

## Tax Essentials for Small Business

Few topics cause more anxiety among business owners than taxes. After all, they can be complicated—confusing even—and the minute you think you have them all figured out, everything seems to change.

While an online search or call to your accountant may reveal some of the answers, applying them to your unique business situation can be tricky.

To help you sort things out, we take a look at business taxes from a variety of angles. Whether you're just starting out or running a well-established business, the insights shared here can help you make sense of it all.

### **Not All Business Taxes Are the Same**

One of the key things to understand as a business owner is that there are a several different kinds of taxes to contend with. Whether or not they impact you depends on the type of business you operate.

Are you a one-person shop? Do you sell taxable goods? Do you have employees? The answer to these and other questions will have an impact. “There is no one-size fits all tax for business,” says Morgan Dornfeldt, Business Banking Advisor —Bank Five Nine. “Which is why we like to discuss a variety of tax scenarios that might apply.”

We look at some of them here:

### **Sales Taxes**

If you sell a taxable product, you will have to pay sales tax for the state where it's sold. These are taxes you charge your customers and pay back to the government on a monthly, quarterly or annual basis. But states have different rules, and knowing what's taxable or when it is to be paid can be difficult.

“As a general rule, goods other than food and drugs are taxable and services are not,” says Dornfeldt. For example, if you sell containers made of renewable materials, the containers are subject to sales tax. However, if you sell the technology to make the containers—as a consultant, for instance—your services aren't.

Dornfeldt is quick to point out that there are some gray areas when it comes to what's taxable. If you're unsure, a discussion with a tax professional can provide some answers.

Another nuance that can trip you up is the fact that not all states charge sales tax—and of those that do, the rates can vary significantly. States like Wisconsin have a set rate and in some cases have additional taxes imposed at the county level. Other states, like Oregon, have no sales tax at all, while others, such as California, charge higher than seven percent. You should check your state Department of Revenue website for specifics in your state.

### **Employee Taxes**

If your business has employees, you are required to withhold a variety of taxes to their income. These may include:

- Federal and state income taxes
- Social Security
- Medicare
- Federal and state unemployment taxes

The Social Security and Medicare taxes are required under the Federal Insurance Contributions Act (FICA). They're also unique in that both the employee and employer pay into them—the employee pays a sum that the employer matches.

It is extremely important to get these employee taxes correct and you should consult with an accountant or accounting firm regarding these taxes.

### **Quarterly Estimated Income Taxes**

At some point in your life, you may have worked for a company that automatically deducted taxes from your paycheck. Remember how simple that was? As a business owner, things are a bit more complicated.

Unlike employees, business owners—including the self-employed—are expected to pay estimated income taxes on a quarterly basis. “Startups often struggle with this because they don't know how much they'll be earning and don't have a history to go on,” says Dornfeldt.

With estimated tax payments due on the 15<sup>th</sup> of April, June, September and January, one strategy is to use the previous quarter as a basis for future estimates. “It's not exact, but it's a start,” says Dornfeldt. “Once you get some history behind you it gets a little easier.”

Dornfeldt notes that keeping up on quarterly income taxes requires discipline and warns that new businesses can fall behind if they're not careful. The penalties for doing so can vary from extra interest on unpaid taxes to other penalties. Because of this, he suggests a business set-up a separate savings account just for taxes where funds can be stored until they're needed.

### **When You're Self Employed**

Self-employment brings its own set of tax challenges, some of which are determined by how your business is set up. Even so, there are some requirements all self-employed individuals will have to contend with.

## **Self-Employment (SE) Tax**

If your net earnings from self-employment (excluding church employee income) are \$400 or more, you must pay self-employment taxes. These are applied to Social Security and Medicare.

## **Schedule C or C-EZ**

Self-employed taxpayers must file one of these schedules which outlines profits or losses from the business. The form you use is determined by your business expense amounts.

In addition to these, self-employed individuals also have to pay quarterly income taxes (covered earlier). “It’s a lot to absorb. If you’re just starting out, it’s important to get off on the right foot,” says Dornfeldt. “Finding a good tax advisor, accountant or accounting firm can make the process more transparent and somewhat easier to understand.”

## **Retirement Plans—Tax Breaks for Employees and Employers**

Even small businesses can enjoy the benefits of providing employees with a tax-deferred retirement savings account. Whether it’s a 401(k) plan or something similar, these plans can be a strong incentive for helping to keep existing employees.

In addition to boosting hiring and employee retention efforts, there are a number of potential monetary benefits to your business. For instance:

- Assets in the plan grow tax free.
- You may qualify for a business tax credit of up to \$500 per year for the first three years of the plan.
- You can deduct a significant portion of your contributions for each employee if you offer an employee match.

“Retirement plans are a win-win for businesses and employees,” says Dornfeldt. “A good business banker can point you to a variety of resources who can help you set up and administer your plan.”

## **Deductions—A Worthy Pursuit**

While there are a variety of different taxes to contend with when you run a small business, there are also a number of ways to reduce them, mainly through qualified deductions. The key to making them work is knowing what’s deductible and keeping track.

Here’s an overview of some of the most popular small business deductions:

- Car and truck expenses
- Contract labor (if you use freelancers or contractors)
- Salaries and wages
- Business supplies
- Rent for business space
- Utilities

- Repairs
- Travel, meals and entertainment
- Commissions and fees
- Advertising
- Legal fees
- Equipment rentals
- Home office

### **Depreciation**

One deduction that's worth a closer look is depreciation, or the allowance you get when you buy property for your business. Depending on when it was purchased, you may be able to deduct up to one-hundred percent of the purchase cost up to a 2018 limit of \$1 million. Certain conditions may apply, but it's worth a discussion with your tax professional.

Deductions can make a significance difference in the amount of taxes you have to pay, so it's important not to overlook them. "Deductions are a little bit like your rewards card at the grocery store," Dornfeldt says. "The minute you swipe it, the amount you owe starts to drop."

### **Resources Plus a Savvy Tax Advisor**

Navigating the daily challenges of your business and a complicated tax landscape is difficult for even the savviest of small business owners. Fortunately, there are a number of resources available that can help you better understand the issues and develop a plan for managing them throughout the year.

These include the [Internal Revenue Service](#) website and a number of publications, webinars and data sources available through online browser searches. But this, according to Dornfeldt, is only half of the equation. "It's easier than ever to get a baseline understanding of the issues, but having a savvy tax professional is extremely important."

Finding that person doesn't have to be difficult, says Dornfeldt. "Most business banks are well connected and are happy to provide some contacts." According to Dornfeldt, the key is choosing a firm or professional that understands the type of business you operate.

### **We're Here to Help**

At First Bank Financial Centre, we understand that small businesses face a variety of challenges, and that taxes are just one part of the overall financial picture. If you'd like to discuss any aspect of your business finances, we're here to help.

Just contact Morgan Dornfeldt, Business Banking Advisor at (262) 560-6365. For your commercial lending needs, call Matt Schwechel, Senior Vice President, Director of Commercial Lending at (262) 670-3021. We look forward to hearing from you.