



Taxes for Small Business: Knowledge is Power

I want to start a business. What do I need to know?

- There are several types of **business structures** to choose from and that form will determine how you file your taxes. The most common forms are the [sole proprietorship](#), [limited liability company](#) (LLC), [corporation](#), [partnership](#), and [S corporation](#). For more information on finding the business structure most suited to your business, visit the SBA's website at: <https://www.sba.gov/starting-business/choose-your-business-structure>.
 - Knowing this information will help you select forms and track your deadlines.
 - It will also help you determine your tax year, the annual accounting method for recordkeeping and filing your returns. It will either be a calendar year or fiscal year.
- The form of business chosen will dictate the types of **business taxes** you pay and how you pay them.
 - All businesses must file an annual income tax or information return.
 - Business taxes include income tax, estimated tax, employment taxes, and self-employment taxes. To learn more, please visit: <https://www.irs.gov/businesses/small-businesses-self-employed/business-taxes>.
- Understand your **state and local tax** obligations. More information by state is located on the SBA's website at: <https://www.sba.gov/starting-business/filing-paying-taxes/determine-your-state-tax-obligations>.
- Obtain an **Employer Identification Number** (EIN). You can apply for one online using the [IRS EIN Assistant](#), by fax, or mail. For more on EINs, visit the IRS website at: <https://www.irs.gov/businesses/small-businesses-self-employed/employer-id-numbers-eins>.
- Good **recordkeeping** is critical to monitoring your business operations and preparing and supporting your tax returns. Generally, there is no required type of recordkeeping system or length of time to retain documents. However, you must be able to substantiate your tax returns in case of an audit. For more information, visit the IRS website at: <https://www.irs.gov/businesses/small-businesses-self-employed/recordkeeping>.
- If you have employees, you will need to collect, deposit, and report **employment taxes**. This includes withholding federal income tax and Social Security and Medicare taxes. Additional responsibilities include Federal Unemployment and self-employment taxes. More information can be found at: <https://www.irs.gov/businesses/small-businesses-self-employed/employment-taxes-2>.

I'm self-employed so what do I do?

Generally, you are required to file an annual tax return and pay estimated taxes quarterly. For more information, visit the IRS website at: <https://www.irs.gov/individuals/self-employed>.

- You must also pay a **self-employment tax** in addition to the income tax. The self-employment tax is the portion of Social Security (12.4% and Medicare taxes (2.9%) and applies up to the first \$118,500 of earnings for 2016. The employer-equivalent portion can be deducted when figuring the adjusted gross income for income tax purposes.

- Paying quarterly **estimated taxes** can be done online, by mail, or over the phone and the due date is determined by your tax year (calendar or fiscal year).

I still have questions. What resources are available to help me?

The IRS has several tools available to assist in the many stages of a business – from starting, operating, and closing a business.

- They have a [Tax Calendar](#) for business owners to view due dates and possible actions to be taken each month. It even has reminders and an importing capabilities, making it easier to keep up with important dates.
- The IRS has a [Small Business and Self-Employed Tax Center](#) on its website that provides many useful tools to answer all your questions.
- To help supplement the IRS Small Business and Self-Employed Tax Center, the IRS has created a [Small Business Taxes Virtual Workshop](#) with 9 important lessons for your business.

What are some common business deductions?

- Section 179 expensing and bonus depreciation
- Work Opportunity Tax Credit
- Research and Development (R&D) Tax
- Home Office
- Business costs (office supplies, utilities, business property rent, advertising and marketing)
- Mileage, inventory, bad debt, interest on loans
- Start-up costs
- Travel, meals, entertainment, and gifts
- Employee, independent contractor, and legal and professional costs
- Employee benefit programs (insurance premiums and retirement contributions)

Did you know?

If you owe money to the IRS and have difficulty making payments, you can take action to avoid interest, penalties, and tax liens. The IRS started the Fresh Start program to make it easier for taxpayers to work with the IRS.

- [Tax Liens](#): The IRS won't file a tax lien against a taxpayer unless they owe more than \$10,000 in most cases. Taxpayers also have more rights for withdrawing a tax lien under certain circumstances.
- [Installment Agreements](#): Taxpayers who owe up to \$50,000 can now pay through monthly direct debit payments for up to 72 months (6 years).
- [Offers in Compromise](#): An Offer in Compromise is an agreement that allows taxpayers to settle their tax debt for less than the full amount. The IRS now has more flexibility when analyzing a taxpayer's ability to pay, making the offer program available to a larger group of taxpayers. Generally, the IRS will accept an offer if it represents the most the agency can expect to collect within a reasonable period of time. The IRS looks at several factors, including the taxpayer's income and assets, to make a decision regarding the taxpayer's ability to pay.

If you need more help, the [Taxpayer Advocate Service](#) is an independent organization within the IRS to help protect taxpayer rights and help you resolve tax problems you can't resolve on your own.