

**Corporations**

If your business is a corporation located or “doing business” in Colorado, it is subject to state and federal corporate income taxes. In general, a corporation will be considered to be “doing business” when it has employees or business property in Colorado. If you will be filing as an S Corporation, your business income will be taxed as a partnership and will be exempt from corporate income taxes, although a corporate income tax return must still be filed.



Working corporate officers are still treated as employees, even in an S Corporation, and must be paid a reasonable wage that is subject to all payroll taxes. At the end of your corporation’s fiscal year, you must figure its net taxable income or net loss. To do this, you subtract the operating expenses and “allowable deductions” from the gross income. The laws governing federal tax rates, allowable deductions and losses change frequently. Annually, you should obtain from the IRS a summary of the current applicable federal tax laws. IRS Publication #542, “Corporations,” is a useful guide in de-

**This section outlines the general income tax laws that you will encounter when you own your own business. For more specific information you should contact the Internal Revenue Service, 1-800-829-1040 or [www.irs.gov](http://www.irs.gov) and the Colorado Department of Revenue, (303) 238-FAST or (303) 238-SERV.**

termining your federal tax liability. Every corporation, including S Corporations, “doing business” in Colorado or deriving income from Colorado sources must file a corporate income tax return with Colorado. Colorado taxable income is determined by adding and/or subtracting various adjustments to your federal

during the year. Use Form 1120W, “Estimated Tax for Corporations,” to figure federal estimated taxes due. The state form for making estimated tax returns is the 112 EP. Report your federal corporate income annually on Form 1120, “U.S. Corporation Income Tax Return,” or Form 1120S, “U.S. Income Tax Return for an S

**IRS AND THE INTERNET**

The IRS is on the Internet and you can download and print any of the 600 federal tax forms and instructions, approximately 90 tax publications and other tax information materials. [www.irs.gov](http://www.irs.gov)

Corporation.” At the end of the year you will file your corporate state tax on Form 0112. A corporation that owes more than \$500 (and no estimated tax payments equal to the smaller of current year’s or prior year’s taxes) in federal income tax or \$5,000 in state income tax may be subject to penalties and interest. If you receive dividends from your corporation you must report them as income on your personal income tax return and pay the appropriate income taxes.

**Partnerships & Limited Liability Companies**

If your business is a general partnership, limited partnership, limited liability company, limited liability partnership, limited liability partnership or a limited partnership association, you must file state and federal partnership income tax returns. The partnership business is not required to pay income tax. The state and federal partnership income tax returns are used to report your business’ income and expenses, changes in your balance sheet and how the partners share profits and

taxable income. If your corporation is “doing business” in Colorado as well as other states, you must apportion to Colorado the share of your income derived from sources within Colorado. There are two methods that may be used to determine state corporate income tax. Contact the Colorado Department of Revenue for more information at (303) 238-FAST (3278), (303) 238-SERV (7378) or on their website at [www.taxcolorado.com](http://www.taxcolorado.com). If you expect your federal tax liability to be \$500 or more and/or your state tax liability to be \$5,000 or more, you are now required to file and pay estimated taxes



losses. First, complete your federal return of income, Form 1065, "U.S. Return of Partnership Income" or Form 1120S, "U.S. Income Tax Return for an S Corporation." You will need this information to complete your Colorado return, Form 0106. Each partner in the partnership is then responsible for his/her own income and self-employment taxes as an individual. If you expect to owe the IRS more than \$1000 in individual federal taxes, you must make federal estimated tax payments using Form 1040-ES (Estimated Taxes for Individuals). If you expect to owe Colorado more than \$1,000 in individual state taxes, you must pay state estimated tax payments. Estimated payments are made using the Colorado Form 104-EP. If you and your spouse run your business together and share in the profits, your business may be considered a partnership. You should record your respective shares of partnership income or loss separately for self-employment taxes. Doing this will usually not increase your total tax, but will give each spouse credit for social security earnings on which retirement benefits are based. IRS Publication #541, "Partnerships," is a useful guide regarding partnership filing requirements and the allocation of income to the partners.

### Self-Employment Taxes

If you are a sole proprietor, a partner in any form of partnership or a member in a limited

liability company, you must file your own estimated self-employment taxes. When you work for others as an employee, your employer withholds your taxes from your paycheck. As an employee, your employer pays half of your social security taxes and you pay half. When you are self-employed, you must pay the entire amount. Estimated taxes are normally paid quarterly on actual income. If you do not have taxable income, you do not have to pay estimated taxes. If you expect to owe the IRS more than \$1,000 in federal taxes, you must make federal estimated tax payments using Form 1040-ES. The IRS prints a number of useful publications regarding your income tax rights and responsibilities including Publication #334, "Tax Guide for Small Business," Publication #505, "Tax Withholding and Estimated Tax," Publication #533, "Self-Employment Tax" and Publication #587, "Business Use of Your Home." Contact the IRS directly at 1-800-829-1040 for these publications and any additional information on calculating your taxable income and federal tax payments. Colorado income tax is a flat 4.63% of your adjusted federal taxable income. If you expect to owe Colorado more than \$1,000 in state taxes, you must pay state estimated tax payments. Estimated payments are made using the Colorado Form 104-EP.

### Property Tax

Property taxes are assessed on any real and/or personal property (land, buildings, furniture, equipment, etc.), which directly or indirectly produce income within your business. The County Assessor determines the value of property using a market, cost or income approach. Property taxes are assessed on a percentage of actual value. To determine your property tax bill, multiply the assessed value by the local tax rate. The county assessor will mail a declaration schedule for property taxes after January 1. Taxes must be paid by April 15 unless an extension has been obtained. The County Treasurer is responsible for mailing and collecting the actual property tax bill. Agricultural and natural resources are treated somewhat differently. You should contact your local county assessor regarding property taxes, personal and real estate, whenever you start a new business.

### FOR YOUR INFORMATION

*Businesses with more than \$200,000 of annual employment tax obligations and \$50,000 in Colorado State withholding have been required to make electronic payments since July 1, 1999. All businesses may be required to use the electronic system sometime in the future. For more information on EFTPS (Electronic Federal Tax Payment System), call the IRS at 1-800-555-4477 or 1-800-945-8400.*

- For more information on federal taxes, contact the Internal Revenue Service at 1-800-829-1040 or visit its website at [www.irs.gov](http://www.irs.gov).
- For more information on Colorado income taxes, contact the Colorado Department of Revenue at (303) 238-FAST or (303) 238-SERV.
- Property taxes are due on Real Estate and Personal Business Property.
- The Internal Revenue Service's Small Business Tax Education Program. (STEP) is a cooperative program with Small Business Development Centers and other local organizations to provide business tax education to the small business owner.
- Check into the IRS Small Business Tax Education Program in your area and take the first STEP to Making Your Taxes Less Taxing! Assistance is only a phone call away at 1-800-829-1040.

### When You Are an Employee...

Your employer must withhold and submit to the IRS your federal income tax withheld and your portion of Social Security (FICA) and Medicare taxes withheld. Your employer is also responsible for paying state and federal unemployment taxes (SUTA and FUTA).

## ENTERPRISE ZONES

An Enterprise Zone is defined as an economically lagging area of Colorado in which special tax incentives are offered to businesses that expand or locate in the zone. More information can be found in FYI General 6 “General Information about Colorado Enterprise Zones” available from the Department of Revenue at [www.taxcolorado.com](http://www.taxcolorado.com) or by calling (303) 238-7378. The purpose of the tax incentives is to encourage economic development in the zone. There are ten tax credits or exemptions which may be taken by businesses located within a zone, including:

1. The Investment Tax Credit for businesses located in a Colorado Enterprise Zone. A 3.0% tax credit is available for equipment used solely and exclusively in a designated enterprise zone. Request FYI Income 11 for more information.
2. New Business Facility Job Tax Credit is available for new or expanding businesses located in an enterprise zone that create new jobs. A \$500 tax credit against state income taxes is available for each employee. Request FYI Income 10 for more information.
3. New Business Facility Job Tax Credit for Agricultural Processing is available for new business facility employees for businesses which add value to agricultural commodities through manufacturing or processing. Request FYI Income 10 for more information. Businesses located in an enterprise zone in a county that has been designated as an Enhanced Rural Enterprise Zone can qualify for an additional credit of \$2,000 per new job (for a total credit of \$2,500 per new job), and an additional credit of \$500 per new agricultural processing job (for a total credit of \$3,500 per new job).
4. New Business Facility Job Tax Credit for Employer Health Insurance is also available for each new business facility employee who is insured under a qualifying employer-sponsored health insurance program. Request FYI Income 10 for more information.
5. Research and Development Tax Credit for R&D carried on in an enterprise zone. Request FYI Income 22 for more information.
6. Tax Credit for Private Contributions to Enterprise Zone Administrators may be taken by any taxpayer who makes monetary or in-kind contributions to an enterprise zone administrator for the purpose of implementing the economic development plan of the zone. Request FYI Income 23 for more information.
7. Tax Credits are available for the Rehabilitation of Vacant Commercial Buildings located in an enterprise zone. Request FYI Income 24 for more information about this credit.
8. Job Training Credit will help employers who carry out a qualified job training program for their enterprise zone employees.

Businesses may claim an income tax credit of 10 percent of their eligible training costs. Request FYI Income 31 for more information about this credit.

9. State Sales and Use Tax Exemption for Manufacturing and Mining Equipment used in an enterprise zone. This exemption is for equipment used directly in the manufacturing or mining process (including gas and oil). It applies to sales and use tax and state-collected local taxes. Request FYI Sales 10 for more information on manufacturing equipment. Request FYI Sales 69 for more information on the mining equipment exemption.
10. Local Government Tax Incentives may be negotiated by any city or county within an enterprise zone with individual taxpayers who have qualifying new business facilities: (a) an incentive payment or property tax credit equal to or not more than the amount of the increase in property tax liability over pre-enterprise zone levels; and (b) a refund of local sales taxes on purchases of equipment, machinery, machine tools, or supplies used in the taxpayer’s business in the enterprise zone. FYI’s can be found on the Department of Revenue’s website, [www.taxcolorado.state.co.us/TPS\\_Dir/wrap.asp?incl=FYI\\_index\\_rev](http://www.taxcolorado.state.co.us/TPS_Dir/wrap.asp?incl=FYI_index_rev) or by calling (303) 238-7378.

## LOCAL ENTERPRISE ZONES

There are currently 16 Colorado enterprise zones, 13 of which have subzone administrators. An individual zone may include all of several counties in rural areas or small portions of a single county in urban areas. The exact boundaries of a zone and the certification of a qualified business within an enterprise zone are determined by the local administrators. Businesses should contact their local administrator listed below or the State Enterprise Zone Administrator, 1625 Broadway, Suite 2700, Denver, CO 80202, (303) 892- 3840 for more information. Check for updated phone numbers and links to local enterprise zone websites on the Office of Economic Development’s enterprise zone website, [www.advancecolorado.com](http://www.advancecolorado.com).

- Adams County (303) 450-5106**
- Arapahoe County (303) 762-2347**
- Denver (720) 913-1640**
- East Central Colorado (719) 348-5562**
- El Paso County (719) 520-6480**
- Greeley/Weld Counties (970) 356-4565**
- Jefferson County (303) 202-2965**
- Larimer County (970) 498-6605**
- Mesa County (970) 243-5242**
- Northeast Colorado (970) 867-9409**
- Northwest Colorado (970) 625-1723**
- Otero County (719) 383-3000**
- Pueblo County (719) 583-6541**
- San Luis Valley (719) 589-6099**
- Upper Arkansas (719) 395-2602**
- South Central (719) 845-1133**
- Southeast Colorado (719) 336-3850**
- Southwest Colorado (970) 247-9621**
- West Central Colorado (970) 249-2436**





Your employer must give you a Form W-2, Wage and Tax Statement, showing your salary and any payroll deductions (examples: Federal Income Tax, health insurance, etc.) for the year.

You may only deduct work-related expenses when they exceed two percent of your adjusted gross income, and you itemize your deductions on Schedule A.

**When You Are an Independent Contractor...**

- You are responsible for setting aside and paying your own income tax and self-employment tax (effectively the employee's and the employer's share of Social Security and Medicare taxes). The businesses you work for do NOT withhold or pay taxes on your behalf.
- You are not eligible to collect unemployment insurance benefits.

- You are not covered by workers' compensation insurance benefits unless you purchase a policy from an insurance carrier.
- The businesses you work for are required to give you a Form 1099 MISC if they have paid you \$600 or more during the year.
- You may deduct business expenses on Schedule C of your income tax return. You may also depreciate the cost of most business assets.

**NOTE:** Businesses with more than \$200,000 of annual employment tax obligations have been required to make electronic payments since July 1, 1999. All businesses may be required to use the electronic system sometime in the future. For more information on the system, call the IRS Electronic Federal Tax Payment System (EFTPS) at 1-800-555-4477, 1-800-945-8400 or on the web at [www.eftps.gov](http://www.eftps.gov).

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 IN YOU" **RATES.**

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