



# TAX 101: MANAGING YOUR SMALL BUSINESS'S TAXES

## TIPSHEET

Business owners need a good understanding of required federal, state, and local taxes. Filing business-related taxes can be a time-consuming and complicated process, especially for new entrepreneurs. However, this guide provides a high-level overview of the types of taxes businesses must file each year.

## How to Get Started

### Find the Right Accountant

Most small business owners hire an accountant to ensure that all tax filing and payments are made correctly. Accountants help reduce the amount of time business owners spend on taxes and booking. Generally, an accountant's services can range from filing taxes to booking services to general financial advice. This investment in your business is vital to your long-term success. Accountants are constructive partners for your business and are essential members of your operational support team.

Be sure to take the following steps when choosing an accountant:

- **Develop a relationship before tax season:** During tax season, accountants are busy and often unable to accept new clients as their time is limited. Be sure to develop a relationship early with your accountant before tax season, providing the accountant an opportunity to better understand the business before filing.
- **Prioritize small business expertise:** There are many accountants in the market, but small business accounting requires specific expertise. Be sure to look for professionals specializing in small business accounting, especially those that have worked with businesses similar to your size and structure.
- **Talk with other business owners in your areas:** Network with other business owners for the best recommendations. Talk to similar or local businesses to ask for specific recommendations.

### Determine Your Tax Liability

One of the first conversations you should have with your accountant is determining your business' tax liability, which will guide you on which taxes you are required to file. Each business tax liability is unique and determined by primarily four factors:

#### **1 Business Structure**

A business' structure will determine the type of federal income tax a business will be required to file. The vast majority of small businesses are considered "*pass through*" entities because of its organizing structure. A "*pass through*" entity is when a business' income is passed to the owner who files individual income taxes. Check out the [Compare Business Structures](#) table from the Small Business Administration (SBA) to better understand what federal income taxes you will need to file.

## 2 Business Location

States and communities require businesses to file different types of taxes. Additionally, businesses that own property may incur property taxes. Use the [SBA tool](#) to determine your state-specific tax.

## 3 Business Assets

The type and quantity of business assets (i.e., stock, equipment, property, etc.) may impact a business' overall tax liability. Specific states and communities may have particular taxes linked to their business assets like property.

## 4 Number of Employees

Businesses with employees will need to file employment-related taxes. Self-employed business owners will need to file a self-employment tax.

# Types of Taxes



## Federal Taxes

There are several federal taxes businesses you should understand. The type of tax may or may not be relevant depending on your business.

### INCOME TAX

All businesses need to file federal income taxes. Depending on your business structure, you could be considered a “*pass through*” entity (as described above) that is taxed at an individual rate. Check out the [Compare Business Structures](#) table from the Small Business Administration (SBA) to better understand what federal income taxes you will need to file.

#### Estimated Tax

In advance of the April 15 tax deadline, most business owners will need to file four separate estimated tax payments. These payments are based on a business owner's income in the prior tax year. Business owners that do not file these quarterly tax payments or meet the [safe harbor requirements](#) set out by the Internal Revenue Service (IRS) will be subject to a significant penalty when filing. Be sure to work with your accountant to understand what you'll need to pay for each payment.

### EMPLOYMENT TAXES

There are two types of employment-related taxes: self-employment and payroll.

#### 1 Self-Employment Tax

Depending on the business structure, many business owners will have to file a self-employment tax. Since wages are not withheld for self-employed income for payroll taxes, as they would if you were an employee, business owners will need to account for that in your annual tax filings. The self-employment tax is the reason why many business owners have to pay estimated taxes throughout the year. To better understand self-employment taxes, check out the [Self-Employed Individuals Tax Center](#).

#### 2 Payroll Tax

If a business has employees, it is responsible for withholding a portion of an employee's earnings that is sent to the IRS on the employee's behalf. The withheld are related to several federal programs that include Social Security, Medicare, and Unemployment Insurance.

Additionally, these withholdings are for federal income taxes. Each employee will have a different tax liability based on their income and filing status. The [IRS calculator](#) can help small businesses better understand related employment taxes they are required to file.

### EXCISE TAX

Depending on the specific goods or services that a business sells, a business may be required to pay an excise tax on the sale of those goods. Most of the time, this tax is included in the price of goods. According to the IRS, this tax is imposed on the sale of fuel, airline tickets, heavy trucks and highway tractors, indoor tanning, tires, and tobacco. Check out [this overview](#) of the excise tax and when a business needs to file.



## State and Local Taxes

Taxes vary by state and locale, but most places will require you to pay the following taxes. Check out [this list](#) to better understand the type of taxes a business will need to pay within a particular geographic area.

### STATE-LEVEL TAXES

#### 1 Income Tax

Similar to federal income taxes, a business' state income tax obligation is based on its structure. Some states require businesses to pay an income tax and others do not. Be sure to check your state department of revenue or similar department website to understand specific income tax requirements.

#### 2 Employment Tax

Some states require businesses to withhold additional wages to support state programs, such as disability insurance. There are online tools and calculators to determine how much state employment and federal employment taxes need to be withheld.

#### 3 Sales Tax

Most states require businesses to charge a sales tax on specific items. Some items are subject to a special tax, while others require a general sales tax. Check out [this guide](#) to better understand your state and local sales tax rates.

#### Note: Selling Online

If a business sells goods online, it must pay the sales tax of where the buyer is located. This is due to a recent case where the U.S. Supreme Court ruled that states have the power to request sales tax from online sellers who are not physically located within the state but have sold goods or services to individuals located in the state. [This guide](#) from Business News Daily provides an overview.

### LOCAL TAXES

Local municipalities may levy several taxes directed at business owners. The most common are property taxes, but it varies by locality. Be sure to check with your city or county clerk to understand the local small business taxes.

## Thinking Ahead to Avoid Common Mistakes

Finding the right accountant is one of the best investments of time and money a business can make, especially for newer business owners. Accountants can help explain complex tax systems and provide guidance on bookkeeping practices. Beyond hiring an accountant, businesses can do a few additional things to avoid some common mistakes.



### **Mark your calendar and set reminders for estimated tax payments.**

Most small businesses need to pay estimated taxes. Be sure to mark your calendar each year for the four quarterly estimated tax payments.



### **Invest in good recordkeeping software.**

Keeping accurate records is a good business practice, but this also helps when filing tax returns. Check out [this guide](#) on different types of recordkeeping software. It is worth the investment.



### **Set aside a certain percentage for a “rainy day” fund.**

Business owners need to be prepared for the unexpected. Be sure to keep a rainy-day fund that can cover unexpected costs associated with the business throughout the year. However, business owners need to fully protect the income set aside for tax purposes, which should not be included in the rainy-day fund.

## Additional Information

Be sure to check out [SBA's guide](#) on what businesses need to know for filing taxes correctly. There are many resources available online, but be wary of resources that direct you to a specific product or service. For more information and resources, check out the Small Business Resource Center for the 50+ at [smallbizrc.org](#).