

Tax Matters and Your Small Business

If you have an established small business, or are just toying with the idea of starting one, it can make a lot of sense to review the types of taxes that ultimately may affect your bottom line. Here's a quick overview of some basic, small business tax matters.

1) Income taxation. The *type* of business entity you have chosen will dictate how income taxes will be paid. In many instances, your corporation will also need to pay state and local income taxes. If your company has elected **C corporation** status, taxes are paid on any remaining income after expenses are deducted from revenue. There may be other taxes due, as well. If you are an **S corporation**, each shareholder, not the company, generally will be responsible for paying income taxes at his or her own personal income tax rate. Keep in mind that some states do not recognize S corporations. In such cases, the company is taxed.

If you are a **partnership** or **sole proprietorship**, *you*, not your company, will pay federal, state, and local income taxes directly to the government. Estimated federal tax payments must be made quarterly. Your federal income tax will include Social Security, Medicare, and self-employment taxes. Some of your taxes as a self-employed individual are deductible. However, generally speaking, you'll have a greater tax liability if you work for yourself than if you are an employee for someone else (assuming the same pre-tax income). In addition, states that levy income taxes also require quarterly income tax payments.

2) Employment taxes. If you have employees, there are additional tax issues with which you should become familiar. For instance, you need to keep accurate records of payroll taxes, Social Security, Medicare, and workers compensation. In addition, you should have a general understanding of what are considered "wages" for tax purposes. The term "wages" can be somewhat misleading. Besides actual earned compensation, federal and many state payroll tax laws generally define "wages" as any type of payment received for services rendered. This can include: advances, some awards, gratuities, and vacation pay.

3) Sales taxes. Taxes based on the sale of goods fall under the auspices of state government. Each state has its own particular laws regarding sales taxes. Generally speaking, the consumer pays sales taxes for the purchase of most goods with few exceptions—usually the sale of food, beverages, clothing, drugs, and services do not incur sales taxes. However, many states have started to expand their list of taxable items.

4) Property taxes. If your business owns office space and/or land, you will incur property taxes. Tax rates are based on the assessed value of your property and tend to be higher than those on residential property. You may also be taxed on personal property items, such as vehicles, trucks, machinery, and inventory. Since property taxes fall under local jurisdiction, each city and town is likely to have its own laws and property tax rates.

Most small businesses do not have the luxury of employing a full-time tax specialist. For this reason, it is imperative that you seek the expertise of a qualified tax professional. This way, you can help ensure your business is accurately meeting its tax obligations.

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