

From the desk of Peter S. Muffoletto, C.P.A.

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Starting a business

When starting a business there are numerous issues to deal with, not the least dealing with the IRS and various tax authorities that one has to report. Understanding and meeting those reporting obligations is vital to the success of a business, especially a new one.

Here are some tips for new business owners.

Choosing the business structure

The form of business determines which income tax return a business taxpayer needs to file.

The most common business structures are:

- **Sole proprietorship**: An unincorporated business owned by an individual. There's no distinction between the taxpayer and their business.
- **Partnership**: An unincorporated business with ownership shared between two or more people.
- **Corporation**: Also known as a C corporation. It's a separate entity owned by shareholders.
- **S Corporation**: A corporation that elects to pass corporate income, losses, deductions and credits through to the shareholders.
- **Limited Liability Company**: A business structure allowed by state statute.

Tax year

The entity tax year is the annual accounting period for keeping records and reporting income and expenses. A new business owner must choose either:

- Calendar year: 12 consecutive months beginning January 1 and ending December 31.
- Fiscal year: 12 consecutive months ending on the last day of any month except December.

Apply for an Employer Identification Number (EIN) and other tax authority ID's

All businesses are required to obtain a Federal Tax Identification Number, or a FEIN. The FEIN is used to identify the business.

Most businesses are required to obtain a FEIN even if they do not have employees although if one is formed as a sole proprietorship, and no employees are employed within the business, then the owner's Social Security Number (SSN) is sufficient. Typically, though, other businesses that do business with a sole proprietorship will require that sole proprietorship supply a FEIN for reporting purposes.

It is important for a business with an FEIN to keep the business mailing address, location and responsible party up to date with the IRS.

IRS regulations require FEIN holders to report any change of address within 60 days. This is accomplished by filing **Form 8822-B, Change of Address or Responsible Party** and mailing it to the address on the form.

Most businesses, no matter what form of business also are required to register with their state and local government with the respective payroll tax, sales tax, city licenses, and property tax agencies. Being that there is a myriad of tax authorities that a business must report to, it is best to contact us as to the proper guidance.

All employees must complete the following forms

- **Form I-9, Employment Eligibility Verification U.S. Citizenship and Immigration Services**
- **Form W-4 Employee's Withholding Allowance Certificate**

What business taxes are incurred

The form of business determines what taxes must be paid, when, and at what frequency.

- **Sole proprietorship** – income taxes are paid at the individual income tax level; payroll and sales taxes are filed quarterly, but in general paid monthly; many cities require some form of annual gross receipts tax or an annual permit; property taxes are filed and paid annually.
- **Partnership** - income taxes are paid at the individual partner income tax level based upon their percentage of the entity's net income; payroll and sales taxes

are filed quarterly, but in general paid monthly; many cities require some form of annual gross receipts tax or an annual permit; property taxes are filed and paid annually.

- **C Corporation** - income taxes are paid at the corporate level at the flat rate of 21% at the federal level with each state applying their tax rates; quarterly tax payments are required; payroll and sales taxes are filed quarterly, but in general paid monthly; many cities require some form of annual gross receipts tax or an annual permit; property taxes are filed and paid annually.
- **S Corporation** – taxable income is passed through to the individual shareholders based upon their individual ownership and the taxes are paid at the individual income tax level; payroll and sales taxes are filed quarterly, but in general paid monthly; many cities require some form of annual gross receipts tax or an annual permit; property taxes are filed and paid annually. Many states impose a net income tax of the entity.
- **Limited Liability Company** – taxable income is passed to the members of the LLC based upon the percentage of ownership. Income taxes are paid at the individual income tax level; payroll and sales taxes are filed quarterly, but in general paid monthly; many cities require some form of annual gross receipts tax or an annual permit; property taxes are filed and paid annually.

Other taxes may apply depending upon what local governments may impose, and they will, therefore it is important to visit the state and local tax authorities websites and contact us or your tax advisor for guidance.

Albert Einstein once was quoted in stating that tax laws are more complex than his theories of relativity, and in fact the path through the myriad of tax laws and regulations are complex and getting more so daily.

We here at Muffoletto & Company believe that the more informed you are in regards to the rules and regulations that affect you the more we can be of service.

**Should you have questions relating to any
tax or financial matters call at
(818) 346-2160,
or you can visit us on the web at
www.petemcpa.com!**

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partnerships, professionals, and other business entities with the
necessary guidance and answers for a complex world.**