesses/Small-Businesses-&Self-Employed/Deducting-Business-Expenses](https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Deducting-Business-Expenses).



IRS e-file for Business and Self-Employed Taxpayers

- Whether you are a business or are self-employed, the IRS has an e-file (electronic filing)option that meets your needs.
- Use IRS e-file for employment tax returns, information returns, partnerships, corporations, estates and trusts, plus exempt organizations.
- For additional help on this topic, please visit the IRS web site:
 - Electronic filing options for business returns: [irs.gov/uac/Electronic-Filing-Options-for-Business-and-Self-Employed-Taxpayers-](https://irs.gov/uac/Electronic-Filing-Options-for-Business-and-Self-Employed-Taxpayers)
 - Electronic payment options: irs.gov/uac/Electronic-Payment-Options-Home-Page
 - Business e-file partners: irs.gov/uac/Approved-IRS-e-file-for-Business-Providers
- Where to file:
 - irs.gov/Businesses/Small-Businesses-&Self-Employed/Filing-and-Paying-Your-Business-Taxes



Additional Information

- Small businesses need to be aware of legislative changes to the tax code as they may be directly affected. Consult a tax professional or obtain additional information from the IRS:
 - IRS frequently asked questions: [irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers](https://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers).
 - IRS topics for small businesses: [irs.gov/Businesses/Small-Businesses-&-Self-Employed](https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed).
 - IRS video portal containing video, webinars and audio presentations for small businesses, individuals & tax pros: [irsvideos.gov/](https://www.irs.gov/irs/videos).
 - IRS small business forms and publications: [irs.gov/Businesses/Small-Businesses-&-Self-Employed/Small-Business-Forms-and-Publications](https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Small-Business-Forms-and-Publications).
 - IRS information on starting, operating, or closing a business: [irs.gov/Businesses/Small-Businesses-&-Self-Employed/Starting,-Operating,-or-Closing-a-Business](https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Starting,-Operating,-or-Closing-a-Business).



Key Takeaways from This Module

- Businesses are subject to a range of taxes at the federal, state, local, and municipal level.
- Familiarizing yourself with various taxes and staying abreast of changing tax laws can help your business avoid costly tax mistakes.
- The IRS web site, [irs.gov](https://www.irs.gov), is a good resource for forms, publications, and tax information.



Sources and Citations

- Internal Revenue Service, *Small Business and Self Employed Tax Center*
- Small Business Administration, *Manage your Business, Pay Taxes*
- *Business Owners Toolkit, Total Know-How for Small Businesses*
- AllBusiness, A D&B Company, *Business Tax Advisor*
- Viren Walavalkar, ProSidian Consulting, LLC, *Understanding Small Business Taxes*
- Entrepreneur.com, *Small Business Encyclopedia, Business Tax Center*
- BusinessKnowHow, *Small Business and Home Business Ideas*
- Shirleen Payne, ProSidian Consulting, LLC, *Understanding Small Business Taxes*
- Small Biz Trends, *10 Small Business Tax Deductions You Shouldn't Ignore*