Theresa A. Pickner
Attorney at Law

2110 Mallard Place | **Phone (303) 774-7586**
Longmont, Colorado 80504 | **Fax (303) 774-7512**

MEMORANDUM REGARDING CONSIDERATIONS IN CHOOSING A FORM OF DOING BUSINESS

The selection of the most advantageous form of organization for any particular business involves weighing many practical and legal considerations. The most important distinctions among the available forms of business enterprise include the cost and formality of organization, transferability of ownership interests, continuity of existence of the enterprise, vesting of management and control, ability to obtain capital and credit, method of participation in profits, and vulnerability to liability. A final important consideration, which can frequently be controlling, is taxation of the enterprise.

Colorado recognizes most typical forms of business enterprise and has adopted the Uniform Partnership Act, the Uniform Limited Partnership Act, the Colorado Uniform Limited Partnership Act, the Colorado Limited Liability Company Act, and the Model Business Corporation Act, with some local modifications. For a small business, the available forms of business enterprise include the individual or sole proprietorship, the general partnership, the limited partnership, the limited liability company, and the business corporation. Each of these forms of business enterprise is adaptable to the small business venture, and it is important to compare them in terms of the various considerations discussed below.

A. *GENERAL COMPARISON OF FORM*

1. *Individual or Sole Proprietorship.* The sole proprietorship is a simple and the most common form of business enterprise. The distinguishing characteristic of a sole proprietorship is that it is owned and managed by one person. The individual proprietor owns all business assets and carries on the business for himself. The individual proprietor may hire employees and agents to assist him, but he has ultimate responsibility and authority for all decisions affecting the business. Generally, no legal formalities are necessary to create an enterprise in this form. The sole proprietor is entitled to all of the profits and, broadly speaking, can enter and exit from the business as he pleases.

2. *General Partnership.* This is a sharing of profits and co-ownership in a business. As defined by statute: "A partnership is an association of two or more persons to carry on as co-owners a business for profit." A partnership is created by agreement, either oral or written, and the relations of the partners are largely governed by that agreement and by the Uniform Partnership Act as adopted by Colorado. The partnership agreement may be informal, however, a formal contract is strongly recommended. The partners must agree to share in the profits of the business and usually also agree to share in the losses and in the assets upon dissolution. For many purposes, a partnership is not considered a separate legal entity distinct from the partners, although this is not always a disadvantage (e.g., qualification is not necessary to do business in other states). Today, a partnership is recognized for some purposes as a separate entity; it may own real property in its own name, and may be sued in the names of the individuals doing business as a partnership, in the firm name, or both.

A partner is a "co-owner" with his partners of specific partnership property "holding as a tenant in partnership." Under the Uniform Partnership Act, all property originally brought into the partnership or subsequently acquired, by purchase or otherwise, on account of the partnership is partnership property and, unless there is a contrary intention, property acquired with partnership funds is partnership property. The partners may provide in their agreement that title to partnership property may remain in one partner. Generally, property purchased by a partner in his own name after the organization of the partnership is not partnership property unless so provided by the partnership agreement or unless there is a clear intention that it is to be partnership property.

Apart from the rights, duties, and liabilities of the partners arising from the partnership agreement, a fiduciary relationship also exists between partners as a matter of law, and each is bound to act in the utmost good faith in all dealings and transactions that affect the others in the partnership business. The Uniform Partnership Act provides that the partnership must indemnify every partner with respect to payments made and personal liabilities reasonably incurred by him in the ordinary and proper conduct of the business or for the preservation of the partnership business or property.

The fact that the relationship is a fiduciary one does not bar a partner from dealing with the firm as an individual. However, a partner cannot engage in a business in competition with that of the partnership without the consent of his partners.

Finally, it is important to note that, as a partner, each member of the firm is personally liable for the debts and other liabilities of the business. This is clearly a disadvantage of this business form.

3. *Limited Partnership.* A limited partnership is similar to the general partnership in some ways, and similar to a corporation in others. This is a partnership in which, by complying with certain statutory requirements, one or more of the partners has only limited liability and, only limited participation in management. The primary purpose of the limited partnership is to allow one or more individuals to invest in the partnership without incurring the unlimited liability of a general partner. It is a form of enterprise that is fairly common today in certain businesses (e.g., investment and entertainment businesses, farming, and real estate ventures).

The Colorado Limited Partnership Act governs the formation and operation of limited partnerships. One significant feature of the limited partnership is that it has certain quasi-public characteristics, which pose some additional problems and may operate as a trap for the unwary.

Each limited partnership must have at least one general partner who will face all the risks and responsibilities of a partner in a general partnership. The limited partners receive the protection of limited liability unless this favored status is lost by participation in the management of partnership affairs.

4. *Limited Liability Company.* Colorado was the third state to authorize the creation of a limited liability company. The limited liability company, like Subchapter S corporations and limited partnerships, combines the favorable tax treatment of partnerships with the liability of corporations. Limited liability companies can be more flexible than these more traditional entities, although the case law and statutory interpretation is still developing.

The limited liability company avoids the restrictive requirements of share ownership in a corporation, and permits the flexibility for special allocations and distributions of cash and other assets to its members in a manner similar to that of a limited partnership.

It is formed like a corporation, by filing Articles of Organization with the Secretary of State, but the internal operations of the limited liability company are generally governed by an Operating Agreement, similar to a partnership agreement in a partnership and by-laws in a corporation.

The owners of a limited liability company are called members. Members have certain statutory voting rights, including the right to vote for managers of the company, the right to approve or disapprove of transfers of interests by other members, and the right to vote to continue the limited liability company upon the withdrawal of a member. New members may be admitted only with the unanimous written consent of all existing members.

Limited liability companies are managed by one or more managers who are elected annually by a vote of the members. Managers are analogous to directors and officers in a corporation and partners in a partnership. The managers are limited in their authority to act for the limited liability company only by the Operating Agreement and the manager's fiduciary duties to the company.

The interests of a member in the profits and capital of the limited liability company may be transferred in accordance with the Operating Agreement. However, unless the transfer is approved by all of the members of the limited liability company, the transferee of such an interest has no right to participate in the management of the business or to become a member.

Dissolution of a limited liability company occurs automatically upon the unanimous written consent of its members; upon the death, retirement, resignation, expulsion, or bankruptcy of a member; or when the time fixed for duration of the limited liability company expires. The business of a limited liability company may be continued if there is at least one remaining members and if all of the remaining members so agree.

The members of a limited liability company have limited liability, as in a corporation. All income from a limited liability company is taxed to the individual members, as in a partnership, under federal and state tax laws.

5. *Business Corporation.* A corporation is an artificial person or legal entity created by, or under, the laws of a state or of the United States. It may be owned by one or more shareholders who themselves may be natural or legal persons. It is regarded, in law, as having a personality and existence distinct from that of its several members. It can acquire, hold, and convey property; sue and be sued in its own name; and generally do all things in a legal sense that a natural person may do.

The shareholders' rights are determined by the corporation's charter and the applicable statutes. The "shareholders" of a non-profit corporation are called "members." While the shareholders are the owners of the corporation, they are not agents for it (unless they are also officers or employees). Unless shareholders are officers, directors, or controlling shareholders in certain situations involving a duty of loyalty to the corporation, they do not owe a fiduciary duty to the corporation.

As a creature of statute, a corporation cannot do business in states other than the one that created it without first qualifying, and it is not entitled to the "privileges and immunities" of a citizen under Article IV, Section 2, of the U.S. Constitution. It is a citizen for purposes of "diversity of citizenship" when seeking to invoke the jurisdiction of the federal courts.

A business corporation is subject to greater governmental regulation, and the statutory formalities respecting the formation and operation of corporations must be strictly observed. For a small business these may be nuisance factors that must be considered in determining the appropriate form of business organization.

B. *FILING FEES*

1. *Sole Proprietorship or Partnership.* If the organizer of the business decides to operate as a sole proprietorship, or if the organizers decide to operate as a partnership, there are no state or local taxes to be paid for the privilege of thus organizing the business. The sole proprietorship or

partnership must comply with the applicable tax and license laws, but there are, at present, no taxes or fees for organizing an unincorporated business other than a $10.00 filing fee and a very nominal publication cost, which is incurred under the "Trade Name" statutes.

2. *Limited Partnership.* Persons desiring to form a limited partnership are required to pay a fee of $30.00 plus $1.00 per page for every page in excess of ten pages when filing the certificate of limited partnership with the Colorado Secretary of State. Additional fees must be paid when filing any amendment thereto.

3. *Fees for Formation of a Limited Liability Company.* Persons desiring to form a limited liability company in Colorado are required to pay a fee of $50.00 for filing the Articles of Organization with the Secretary of State. Thereafter, a report must be filed annually with an annual fee.

4. *Incorporation Fees for Colorado Corporations.* Persons desiring to incorporate a Colorado business are required to pay a fee of $50.00 for filing the Articles of Incorporation with the Secretary of State and for the issuance of a certificate of incorporation. Biennially thereafter, a corporate report, including a $25.00 fee, must be filed. These fees are subject to change on an annual basis in July of each year.

5. *Legal Fees.* Legal fees for the documents and agreements needed to properly form partnerships, limited patnerships, limited liability companies and corporations will vary from attorney to attorney, so shop around.

C. *PUBLIC DISCLOSURES*

There is less publicity required of sole proprietorships and partnerships than of limited liability companies and corporations, as the latter have to make reports and filings with governmental bodies. On the other hand, there is often an anonymity attached to the names of the owners of a corporation that may not exist for the owners of the other forms unless an assumed name is used.

A limited partnership must file a certificate with the Colorado Secretary of State, and this results in the disclosure of all the partners' names. Sole proprietorships and partnerships conducting business under a name other than that of the principal(s) must also file an affidavit disclosing such name(s) with the Colorado Department of Revenue. (Trade Name Affidavit)

D. *CONTINUITY OF EXISTENCE*

1. *Individual or Sole Proprietorship.* With very few exceptions, the sole proprietorship terminates by law upon the death of the proprietor. The owner of the business may will his business to relatives or to an employee, but there is no assurance of continuity of the business after death. If the owner manages the business and there are no relatives or associates willing to continue it, the business will most likely be liquidated. The estate planning documents for the sole proprietor should grant authority to his personal representatives permitting them to continue the business as necessary until it may be conveniently and profitably liquidated, and to employ persons to assist in liquidation. Generally, there are no restrictions on the sole proprietor in the sale of such a business.

2. *General Partnership.* As with the sole proprietorship, the general rule of partnership law is that the death or withdrawal of a partner or the expiration of the term provided in the partnership agreement dissolves the partnership, and the affairs of the partnership are to be wound up unless the partnership agreement provides otherwise. The contingencies of death or withdrawal can be dealt with in the partnership agreement, although, of course, care must be taken in drafting precise provisions for the continuation of the partnership.

Dissolution of a partnership can result from a variety of causes. As the relationship is created by agreement, a specific date for termination of the business specified in the agreement will control. Similarly, a contingent event, such as the business sustaining operating losses for four consecutive months, will cause dissolution. Moreover, since a partnership is a "voluntary association," any partner who no longer desires to be associated with the firm may withdraw, and thereby cause dissolution.

If the agreement provides that the partnership would continue for a specified term, the withdrawal may result in liability to the other partners for breach of the agreement, but the partnership is nevertheless dissolved. Dissolution may also be required by operation of law if the partner ceases to be associated with the firm because of death or if he becomes bankrupt. Also, dissolutions may be decreed by a court whenever any partner becomes insane or incapable of furthering the partnership business, or conducts himself in a manner so that it is impractical to carry on the business with him; or in any other case, that renders dissolution equitable under the circumstances.

Dissolution, as a general rule, requires winding up and termination of the business with the subsequent liquidation of the firm's major assets. The Uniform Partnership Act makes two major exceptions to this rule: the business may be continued by the remaining partners if the dissolution was "wrongful," or if their original agreement so provided.

3. *Limited Partnership.* The role of a general partner in a limited partnership differs from a partner's role in a general partnership in that there is not a technical dissolution of the partnership when a general partner withdraws, retires, dies, or becomes bankrupt, so long as at least one general partner remains in the limited partnership. If there is at least one remaining general partner and the certificate of limited partnership permits the business to carry on with the remaining general partner, the partnership retains its continuity of existence. Also, a limited partnership is not required to be wound up by reason of withdrawal of its general partners if, within ninety (90) days after the withdrawal, all partners agree in writing to continue the business of the limited partnership and to appoint one or more additional general partners if necessary. The role of a limited partner in a limited partnership differs from the role of a general partner. The limited partner, as a passive investor, is like a shareholder of the corporation, and his withdrawal for whatever reason should not affect the continuation of the business. Consequently, the limited partners may completely withdraw or be substituted without affecting the continuity of the enterprise.

4. *Limited Liability Company.* Today, the limited liability company has perpetual existence unless otherwise provided in the articles of organization. The previous thirty year restriction is no longer required.

In addition, dissolution of a limited liability company occurs automatically upon the unanimous written consent of its members, or upon the death, retirement, resignation, expulsion, or bankruptcy of a member. If the Articles of Organization permit, the business of a limited liability company may be continued if there is at least one remaining member or all of the remaining members so agree. A member of a limited liability company may resign at any time by giving written notice to the other members, but if the resignation violates the Operating Agreement, the limited liability company may recover damages from the resigning member for breach of the Operating Agreement, and may offset the damages against amounts otherwise distributable to the member.

Dissolution may also be caused involuntarily by a decree of the district court through an action filed by the attorney general if the limited liability company has procured its Articles of Organization through fraud, has abused the authority conferred upon it by law, or has failed to properly change or maintain a registered agent.

5. *Business Corporation.* The corporation is the most suitable form if continuity of business and transferability of ownership are desired. The Articles of Incorporation of business corporations can provide for perpetual existence, and, consequently, the corporation continues without interruption on the death or withdrawal (i.e., transfer of shares) of shareholders or officers and directors. The corporation itself is not divided among heirs on the death of a shareholder but continues in existence with only the ownership of the shares being affected. This, of course, is a leading attribute of the corporate form and generally makes it easier for a corporation than other forms of business to maintain growth, acquire public identification and goodwill, and attract employees.

However, as a practical matter, this attribute can be almost valueless. A small, close corporation may nevertheless disintegrate on the death of its prime mover, as it is succession of capable management and not perpetuity of the form that is essential to success. Further, the perpetual existence of a corporation can be a disadvantage to a minority shareholder who is "locked in" and not able to bring about dissolution of the corporation. He may not be able to find a market for his shares or may be restricted by agreement in the transfer of his shares.

The transferability of all or some of a shareholder's shares, without the need for approval by the other shareholders, is one of the principal advantages of the corporate form. However, as in a limited liability company, this advantage can be illusory, for there will probably be no ready market for the shares of a closely held corporation. Moreover, such ease of transferability may often be unfavorable to a client who wishes to maintain complete control over his business and does not wish to take the chance of conducting his business with strangers to whom stock may be transferred. This problem can generally be solved with a buy-sell agreement.

Dissolution of a corporation may occur for abuse of the corporate form or by agreement of the aggregate membership. C.R.S. § 7-8-101 et seq.

E. *TRANSFERABILITY OF OWNERSHIP INTERESTS*

1. *Individual or Sole Proprietorship.* Since an individual proprietor owns his business directly, his ownership interest may be transferred by a sale of the business assets. In this respect, the sole proprietorship is freely transferable. But as a practical matter, the sale of sole ownership of a complete business is certainly more cumbersome than the sale of shares in a corporation.

2. *General Partnership.* The ownership interest of a general partner receives unusual treatment under the Uniform Partnership Act. Generally, the Act distinguishes the specific tangible assets of the partnership from the partner's interest, or equity, in them. The specific assets themselves, such as buildings, equipment, and furniture, are held in a form of property ownership called "tenancy in partnership," which has some hybrid characteristics between joint tenancy with the right of survivorship and entity ownership by the firm. Under tenancy in partnership, partners are said to be co-owners, but they may not sell or use the firm property without the consent of the other partners. Individual creditors cannot apply their claims against a partner to firm assets, and the partner's heirs have no interest in the specific assets upon death. Surviving partners are vested with the deceased partner's ownership interests in the specific assets.

The partner's interest in the firm is an intangible interest that includes his proportionate equity in the specific assets and his proportionate share of the liabilities. This intangible interest, or beneficial right to partnership profit and assets, may be assigned or transferred freely and may be reached by creditors. However, while an assignee of a partnership interest becomes a beneficiary of that interest, he does not become a partner unless all the other partners have so agreed.

The transferability characteristics of the partnership should be considered a disadvantage. A single partner cannot transfer specific assets, nor can he transfer an undivided interest in those assets to an outside person, since the assets are held in tenancy in partnership. While the partner's interest in the firm is theoretically transferable, it is a very unmarketable commodity insofar as the assignee does not become a partner, has no right to management and control, and would simply be entitled to receive whatever profits the interest would accrue and a proportionate share of assets upon dissolution.

3. *Limited Partnership.* Unless otherwise provided in the partnership agreement, the ownership interests of the limited partners are freely transferable. The limited partnership agreement should specifically provide for free admission, substitution, and withdrawal of limited partners, and once so provided, a limited partner may substitute other investors for himself, or withdraw from the partnership and receive a return of his contribution. A substitution of limited partners, by agreement or by consent, requires an amendment to the certificate of limited partnership to reflect the change. In this respect, while the limited partner's interest may be said to be freely transferable, the procedure to reflect that change in the filed documents is somewhat cumbersome.

4. *Limited Liability Company.* The interest of a member in the profits and capital of a limited liability company may be transferred in accordance with the provisions in the Operating Agreement. However, unless the transfer is approved by all of the members of the limited liability company, the transferee of such an interest has no right to participate in the management of the business and affairs of the limited liability company or to become a member. For example, if all of the members do not consent to a proposed transfer, the transferee will not have the right to vote for managers of the company, consent to this admission of a new member, or consent to the transfer of another member's interest in the limited liability company.

The ownership interests in a limited liability company are treated, therefore, very much like ownership interests in a general partnership.

5. *Business Corporation.* Shareholders' interests in the corporation are evidenced by share certificates, which are usually freely transferable. The only corporate formality that must be observed in the transfer of share certificates is the recording of the transfer on the corporate books. The corporation thus permits the greatest flexibility in the transfer of ownership interest. It may be desirable to restrict the transfer of share ownership under certain circumstances, particularly for a close corporation (one with a small number of shareholders).

F. *LIABILITY*

1. *Individual or Sole Proprietorship.* The sole proprietorship business is merely an extension of the personal life of the individual proprietor and, consequently, he is individually responsible for all business debts. This unlimited liability may be circumvented to some extent by insurance, but it is impractical to insure against every, conceivable business hazard. It is further possible, although unlikely, to provide by agreement with creditors that any liability on certain contracts will be limited to business assets rather than personal assets. For the most part, individual proprietors are advised to expect full and unlimited personal liability.

2. *General Partnership.* General partners are individually and fully responsible for their business liabilities and losses. If the assets of the partnership are inadequate to satisfy partnership creditors, the personal assets of the individual partners may be reached to satisfy these obligations. In one sense, the partnership offers an advantage over sole proprietorships since liabilities are apportioned to the partners pro rata, and no one person is required to bear the full responsibility. On the other hand, since each partner has the capacity to bind the partnership, the potential risk of liability is significantly increased over the sole proprietor who is alone responsible for the obligations he incurs. Insurance and partnership agreement clauses may reduce this risk to the partners in some cases. Further, there is a rule called "marshalling of assets," which requires that firm creditors must

look first to firm property for satisfaction of their obligations and only if the partnership assets are inadequate may they pursue the individual assets of the partners.

A partnership is obligated to indemnify a partner who has paid expenses or incurred liability in the ordinary course of partnership business. This specific authority for indemnification should be further amplified in the agreement. The liability of a withdrawing partner or an incoming partner is subject to different rules.

3. *Limited Partnership.* Limited partnerships offer limited liability to limited partners. The liability of the limited partner is generally restricted to the amount of his investment as stated in the certificate of limited partnership. The limited liability of the limited partner may be lost if he holds himself out to be a general partner, or participates in the management of the firm. A limited partner's name may not be used in the firm name and he may not exercise control over partnership affairs, except in matters permitted by statute.

4. *Limited Liability Company.* Members and managers of a limited liability company are not liable under judgments, decrees, orders of court, or in any other manner for a debt, obligation, or liability of the limited liability company.

A member of a limited liability company is personally liable to the company to perform any enforceable promise to contribute cash or property or to perform services for the limited liability company, unless the obligation to make such contributions is waived by consent of all of the members or unless the Operating Agreement provides otherwise. If the members waive the obligation to make additional contributions, the member's obligation may be enforced by a creditor who has extended credit to the limited liability company in reliance on the member's obligation to make the contribution. A member is also liable to restore distributions made to that member while the limited liability company's liabilities exceeded its assets, and this liability extends for six years after a prohibited distribution is made.

Like corporations, limited liability companies may be subject to the doctrine of "piercing the corporate veil" if appropriate formalities of the company are not maintained or the company is used merely as an "alter ego" of its members.

5. *Business Corporation.* Shareholders' liability is limited in the business corporation. This characteristic is the most attractive feature of the corporation. A properly formed corporation that observes statutory formalities and is properly capitalized will shield the shareholder from any personal responsibility for corporate obligations. The failure to observe these formalities and to maintain adequate capital may result in the personal liability of the shareholder under the doctrine of "piercing the corporate veil."

However, even if a corporation utilizes the proper corporate form, limited liability may not be achieved since a bank or other lender may require the principal shareholder of a small corporation to guarantee the loans and debts of the corporation. Also, lessors may require personal guarantees on leases to small corporations. In such cases, the advantage of the limited liability of a shareholder is of no more than theoretical value.

G. *MANAGEMENT AND CONTROL*

1. *Individual or Sole Proprietorship.* The individual proprietor is vested with full responsibility for the management and control of his enterprise. He may delegate certain management responsibilities to employees as he desires, or voluntarily accept limits required by others, such as creditors, but the management structure of the sole proprietorship always remains very flexible.

2. *General Partnership.* The general rule of partnership law is that each partner shares

equally in management and in business decisions connected with the partnership business. However, the partners may agree to a different allocation of voting control or management, and the partnership agreement can delegate the management of the business to one or more managing partners so that the partnership can attain the advantages of centralized management. It is important that the parties clearly understand that, absent a provision in the partnership agreement to the contrary, a majority of the partners can decide on management decisions for the business.

3. *Limited Partnership.* The general partners in the limited partnership are vested with management responsibility and control. As noted above, the limited partner, in order to preserve his limited liability status, may not participate in management and control of the enterprise. The limited partnership agreement may provide certain things that general partners may not do without the consent of the limited partners, but for the most part, limited partners must remain passive investors. Limited partners are entitled to inspect the books and to have an accounting of partnership affairs, and they have the right to be informed on all matters respecting the business of the firm. They may also participate in certain management decisions and activities, but may do so safely only to the extent specifically authorized by statute.

4. *Limited Liability Company.* Limited liability companies are managed by one or more managers who are elected annually by a vote of the members. Managers are similar to directors and officers of a corporation and general partners in a partnership. The managers must be natural persons, 18 years or older, but do not have to be members of the limited liability company. Debts of the limited liability company must be incurred by a manager, unless otherwise provided in the Articles of Organization or the Operating Agreement, and all documents affecting real and personal property of the limited liability company must be executed by one or more managers. The managers of a limited liability company are subject to fewer restrictions on transactions with their company than are directors of corporations. A transaction between a limited liability company and a manager is only limited by the limited liability company's Operating Agreement and the manager's fiduciary duties.

Many issues regarding management can be defined in the Operating Agreement. Particularly, the Operating Agreement may contain provisions restricting the manager's authority, stating the manner in which managers may be elected, and describing how their duties shall be performed.

5. *Business Corporation.* The management and control of a business corporation is vested in the Board of Directors, the shareholders, and the officers. The incorporators control the enterprise during the incorporation stage. The Board of Directors, as elected by the shareholders, is primarily responsible for all management decisions following incorporation. The officers, who are appointed by the directors, receive delegated duties from the board, and are responsible for the day-to-day operation of the business. The shareholders, who elect the directors, have indirect control through their voting powers and the statutory requirements that they be consulted on major corporate changes. Corporate organizations may be very complex, and the procedures for managing the corporation may be cumbersome. There is, however, a great flexibility in the corporate management structure. Shareholders probably have more control over the business affairs of the corporation than a limited partner has over the partnership, but they obviously have less managerial control than a general partner or sole proprietor.

H. *CAPITAL AND CREDIT REQUIREMENTS*

1. *Individual or Sole Proprietorship.* The individual proprietor is limited to his own personal resources and his ability to obtain loans to capitalize his enterprise. Moreover, he may have to pledge his personal assets as collateral to secure any business loans, and the size of the business is thus, as a practical matter, restricted to the individual proprietor's own resources.

2. *General Partnership.* Partners' contributions of cash or property to the partnership

constitute the initial capital invested. Property so contributed becomes partnership property and is subject to the rules of tenancy in partnership, as discussed above.

The partnership, like the sole proprietorship, is limited in obtaining funds from outside sources. In order to borrow money to capitalize the enterprise, partners may have to pledge their own personal assets as collateral. However, it is important to remember that even without such a pledge, the firm's creditors may reach individual assets, subject to the rule of marshalling of assets.

3. *Limited Partnership.* Limited partnerships have capital resources from the contributions of limited partners, very similar to the capital resources of a corporation gained from its shareholders. The limited partner risks only his contribution, or his investment. The partner's contribution to a limited partnership may be made in cash, property, services rendered, or a promissory note or other obligation to contribute cash or property or to perform services.

4. *Limited Liability Company.* The members of a limited liability company may contribute cash, property, services rendered, or a promissory note or other binding obligation to contribute cash or property or to perform services. In this regard, the limited liability company's contributions are as flexible as those permitted for a limited partnership.

A member is personally liable to the limited liability company to perform any enforceable promise to contribute cash or property or to perform services for the limited liability company, unless the obligation to make such contributions is waived by consent of all of the members or unless the Operating Agreement provides otherwise. Even if the members waive the obligation to make additional contributions, the member's obligation may be enforceable by a creditor who has extended credit to the limited liability company in reliance on the member's obligation to make the contribution.

5. *Business Corporation.* The corporation's ability to attract capital and credit is another strong advantage of this form of business. The corporate financial structure lends itself to a wide variety of debt securities, or loans, and equity securities, or investments by shareholders in the stock of the corporation. The sale of stock is a relatively easy way to obtain investment in a corporation. The size of the investment may be very small or very large depending on the particular needs of the business.

State and federal securities regulations should never be overlooked when considering the capital and credit requirements of a business corporation (or any other business enterprise, for that matter). The issuance of securities to the public may require registration with the state agency and the Securities and Exchange Commission.

I. *TAX CONSIDERATIONS*

1. *Individual or Sole Proprietorship.* The federal and state laws regarding the taxation of a sole proprietorship may constitute an advantage in some cases. All business income or loss is treated as the individual's income or loss and taxed accordingly. The sole proprietor declares this income on a separate schedule (Schedule C) of his individual tax return and his individual income tax rates are applied. Currently, the effective individual tax rates are generally lower than the effective corporate rates. If early business losses are expected, the loss will operate as a shelter for other personal income of the sole proprietor and will thereby result in direct tax savings. Individual proprietors may qualify for certain retirement plan-type deductions. Please note that self employment tax will be due on net earnings (15.3%).

2. *General Partnership.* The partnership itself pays no federal income tax. However, each partner is required to declare his share of partnership income or loss on his individual tax return. The partnership is thus treated very much like the sole proprietorship for tax purposes, with the

exception that the income or loss will be among the partners in their respective proportions rather than being applied to one person. Profits earned during the year are applied to the individual incomes of the partners whether they have been distributed or not. Losses from the business, as they are attributed personally to the partners, may be offset against other personal income, subject to limitations for passive activities and other rules. Again, please note that self employment tax will be due on net earnings (15.3%).

The sale of a partner's interest in the partnership results in a capital gain or loss in much the same way that the shareholder's sale of corporate stock does.

3. *Limited Partnership.* For the most part, limited partnerships will be treated like a general partnership for tax purposes. This is one reason limited partnerships are favored forms of enterprise to conduct real estate development and operation of rental property. The deductions available to these enterprises can be passed directly to the partners and, subject to various limitations, "shelter" other income from tax.

It is possible that a limited partnership will be considered to be a corporation for tax purposes whenever the operation of the limited partnership closely resembles the operation of a corporation. If the certificate of limited partnership provides for substituted limited partners; continuity of business despite the death, incapacity, or withdrawal of a general partner; and centralized management in a few general partners, the limited partnership may be recharacterized by the Internal Revenue Service (IRS) and taxed as a corporation.

4. *Limited Liability Company.* The IRS has historically treated limited liability companies as a partnership for federal income tax purposes; however, a single member limited liability company may file on a schedule C like a sole proprietorship and a limited liability company may with permission of the IRS request S Corp tax treatment.

5. *Business Corporation.* As a separate entity, a corporation is subject to separate tax procedures and rates by the federal and state authorities. Unlike the sole proprietorship and partnership, where income is merely funneled to the individuals who comprise the enterprise, a corporation is separately taxed on its own income. This causes some advantages and some disadvantages, all of which must be carefully considered.

Corporate taxation may result in "double taxation." Income received by the corporation is taxed at the corporate level according to the corporate rates then in effect. The profit remaining after taxes is then available to be distributed as dividends, which are taxed again as personal income to the shareholder. This double taxation is recognized as a distinct disadvantage of the corporate form, as compared with other forms of business enterprise. Larger corporations with many shareholders simply accept the disadvantage, but in smaller, closely held corporations, double taxation must be minimized. There are several possibilities.

a. *Salaries.* Whenever shareholders are officers or employees of the corporation, and this is frequently the case in smaller organizations, they may be paid salaries that are deductible as a corporate expense, and thereby be compensated in a manner other than dividend distributions.

b. *Loans.* The small corporation may be structured so that a significant portion of its capital comes from loans to the business rather than shareholder investment. Having established sufficient equity capital, the remaining funds needed for the business may be raised through interest-bearing loans; the interest is deductible to the corporation as an expense. The interest paid to the creditor is individual income to him, but it substitutes for dividends and is not subject to double taxation.

c. *Subchapter S Election.* The small business corporation may elect not to be taxed at the corporate level, but to have its income (whether distributed or not) passed through and taxed pro rata to its shareholders as ordinary income. This election generally causes the corporation to be taxed as a sole proprietorship or a partnership. It also takes advantage of potential losses in the early stages of the business. The following requirements must be met for a corporation to qualify under the Subchapter S election:

(1) There may be no more than one hundred (100) shareholders.

(2) Shareholders must be natural persons, and cannot be another corporation or partnership, although estates, certain trusts, and some parent s corps may own shares.

(3) The corporation may only have one class of stock, and may not be a member of an affiliated group.

(4) The corporation cannot have a non-resident alien as a shareholder.

(5) The corporation's foreign income and passive investment income may not exceed certain limitations.

All shareholders must consent to the election by signing IRS form 2553 which is filed with the Internal Revenue Service.

d. *Employee Benefit Plans.* The corporate structure permits the corporation to offer certain benefit plans to its employees. Qualified stock option plans; qualified pension and profit-sharing plans; and life, health, and accident insurance plans are all available as corporate benefits.

Qualified profit-sharing plans permit a corporate deduction for profits accumulated for employees under the plan, and the employee is not taxed until he receives payment. Qualified pension plans are similarly treated for tax purposes.

Insurance plans may provide a direct economic benefit to employees, who may also be shareholders. The corporation may deduct the expense of paying insurance premiums as an ordinary business expense. Hospital, accident, health, and disability insurance plans may be maintained by the corporation with very few limitations. Group life insurance, with a maximum limitation of $50,000 per employee, may be maintained by the corporation, with the premiums treated as an expense to the corporation but not taxable to the employee. Health insurance premiums for S-corp. shareholders is not a deductible business expense, however 50% of those premiums are deductible on the shareholders individual return.

e. *Conversion of Ordinary Income to Capital Gains.* There are also certain tax disadvantages and pitfalls in utilizing a corporate form:

(1) If the character of the income of a partnership or a sole proprietorship is tax exempt, such income retains its tax-exempt status in the returns of the partners or the individual proprietor. However, if the corporation form is used, such income does not preserve its tax-exempt status when paid out in the form of salaries or dividends to the shareholders, although that income is exempted from the corporation's taxable income. Similarly, a dividend traceable to the capital gains income of a corporation is, nevertheless, ordinary income to the shareholders (except in the case of a Subchapter S corporation).

(2) The liquidation of a corporation is normally a taxable event, unlike a similar situation in a partnership or a proprietorship. Moreover, sale of stock or liquidation at a loss may only give the shareholder a capital loss, whereas there is an ordinary loss upon the abandonment

of a sole proprietorship or a partnership. The same is true if stock becomes worthless before it is sold. This disadvantage can be avoided in the small business by utilizing Section 1244 of the Internal Revenue Code.

(3) The Internal Revenue Code places a penalty tax on a corporation's earnings accumulated beyond the reasonable needs of the corporation. This tax, called the accumulated earnings tax, is on earnings accumulated for the purpose of avoiding income taxes on the shareholders. The tax is aimed at forcing corporations to pay out taxable dividends. However, for the small corporation it may well not be a problem, as a surplus of $150,000 or $250,000 can be accumulated without incurring this tax. I.R.C. § 535(c).

(4) Salaries are only deductible by the corporation if they are reasonable in amount. I.R.C. § 162. Consequently, the excessive portion of a salary paid to a shareholder-employee will be disallowed as a deduction by the corporation, while the shareholder-employee will be taxed on the full amount received as either salary or dividend income.

(5) The personal holding company income tax on corporations may be imposed. Generally speaking, when a large portion of the income of a corporation is to be derived from personal holding company sources (i.e., passive or nonoperating sources), the corporation (unless exempted) may be subject to a 50 percent tax on the undistributed income of a personal holding company. Such corporations are not subject to the accumulated earnings tax. Personal holding company income is defined in the Internal Revenue Code to include dividends; interest; annuities; amounts received from personal service contracts; rents; and mineral, gas, and oil royalties. I.R.C. § 543. Speaking broadly, a corporation will be classified as a personal holding company if more than 50 percent in value of its outstanding stock is owned by not more than five individuals and if at least 60 percent of adjusted ordinary gross income is personal holding company income. The provisions of the Internal Revenue Code and regulations must be carefully examined if the income of the business is likely to be of this passive nature. If upon analysis it is concluded that the tax may be applicable if the corporate form is used, a sole proprietorship or a partnership may be considered more favorable.

J. *SUMMARY*

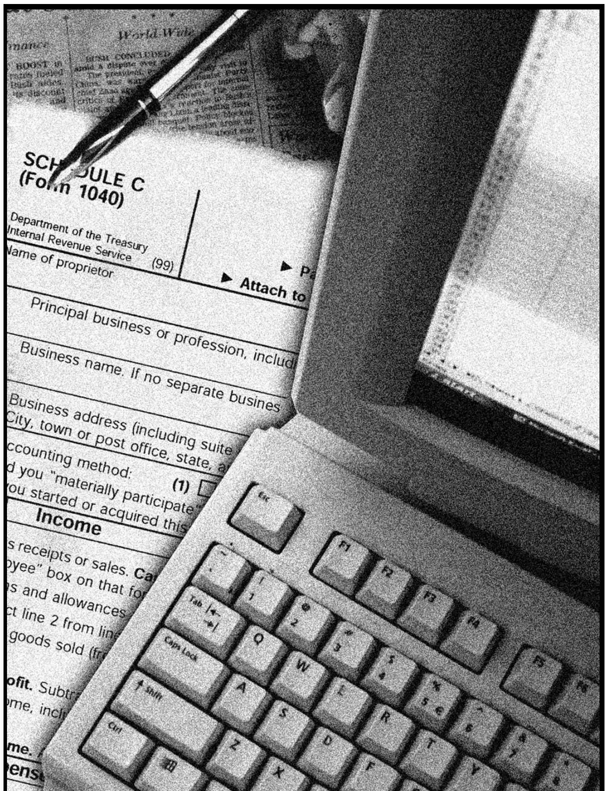
In summary, while the foregoing discussion has been somewhat lengthy, and at times complex, generally the individuals proposing a new venture will have one or more specific requirements that will determine the business form to be utilized.

Department of the Treasury
Internal Revenue Service

Publication 583
(Rev. December 2011)

Cat. No. 15150B

Starting a Business and Keeping Records



Get forms and other information faster and easier by:

Internet IRS.gov

IRS e-file

www.irs.gov/efile

Contents

Introduction

This publication provides basic federal tax information for people who are starting a business. It also provides information on keeping records and illustrates a recordkeeping system.

Throughout this publication we refer to other IRS publications and forms where you will find more information. In addition, you may want to contact other government agencies, such as the Small Business Administration (SBA). *See How To Get More Information* later.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

Internal Revenue Service
Business Forms and Publications Branch
SE:W:CAR:MP:T:B
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

Feb 17, 2012

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can email us at taxforms@irs.gov. Please put "Publications Comment" on the subject line. You can also send us comments from www.irs.gov/formspubs, select "Comment on Tax Forms and Publications" under "Information about."

Although we cannot respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax products.

Ordering forms and publications.

Visit www.irs.gov/formspubs to download forms and publications, call 1-800-829-3676, or write to the address below and receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705–6613

Tax questions. If you have a tax question, check the information available on IRS.gov or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

Future Developments. The IRS has created a page on IRS.gov for information about Publication 583 at www.irs.gov/pub583. Information about any future developments affecting Publication 583 (such as legislation enacted after we release it) will be posted on that page.

What New Business Owners Need To Know

As a new business owner, you need to know your federal tax responsibilities. Table 1 can help you learn what those responsibilities are. Ask yourself each question listed in the table, then see the related discussion to find the answer.

In addition to knowing about federal taxes, you need to make some basic business decisions. Ask yourself:

- What are my financial resources?
- What products and services will I sell?
- How will I market my products and services?
- How will I develop a strategic business plan?
- How will I manage my business on a day-to-day basis?
- How will I recruit employees?

The Small Business Administration (SBA) is a federal agency that can help you answer these types of questions. For information on how to contact the SBA, see *How to Get More Information,* later.

Table 1. **What New Business Owners Need To Know About Federal Taxes**

(**Note:** *This table is intended to help you, as a new business owner, learn what you need to know about your federal tax responsibilities. To use it, ask yourself each question in the left column, then see the related discussion in the right column.)*

What Must I Know?	Where To Find the Answer
Which form of business will I use?	See *Forms of Business*.
Will I need an employer identification number (EIN)?	See *Identification Numbers*.
Do I have to start my tax year in January, or may I start it in any other month?	See *Tax Year*.
What method can I use to account for my income and expenses?	See *Accounting Method*.
What kinds of federal taxes will I have to pay? How should I pay my taxes?	See *Business Taxes*.
What must I do if I have employees?	See *Employment Taxes*.
Which forms must I file?	See Table 2 and *Information Returns*.
Are there penalties if I do not pay my taxes or file my returns?	See *Penalties*.
What business expenses can I deduct on my federal income tax return?	See *Business Expenses*.
What records must I keep? How long must I keep them?	See *Recordkeeping*.

Forms of Business

The most common forms of business are the sole proprietorship, partnership, and corporation. When beginning a business, you must decide which form of business to use. Legal and tax considerations enter into this decision. Only tax considerations are discussed in this publication.

TIP *Your form of business determines which income tax return form you have to file. See Table 2 to find out which form you have to file.*

Sole proprietorships. A sole proprietorship is an unincorporated business that is owned by one individual. It is the simplest form of business organization to start and maintain. The business has no existence apart from you, the owner. Its liabilities are your personal liabilities. You undertake the risks of the business for all assets owned, whether or not used in the business. You include the income and expenses of the business on your personal tax return.

More information. For more information on sole proprietorships, see Publication 334, Tax Guide for Small Business. If you are a farmer, see Publication 225, Farmer's Tax Guide.

Partnerships. A partnership is the relationship existing between two or more persons who join to carry on a trade or business. Each person contributes money, property, labor, or skill, and expects to share in the profits and losses of the business.

A partnership must file an annual information return to report the income, deductions, gains, losses, etc., from its operations, but it does not pay income tax. Instead, it "passes through" any profits or losses to its partners. Each partner includes his or her share of the partnership's items on his or her tax return.

More information. For more information on partnerships, see Publication 541, Partnerships.

Husband and wife business. If you and your spouse jointly own and operate an unincorporated business and share in the profits and losses, you are partners in a partnership, whether or not you have a formal partnership agreement. Do not use Schedule C or C-EZ. Instead, file Form 1065, U.S. Return of Partnership Income. For more information, see Publication 541, Partnerships.

Exception—Community Income. If you and your spouse wholly own an unincorporated business as community property under the community property laws of a state, foreign country, or U.S. possession, you can treat the business either as a sole proprietorship or a partnership. The only states with community property laws are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. A change in your reporting position will be treated as a conversion of the entity.

Exception—Qualified joint venture. If you and your spouse each materially participate as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make a joint election to be treated as a qualified joint venture instead of a partnership for the tax year. Making this election will allow you to avoid the complexity of Form 1065 but still give each spouse credit for social security earnings on which retirement benefits are based. For an explanation of "material participation," see the Instructions for Schedule C, line G.

To make this election, you must divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule C or C-EZ and a separate Schedule SE. For more information, see *Qualified Joint Venture* in the Instructions for Schedule SE.

Corporations. In forming a corporation, prospective shareholders exchange money, property, or both, for the corporation's capital stock. A corporation generally takes the same deductions as a sole proprietorship to figure its taxable income. A corporation can also take special deductions.

The profit of a corporation is taxed to the corporation when earned, and then is taxed to the shareholders when distributed as dividends. However, shareholders cannot deduct any loss of the corporation.

More information. For more information on corporations, see Publication 542, Corporations.

S corporations. An eligible domestic corporation can avoid double taxation (once to the corporation and again to the shareholders) by electing to be treated as an S corporation. Generally, an S corporation is exempt from federal income tax other than tax on certain capital gains and passive income. On their tax returns, the S corporation's shareholders include their share of the corporation's separately stated items of income, deduction, loss, and credit, and their share of nonseparately stated income or loss.

More information. For more information on S corporations, see the instructions for Form 2553, Election by a Small Business Corporation, and Form 1120S, U.S. Income Tax Return for an S Corporation.

Limited liability company. A limited liability company (LLC) is an entity formed under state law by filing articles of organization as an LLC. The members of an LLC are not personally liable for its debts. An LLC may be classified for federal income tax purposes as either a partnership, a corporation, or an entity disregarded as an entity separate from its owner by applying the rules in regulations section 301.7701-3. For more information, see the instructions for Form 8832, Entity Classification Election.

Identification Numbers

You must have a taxpayer identification number so the IRS can process your returns. The two most common kinds of taxpayer identification numbers are the social security number (SSN) and the employer identification number (EIN).

- An SSN is issued to individuals by the Social Security Administration (SSA) and is in the following format: 000–00–0000.
- An EIN is issued to individuals (sole proprietors), partnerships, corporations, and other entities by the IRS and is in the following format: 00–0000000.

You must include your taxpayer identification number (SSN or EIN) on all returns and other documents you send to the IRS. You must also furnish your number to other persons who use your identification number on any returns or documents they send to the IRS. This includes returns or documents filed to report the following information.

1. Interest, dividends, royalties, etc., paid to you.
2. Any amount paid to you as a dependent care provider.
3. Certain other amounts paid to you that total $600 or more for the year.

If you do not furnish your identification number as required, you may be subject to penalties. See *Penalties,* later.

Employer Identification Number (EIN)

EINs are used to identify the tax accounts of employers, certain sole proprietors, corporations, partnerships, estates, trusts, and other entities.

If you don't already have an EIN, you need to get one if you:

1. Have employees,
2. Have a qualified retirement plan,
3. Operate your business as a corporation or partnership, or
4. File returns for:
   a. Employment taxes, or
   b. Excise taxes.

Applying for an EIN. You may apply for an EIN:

- Online—Click on the EIN link at www.irs.gov/businesses/small. The EIN is issued immediately once the application information is validated.
- By telephone at 1-800-829-4933.
- By mailing or faxing Form SS-4, Application for Employer Identification Number.

When to apply. You should apply for an EIN early enough to receive the number by the time you must file a return or statement or make a tax deposit. If you apply by mail, file Form SS-4 at least 4 weeks before you need an EIN. If you apply by telephone or through the IRS website, you can get an EIN immediately. If you apply by fax, you can get an EIN within 4 business days.

If you do not receive your EIN by the time a return is due, file your return anyway. Write "Applied for" and the date you applied for the number in the space for the EIN. Do not use your social security number as a substitute for an EIN on your tax returns.

More than one EIN. You should have only one EIN. If you have more than one EIN and are not sure which to use, contact the Internal Revenue Service Center where you file your return. Give the numbers you have, the name and address to which each was assigned, and the address of your main place of business. The IRS will tell you which number to use.

More information. For more information about EINs, see Publication 1635, Understanding Your EIN.

Payee's Identification Number

In the operation of a business, you will probably make certain payments you must report on information returns (discussed later under *Information Returns*). The forms used to report these payments must include the payee's identification number.

Employee. If you have employees, you must get an SSN from each of them. Record the name and SSN of each employee exactly as they are shown on the employee's social security card. If the employee's name is not correct as shown on the card, the employee should request a new card from the SSA. This may occur, for example, if the employee's name has changed due to marriage or divorce.

If your employee does not have an SSN, he or she should file Form SS-5, Application for a Social Security Card, with the SSA. This form is available at SSA offices or by calling 1-800-772-1213. It is also available from the SSA website at www.ssa.gov.

Other payee. If you make payments to someone who is not your employee and you must report the payments on an information return, get that person's SSN. If you make reportable payments to an organization, such as a corporation or partnership, you must get its EIN.

To get the payee's SSN or EIN, use Form W-9, Request for Taxpayer Identification Number and Certification. This form is available from IRS offices or by calling 1-800-829-3676. It is also available from the IRS website at IRS.gov.

CAUTION

If the payee does not provide you with an identification number, you may have to withhold part of the payments as backup withholding. For information on backup withholding, see the Form W-9 instructions and the General Instructions for Certain Information Returns.

Tax Year

You must figure your taxable income and file an income tax return based on an annual accounting period called a tax year. A tax year is usually 12 consecutive months. There are two kinds of tax years.

1. **Calendar tax year.** A calendar tax year is 12 consecutive months beginning January 1 and ending December 31.
2. **Fiscal tax year.** A fiscal tax year is 12 consecutive months ending on the last day of any month except December. A 52-53-week tax year is a fiscal tax year that varies from 52 to 53 weeks but does not have to end on the last day of a month.

If you file your first tax return using the calendar tax year and you later begin business as a sole proprietor, become a partner in a partnership, or become a shareholder in an S corporation, you must continue to use the calendar year unless you get IRS approval to change it or are otherwise allowed to change it without IRS approval.

You must use a calendar tax year if:

- You keep no books.
- You have no annual accounting period.
- Your present tax year does not qualify as a fiscal year.
- You are required to use a calendar year by a provision of the Internal Revenue Code or the Income Tax Regulations.

For more information, see Publication 538, Accounting Periods and Methods.

First-time filer. If you have never filed an income tax return, you can adopt either a calendar tax year or a fiscal tax year. You adopt a tax year by filing your first income tax return using that tax year. You have not adopted a tax year if you merely did any of the following.

- Filed an application for an extension of time to file an income tax return.
- Filed an application for an employer identification number.
- Paid estimated taxes for that tax year.

Changing your tax year. Once you have adopted your tax year, you may have to get IRS approval to change it. To get approval, you must file Form 1128, Application To Adopt, Change, or Retain a Tax Year. You may have to pay a fee. For more information, see Publication 538.

Accounting Method

An accounting method is a set of rules used to determine when and how income and expenses are reported. You choose an accounting method for your business when you file your first income tax return. There are two basic accounting methods.

1. **Cash method.** Under the cash method, you report income in the tax year you receive it. You usually deduct or capitalize expenses in the tax year you pay them.
2. **Accrual method.** Under an accrual method, you generally report income in the tax year you earn it, even though you may receive payment in a later year. You deduct or capitalize expenses in the tax year you incur them, whether or not you pay them that year.

For other methods, see Publication 538.

If you need inventories to show income correctly, you must generally use an accrual method of accounting for purchases and sales. Inventories include goods held for sale in the normal course of business. They also include raw materials and supplies that will physically become a part of merchandise intended for sale. Inventories are explained in Publication 538.

TIP *Certain small business taxpayers can use the cash method of accounting and can also account for inventoriable items as materials and supplies that are not incidental. For more information, see Publication 538.*

You must use the same accounting method to figure your taxable income and to keep your books. Also, you must use an accounting method that clearly shows your income. In general, any accounting method that consistently uses accounting principles suitable for your trade or business clearly shows income. An accounting method clearly shows income only if it treats all items of gross income and expense the same from year to year.

More than one business. When you own more than one business, you can use a different accounting method for each business if the method you use for each clearly shows your income. You must keep a complete and separate set of books and records for each business.

Changing your method of accounting. Once you have set up your accounting method, you must generally get IRS approval before you can change to another method. A change in accounting method not only includes a change in your overall system of accounting, but also a change in the treatment of any material item. For examples of changes that require approval and information on how to get approval for the change, see Publication 538.

Business Taxes

The form of business you operate determines what taxes you must pay and how you pay them. The following are the four general kinds of business taxes.

- Income tax.
- Self-employment tax.
- Employment taxes.
- Excise taxes.

See Table 2 for the forms you file to report these taxes.

TIP *You may want to get Publication 509. It has tax calendars that tell you when to file returns and make tax payments.*

Table 2. **Which Forms Must I File?**

IF you are a...	THEN you may be liable for...	Use Form...
Sole proprietor	Income tax	1040 and Schedule C [1] or C-EZ (Schedule F [1] for farm business)
	Self-employment tax	1040 and Schedule SE
	Estimated tax	1040-ES
	Employment taxes: • Social security and Medicare taxes and income tax withholding • Federal unemployment (FUTA) tax	 941 or 944 (943 for farm employees) 940
	Excise taxes	See *Excise Taxes*
Partnership	Annual return of income	1065
	Employment taxes	Same as sole proprietor
	Excise taxes	See *Excise Taxes*
Partner in a partnership (individual)	Income tax	1040 and Schedule E [2]
	Self-employment tax	1040 and Schedule SE
	Estimated tax	1040-ES
Corporation or S corporation	Income tax	1120 (corporation) [2] 1120S (S corporation) [2]
	Estimated tax	1120-W (corporation only)
	Employment taxes	Same as sole proprietor
	Excise taxes	See *Excise Taxes*
S corporation shareholder	Income tax	1040 and Schedule E [2]
	Estimated tax	1040-ES

[1] File a separate schedule for each business.

[2] Various other schedules may be needed.

Income Tax

All businesses except partnerships must file an annual income tax return. Partnerships file an information return. Which form you use depends on how your business is organized. See Table 2 to find out which return you have to file.

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. An employee usually has income tax withheld from his or her pay. If you do not pay your tax through withholding, or do not pay enough tax that way, you might have to pay estimated tax. If you are not required to make estimated tax payments, you may pay any tax due when you file your return.

Estimated tax. Generally, you must pay taxes on income, including self-employment tax (discussed next), by making regular payments of estimated tax during the year.

Sole proprietors, partners, and S corporation shareholders. You generally have to make estimated tax payments if you expect to owe tax of $1,000 or more when you file your return. Use Form 1040-ES, Estimated Tax for Individuals, to figure and pay your estimated tax. For more information, see Publication 505, Tax Withholding and Estimated Tax.

Corporations. You generally have to make estimated tax payments for your corporation if you expect it to owe tax of $500 or more when you file its return. Use Form 1120-W, Estimated Tax for Corporations, to figure the estimated tax. You must deposit the payments as explained later under Depositing Taxes. For more information, see Publication 542.

Self-Employment Tax

Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves. Your payments of SE tax contribute to your coverage under the social security system. Social security coverage provides you with retirement benefits, disability benefits, survivor benefits, and hospital insurance (Medicare) benefits.

You must pay SE tax and file Schedule SE (Form 1040) if either of the following applies.

1. Your net earnings from self-employment were $400 or more.
2. You had church employee income of $108.28 or more.

Use Schedule SE (Form 1040) to figure your SE tax. For more information, see Publication 334, Tax Guide for Small Business.

TIP *You can deduct a portion of your SE tax as an adjustment to income on your Form 1040.*

The Social Security Administration (SSA) time limit for posting self-employment income. Generally, the SSA will give you credit only for self-employment income reported on a tax return filed within 3 years, 3 months, and 15 days after the tax year you earned the income. If you file your tax return or report a change in your self-employment income after this time limit, the SSA may change its records, but only to remove or reduce the amount. The SSA will not change its records to increase your self-employment income.

Employment Taxes

This section briefly discusses the employment taxes you must pay, the forms you must file to report them, and other forms that must be filed when you have employees.

Employment taxes include the following.

- Social security and Medicare taxes.
- Federal income tax withholding.
- Federal unemployment (FUTA) tax.

If you have employees, you will need to get Publication 15, Circular E, Employer's Tax Guide. If you have agricultural employees, get Publication 51, Circular A, Agricultural Employer's Tax Guide. These publications explain your tax responsibilities as an employer.

If you are not sure whether the people working for you are your employees, see Publication 15-A, Employer's Supplemental Tax Guide. That publication has information to help you determine whether an individual is an employee or an independent contractor. If you classify an employee as an independent contractor, you can be held liable for employment taxes for that worker plus a penalty. An independent contractor is someone who is self-employed. Generally, you do not have to withhold or pay any taxes on payments to an independent contractor.

Federal Income, Social Security, and Medicare Taxes

You generally must withhold federal income tax from your employee's wages. To figure how much federal income tax to withhold from each wage payment, use the employee's Form W-4 (discussed later under *Hiring Employees*) and the methods described in Publication 15.

Social security and Medicare taxes pay for benefits that workers and their families receive under the Federal Insurance Contributions Act (FICA). Social security tax pays for benefits under the old-age, survivors, and disability insurance part of FICA. Medicare tax pays for benefits under the hospital insurance part of FICA. You withhold part of these taxes from your employee's wages and you pay a part yourself. To find out how much social security and Medicare tax to withhold and to pay, see Publication 15.

Which form do I file? Report these taxes on Form 941, Employer's QUARTERLY Federal Tax Return, or Form 944, Employer's ANNUAL Federal Tax Return. (Farm employers use Form 943, Employer's Annual Federal Tax Return for Agricultural Employees.)

Federal Unemployment (FUTA) Tax

The federal unemployment tax is part of the federal and state program under the Federal Unemployment Tax Act (FUTA) that pays unemployment compensation to workers who lose their jobs. You report and pay FUTA tax separately from social security and Medicare taxes and withheld income tax. You pay FUTA tax only from your own funds. Employees do not pay this tax or have it withheld from their pay.

Which form do I file? Report federal unemployment tax on Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return. See Publication 15 to find out if you can use this form.

Hiring Employees

Have the employees you hire fill out Form I-9 and Form W-4.

Form I-9. You must verify that each new employee is legally eligible to work in the United States. Both you and the employee must complete the U.S. Citizenship and Immigration Services (USCIS) Form I-9, Employment Eligibility Verification. You can get the form from USCIS offices or from the USCIS website at www.uscis.gov. Call the USCIS at 1-800-375-5283 for more information about your responsibilities.

Form W-4. Each employee must fill out Form W-4, Employee's Withholding Allowance Certificate. You will use the filing status and withholding allowances shown on this form to figure the amount of income tax to withhold from your employee's wages. For more information, see Publication 15.

Employees claiming more than 10 withholding allowances. An employer of an employee who claims more than 10 withholding allowances for wages paid can use several methods of withholding. See section 16 of Publication 15.

Form W-2 Wage Reporting

After the calendar year is over, you must furnish copies of Form W-2, Wage and Tax Statement, to each employee to whom you paid wages during the year. You must also send copies to the Social Security Administration. See Information Returns, later, for more information on Form W-2.

Excise Taxes

This section describes the excise taxes you may have to pay and the forms you have to file if you do any of the following.

- Manufacture or sell certain products.
- Operate certain kinds of businesses.
- Use various kinds of equipment, facilities, or products.
- Receive payment for certain services.

For more information on excise taxes, see Publication 510, Excise Taxes.

Form 720. The federal excise taxes reported on Form 720, Quarterly Federal Excise Tax Return, consist of several broad categories of taxes, including the following.

- Environmental taxes.
- Communications and air transportation taxes.
- Fuel taxes.
- Tax on the first retail sale of heavy trucks, trailers, and tractors.
- Manufacturers taxes on the sale or use of a variety of different articles.

Form 2290. There is a federal excise tax on certain trucks, truck tractors, and buses used on public highways. The tax applies to vehicles having a taxable gross weight of 55,000 pounds or more. Report the tax on Form 2290, Heavy Highway Vehicle Use Tax Return. For more information, see the instructions for Form 2290.

Form 730. If you are in the business of accepting wagers or conducting a wagering pool or lottery, you may be liable for the federal excise tax on wagering. Use Form 730, Monthly Tax Return for Wagers, to figure the tax on the wagers you receive.

Form 11-C. Use Form 11-C, Occupational Tax and Registration Return for Wagering, to register for any wagering activity and to pay the federal occupational tax on wagering.

Depositing Taxes

You generally have to deposit employment taxes, certain excise taxes, corporate income tax, and S corporation taxes before you file your return.

Generally, taxpayers are required to deposit taxes through the Electronic Federal Tax Payment System (EFTPS).

Any business that has a federal tax obligation and requests a new EIN will automatically be enrolled in EFTPS. Through the mail, the business will receive an EFTPS PIN package that contains instructions for activating its EFTPS enrollment.

Information Returns

If you make or receive payments in your business, you may have to report them to the IRS on information returns. The IRS compares the payments shown on the information returns with each person's income tax return to see if the payments were included in income. You must give a copy of each information return you are required to file to the recipient or payer. In addition to the forms described below, you may have to use other returns to report certain kinds of payments or transactions. For more details on information returns and when you have to file them, see the General Instructions for Certain Information Returns.

Form 1099-MISC. Use Form 1099-MISC, Miscellaneous Income, to report certain payments you make in your trade or business. These payments include the following items.

- Payments of $600 or more for services performed for your business by people not treated as your employees, such as subcontractors, attorneys, accountants, or directors.
- Rent payments of $600 or more, other than rents paid to real estate agents.
- Prizes and awards of $600 or more that are not for services, such as winnings on TV or radio shows.
- Royalty payments of $10 or more.
- Payments to certain crew members by operators of fishing boats.

You also use Form 1099-MISC to report your sales of $5,000 or more of consumer goods to a person for resale anywhere other than in a permanent retail establishment.

Form W-2. You must file Form W-2, Wage and Tax Statement, to report payments to your employees, such as wages, tips, and other compensation, withheld income, social security, and Medicare taxes. For more information on what to report on Form W-2, see the Instructions for Forms W-2 and W-3.

Form 8300. You must file Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business, if you receive more than $10,000 in cash in one transaction or two or more related business transactions. Cash includes U.S. and foreign coin and currency. It also includes certain monetary instruments such as cashier's and traveler's checks and money orders. For more information, see Publication 1544, Reporting Cash Payments of Over $10,000 (Received in a Trade or Business).

Penalties

The law provides penalties for not filing returns or paying taxes as required. Criminal penalties may be imposed for willful failure to file, tax evasion, or making a false statement.

Failure to file tax returns. If you do not file your tax return by the due date, you may have to pay a penalty. The penalty is based on the tax not paid by the due date. See your tax return instructions for more information about this penalty.

Failure to pay tax. If you do not pay your taxes by the due date, you will have to pay a penalty for each month, or part of a month, that your taxes are not paid. For more information, see your tax return instructions.

Failure to withhold, deposit, or pay taxes. If you do not withhold income, social security, or Medicare taxes from employees, or if you withhold taxes but do not deposit them or pay them to the IRS, you may be subject to a penalty of the unpaid tax, plus interest. You may also be subject to penalties if you deposit the taxes late. For more information, see Publication 15.

Failure to follow information reporting requirements. The following penalties apply if you are required to file information returns. For more information, see the *General Instructions for Certain Information Returns.*

- ***Failure to file information returns.*** A penalty applies if you do not file information returns by the due date, if you do not include all required information, or if you report incorrect information.
- ***Failure to furnish correct payee statements.*** A penalty applies if you do not furnish a required statement to a payee by the due date, if you do not include all required information, or if you report incorrect information.

Waiver of penalty. These penalties will not apply if you can show that the failures were due to reasonable cause and not willful neglect.

In addition, there is no penalty for failure to include all the required information, or for including incorrect information, on a de minimis number of information returns if you correct the errors by August 1 of the year the returns are due. (To be considered de minimis, the number of returns cannot exceed the greater of 10 or ½ of 1% of the total number of returns you are required to file for the year.)

Failure to supply taxpayer identification number. If you do not include your taxpayer identification number (SSN or EIN) or the taxpayer identification number of another person where required on a return, statement, or other document, you may be subject to a penalty of $50 for each failure. You may also be subject to the $50 penalty if you do not give your taxpayer identification number to another person when it is required on a return, statement, or other document.

Business Expenses

You can deduct business expenses on your income tax return. These are the current operating costs of running your business. To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your field of business, trade, or profession. A necessary expense is one that is helpful and appropriate for your business, trade, or profession. An expense does not have to be indispensable to be considered necessary.

The following are brief explanations of some expenses that are of interest to people starting a business. There are many other expenses that you may be able to deduct. See your form instructions and Publication 535, Business Expenses.

Business Start-Up Costs

Business start-up costs are the expenses you incur before you actually begin business operations. Your business start-up costs will depend on the type of business you are starting. They may include costs for advertising, travel, surveys, and training. These costs are generally capital expenses.

You usually recover costs for a particular asset (such as machinery or office equipment) through depreciation (discussed next). You can elect to deduct up to $5,000 of business start-up costs and $5,000 of organizational costs paid or incurred after October 22, 2004. The $5,000 deduction is reduced by the amount your total start-up or organizational costs exceed $50,000. Any remaining cost must be amortized.

For more information about amortizing start-up and organizational costs, see chapter 7 in Publication 535.

Depreciation

If property you acquire to use in your business has a useful life that extends substantially beyond the year it is placed in service, you generally cannot deduct the entire cost as a business expense in the year you acquire it. You must spread the cost over more than one tax year and deduct part of it each year. This method of deducting the cost of business property is called depreciation.

Business property you must depreciate includes the following items.

- Office furniture.
- Buildings.
- Machinery and equipment.

You can choose to deduct a limited amount of the cost of certain depreciable property in the year you place the property in service. This deduction is known as the "section 179 deduction." For more information about depreciation and the section 179 deduction, see Publication 946, How To Depreciate Property.

TIP *Depreciation must be taken in the year it is allowable. Allowable depreciation not taken in a prior year cannot be taken in the current year. If you do not deduct the correct depreciation, you may be able to make a correction by filing Form 1040X,* Amended U.S. Individual Income Tax Return, *or by changing your accounting method. For more information on how to correct depreciation deductions, see chapter 1 in Publication 946.*

Business Use of Your Home

To deduct expenses related to the business use of part of your home, you must meet specific requirements. Even then, your deduction may be limited.

To qualify to claim expenses for business use of your home, you must meet both the following tests.

1. Your use of the business part of your home must be:
   a. Exclusive (however, see *Exceptions to exclusive use,* later),
   b. Regular,
   c. For your trade or business, AND
2. The business part of your home must be one of the following:
   a. Your principal place of business (defined later),
   b. A place where you meet or deal with patients, clients, or customers in the normal course of your trade or business, or
   c. A separate structure (not attached to your home) you use in connection with your trade or business.

Exclusive use. To qualify under the exclusive use test, you must use a specific area of your home only for your trade or business. The area used for business can be a room or other separately identifiable space. The space does not need to be marked off by a permanent partition.

You do not meet the requirements of the exclusive use test if you use the area in question both for business and for personal purposes.

Exceptions to exclusive use. You do not have to meet the exclusive use test if either of the following applies.

1. You use part of your home for the storage of inventory or product samples.
2. You use part of your home as a daycare facility.

For an explanation of these exceptions, see Publication 587, Business Use of Your Home (Including Use by Daycare Providers).

Principal place of business. Your home office will qualify as your principal place of business for deducting expenses for its use if you meet the following requirements.

- You use it exclusively and regularly for administrative or management activities of your trade or business.
- You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

Alternatively, if you use your home exclusively and regularly for your business, but your home office does not qualify as your principal place of business based on the previous rules, you determine your principal place of business based on the following factors.

- The relative importance of the activities performed at each location.
- If the relative importance factor does not determine your principal place of business, the time spent at each location.

If, after considering your business locations, your home cannot be identified as your principal place of business, you cannot deduct home office expenses. However, for other ways to qualify to deduct home office expenses, see Publication 587.

Which form do I file? If you file Schedule C (Form 1040), use Form 8829, Expenses for Business Use of Your Home, to figure your deduction. If you file Schedule F (Form 1040) or you are a partner, you can use the worksheet in Publication 587.

More information. For more information about business use of your home, see Publication 587.

Car and Truck Expenses

If you use your car or truck in your business, you can deduct the costs of operating and maintaining it. You generally can deduct either your actual expenses or the standard mileage rate.

Actual expenses. If you deduct actual expenses, you can deduct the cost of the following items:

Depreciation	Lease payments	Registration
Garage rent	Licenses	Repairs
Gas	Oil	Tires
Insurance	Parking fees	Tolls

If you use your vehicle for both business and personal purposes, you must divide your expenses between business and personal use. You can divide your expenses based on the miles driven for each purpose.

Example. You are the sole proprietor of a flower shop. You drove your van 20,000 miles during the year. 16,000 miles were for delivering flowers to customers and 4,000 miles were for personal use. You can claim only 80%

(16,000 ÷ 20,000) of the cost of operating your van as a business expense.

Standard mileage rate. Instead of figuring actual expenses, you may be able to use the standard mileage rate to figure the deductible costs of operating your car, van, pickup, or panel truck for business purposes. You can use the standard mileage rate for a vehicle you own or lease. The standard mileage rate is a specified amount of money you can deduct for each business mile you drive. It is announced annually by the IRS. To figure your deduction, multiply your business miles by the standard mileage rate for the year.

CAUTION *Generally, if you use the standard mileage rate, you cannot deduct your actual expenses. However, you may be able to deduct business-related parking fees, tolls, interest on your car loan, and certain state and local taxes.*

Choosing the standard mileage rate. If you want to use the standard mileage rate for a car you own, you must choose to use it in the first year the car is available for use in your business. In later years, you can choose to use either the standard mileage rate or actual expenses.

If you use the standard mileage rate for a car you lease, you must choose to use it for the entire lease period (including renewals).

Additional information. For more information about the rules for claiming car and truck expenses, see Publication 463, Travel, Entertainment, Gift, and Car Expenses.

Recordkeeping

This part explains why you must keep records, what kinds of records you must keep, and how to keep them. It also explains how long you must keep your records for federal tax purposes. A sample recordkeeping system is illustrated at the end of this part.

Why Keep Records?

Everyone in business must keep records. Good records will help you do the following.

Monitor the progress of your business. You need good records to monitor the progress of your business. Records can show whether your business is improving, which items are selling, or what changes you need to make. Good records can increase the likelihood of business success.

Prepare your financial statements. You need good records to prepare accurate financial statements. These include income (profit and loss) statements and balance sheets. These statements can help you in dealing with your bank or creditors and help you manage your business.

- An income statement shows the income and expenses of the business for a given period of time.
- A balance sheet shows the assets, liabilities, and your equity in the business on a given date.

Identify source of receipts. You will receive money or property from many sources. Your records can identify the source of your receipts. You need this information to separate business from nonbusiness receipts and taxable from nontaxable income.

Keep track of deductible expenses. You may forget expenses when you prepare your tax return unless you record them when they occur.

Prepare your tax returns. You need good records to prepare your tax returns. These records must support the income, expenses, and credits you report. Generally, these are the same records you use to monitor your business and prepare your financial statements.

Support items reported on tax returns. You must keep your business records available at all times for inspection by the IRS. If the IRS examines any of your tax returns, you may be asked to explain the items reported. A complete set of records will speed up the examination.

Kinds of Records To Keep

Except in a few cases, the law does not require any specific kind of records. You can choose any recordkeeping system suited to your business that clearly shows your income and expenses.

The business you are in affects the type of records you need to keep for federal tax purposes. You should set up your recordkeeping system using an accounting method that clearly shows your income for your tax year. See *Accounting Method,* earlier. If you are in more than one business, you should keep a complete and separate set of records for each business. A corporation should keep minutes of board of directors' meetings.

Your recordkeeping system should include a summary of your business transactions. This summary is ordinarily made in your books (for example, accounting journals and ledgers). Your books must show your gross income, as well as your deductions and credits. For most small businesses, the business checkbook (discussed later) is the main source for entries in the business books. In addition, you must keep supporting documents, explained later.

Electronic records. All requirements that apply to hard copy books and records also apply to electronic storage systems that maintain tax books and records. When you replace hard copy books and records, you must maintain the electronic storage systems for as long as they are material to the administration of tax law. An electronic storage system is any system for preparing or keeping your records either by electronic imaging or by transfer to an electronic storage media. The electronic storage system must index, store, preserve, retrieve and reproduce the electronically stored books and records in legible format. All electronic storage systems must provide a complete and accurate record of your data that is accessible to the IRS. Electronic storage systems are also subject to the same controls and retention guidelines as those imposed on your original hard copy books and records.

The original hard copy books and records may be destroyed provided that the electronic storage system has been tested to establish that the hard copy books and records are being reproduced in compliance with IRS requirements for an electronic storage system and procedures are established to ensure continued compliance with all applicable rules and regulations. You still have the responsibility of retaining any other books and records that are required to be retained.

The IRS may test your electronic storage system, including the equipment used, indexing methodology, software and retrieval capabilities. This test is not considered an examination and the results must be shared with you. If your electronic storage system meets the requirements mentioned earlier, you will be in compliance. If not, you may be subject to penalties for non-compliance, unless you continue to maintain your original hard copy books and records in a manner that allows you and the IRS to determine your correct tax. For details on electronic storage system requirements, see Revenue Procedure 97-22, available in Internal Revenue Bulletin 1997-13.

Supporting Documents

Purchases, sales, payroll, and other transactions you have in your business generate supporting documents. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks. These documents contain information you need to record in your books.

It is important to keep these documents because they support the entries in your books and on your tax return. Keep them in an orderly fashion and in a safe place. For instance, organize them by year and type of income or expense.

Gross receipts. Gross receipts are the income you receive from your business. You should keep supporting documents that show the amounts and sources of your gross receipts. Documents that show gross receipts include the following.

- Cash register tapes.
- Bank deposit slips.
- Receipt books.
- Invoices.
- Credit card charge slips.
- Forms 1099-MISC.

Purchases. Purchases are the items you buy and resell to customers. If you are a manufacturer or producer, this includes the cost of all raw materials or parts purchased for manufacture into finished products. Your supporting documents should show the amount paid and that the amount was for purchases. Documents for purchases include the following.

- Canceled checks.
- Cash register tape receipts.
- Credit card sales slips.
- Invoices.

These records will help you determine the value of your inventory at the end of the year. See Publication 538 for information on methods for valuing inventory.

Expenses. Expenses are the costs you incur (other than purchases) to carry on your business. Your supporting documents should show the amount paid and that the amount was for a business expense. Documents for expenses include the following.

- Canceled checks.
- Cash register tapes.
- Account statements.
- Credit card sales slips.
- Invoices.
- Petty cash slips for small cash payments.

TIP *A petty cash fund allows you to make small payments without having to write checks for small amounts. Each time you make a payment from this fund, you should make out a petty cash slip and attach it to your receipt as proof of payment.*

Travel, transportation, entertainment, and gift expenses. Specific recordkeeping rules apply to these expenses. For more information, see Publication 463.

Employment taxes. There are specific employment tax records you must keep. For a list, see Publication 15.

Assets. Assets are the property, such as machinery and furniture you own and use in your business. You must keep records to verify certain information about your business assets. You need records to figure the annual depreciation and the gain or loss when you sell the assets. Your records should show the following information.

- When and how you acquired the asset.
- Purchase price.
- Cost of any improvements.
- Section 179 deduction taken.
- Deductions taken for depreciation.
- Deductions taken for casualty losses, such as losses resulting from fires or storms.
- How you used the asset.
- When and how you disposed of the asset.
- Selling price.
- Expenses of sale.

The following documents may show this information.

- Purchase and sales invoices.
- Real estate closing statements.
- Canceled checks.

What if I don't have a canceled check? If you do not have a canceled check, you may be able to prove payment with certain financial account statements prepared by financial institutions. These include account statements prepared for the financial institution by a third party. These account statements must be highly legible. The following table lists acceptable account statements.

IF payment is by...	THEN the statement must show the...
Check	• Check number. • Amount. • Payee's name. • Date the check amount was posted to the account by the financial institution.
Electronic funds transfer	• Amount transferred. • Payee's name. • Date the transfer was posted to the account by the financial institution.
Credit card	• Amount charged. • Payee's name. • Transaction date.

CAUTION

Proof of payment of an amount, by itself, does not establish you are entitled to a tax deduction. You should also keep other documents, such as credit card sales slips and invoices, to show that you also incurred the cost.

Recording Business Transactions

A good recordkeeping system includes a summary of your business transactions. (Your business transactions are shown on the supporting documents just discussed.) Business transactions are ordinarily summarized in books called journals and ledgers. You can buy them at your local stationery or office supply store.

A journal is a book where you record each business transaction shown on your supporting documents. You may have to keep separate journals for transactions that occur frequently.

A ledger is a book that contains the totals from all of your journals. It is organized into different accounts.

Whether you keep journals and ledgers and how you keep them depends on the type of business you are in. For example, a recordkeeping system for a small business might include the following items.

- Business checkbook.
- Daily summary of cash receipts.
- Monthly summary of cash receipts.
- Check disbursements journal.
- Depreciation worksheet.
- Employee compensation record.

The business checkbook is explained next. The other items are illustrated later under *Sample Record System.*

TIP

The system you use to record business transactions will be more effective if you follow good recordkeeping practices. For example, record expenses when they occur, and identify the source of recorded receipts. Generally, it is best to record transactions on a daily basis.

Business checkbook. One of the first things you should do when you start a business is open a business checking account. You should keep your business account separate from your personal checking account.

The business checkbook is your basic source of information for recording your business expenses. You should deposit all daily receipts in your business checking account. You should check your account for errors by reconciling it. See *Reconciling the checking account,* later.

Consider using a checkbook that allows enough space to identify the source of deposits as business income, personal funds, or loans. You should also note on the deposit slip the source of the deposit and keep copies of all slips.

You should make all payments by check to document business expenses. Write checks payable to yourself only when making withdrawals from your business for personal use. Avoid writing checks payable to cash. If you must write a check for cash to pay a business expense, include the receipt for the cash payment in your records. If you cannot get a receipt for a cash payment, you should make an adequate explanation in your records at the time of payment.

TIP

Use the business account for business purposes only. Indicate the source of deposits and the type of expense in the checkbook.

Reconciling the checking account. When you receive your bank statement, make sure the statement, your checkbook, and your books agree. The statement balance may not agree with the balance in your checkbook and books if the statement:

- Includes bank charges you did not enter in your books and subtract from your checkbook balance, or
- Does not include deposits made after the statement date or checks that did not clear your account before the statement date.

By reconciling your checking account, you will:

- Verify how much money you have in the account,
- Make sure that your checkbook and books reflect all bank charges and the correct balance in the checking account, and

- Correct any errors in your bank statement, checkbook, and books.

TIP *You should reconcile your checking account each month.*

Before you reconcile your monthly bank statement, check your own figures. Begin with the balance shown in your checkbook at the end of the previous month. To this balance, add the total cash deposited during the month and subtract the total cash disbursements.

After checking your figures, the result should agree with your checkbook balance at the end of the month. If the result does not agree, you may have made an error in recording a check or deposit. You can find the error by doing the following.

1. Adding the amounts on your check stubs and comparing that total with the total in the "amount of check" column in your check disbursements journal. If the totals do not agree, check the individual amounts to see if an error was made in your check stub record or in the related entry in your check disbursements journal.
2. Adding the deposit amounts in your checkbook. Compare that total with the monthly total in your cash receipt book, if you have one. If the totals do not agree, check the individual amounts to find any errors.

If your checkbook and journal entries still disagree, then refigure the running balance in your checkbook to make sure additions and subtractions are correct.

When your checkbook balance agrees with the balance figured from the journal entries, you may begin reconciling your checkbook with the bank statement. Many banks print a reconciliation worksheet on the back of the statement.

To reconcile your account, follow these steps.

1. Compare the deposits listed on the bank statement with the deposits shown in your checkbook. Note all differences in the dollar amounts.
2. Compare each canceled check, including both check number and dollar amount, with the entry in your checkbook. Note all differences in the dollar amounts. Mark the check number in the checkbook as having cleared the bank. After accounting for all checks returned by the bank, those not marked in your checkbook are your outstanding checks.
3. Prepare a bank reconciliation. One is illustrated later under *Sample Record System.*
4. Update your checkbook and journals for items shown on the reconciliation as not recorded (such as service charges) or recorded incorrectly.

At this point, the adjusted bank statement balance should equal your adjusted checkbook balance. If you still have differences, check the previous steps to find the errors.

Bookkeeping System

You must decide whether to use a single-entry or a double-entry bookkeeping system. The single-entry system of bookkeeping is the simplest to maintain, but it may not be suitable for everyone. You may find the double-entry system better because it has built-in checks and balances to assure accuracy and control.

Single-entry. A single-entry system is based on the income statement (profit or loss statement). It can be a simple and practical system if you are starting a small business. The system records the flow of income and expenses through the use of:

1. A daily summary of cash receipts, and
2. Monthly summaries of cash receipts and disbursements.

Double-entry. A double-entry bookkeeping system uses journals and ledgers. Transactions are first entered in a journal and then posted to ledger accounts. These accounts show income, expenses, assets (property a business owns), liabilities (debts of a business), and net worth (excess of assets over liabilities). You close income and expense accounts at the end of each tax year. You keep asset, liability, and net worth accounts open on a permanent basis.

In the double-entry system, each account has a left side for debits and a right side for credits. It is self-balancing because you record every transaction as a debit entry in one account and as a credit entry in another.

Under this system, the total debits must equal the total credits after you post the journal entries to the ledger accounts. If the amounts do not balance, you have made an error and you must find and correct it.

An example of a journal entry exhibiting a payment of rent in October is shown next.

General Journal

Date	Description of Entry	Debit	Credit
Oct. 5	*Rent expense*	*780.00*	
	Cash		*780.00*

Computerized System

There are computer software packages you can use for recordkeeping. They can be purchased in many retail stores. These packages are very helpful and relatively easy to use; they require very little knowledge of bookkeeping and accounting.

If you use a computerized system, you must be able to produce sufficient legible records to support and verify entries made on your return and determine your correct tax liability. To meet this qualification, the machine-sensible records must reconcile with your books and return. These records must provide enough detail to identify the underlying source documents.

You must also keep all machine-sensible records and a complete description of the computerized portion of your recordkeeping system. This documentation must be sufficiently detailed to show all of the following items.

- Functions being performed as the data flows through the system.
- Controls used to ensure accurate and reliable processing.
- Controls used to prevent the unauthorized addition, alteration, or deletion of retained records.
- Charts of accounts and detailed account descriptions.

See Revenue Procedure 98-25 in Cumulative Bulletin 1998-1 for more information.

How Long To Keep Records

You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code. Generally, this means you must keep records that support an item of income or deduction on a return until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund, or the IRS can assess additional tax. Table 3 contains the periods of limitations that apply to income tax returns. Unless otherwise stated, the years refer to the period after the return was filed. Returns filed before the due date are treated as filed on the due date.

TIP *Keep copies of your filed tax returns. They help in preparing future tax returns and making computations if you file an amended return.*

Employment taxes. If you have employees, you must keep all employment tax records for at least 4 years after the date the tax becomes due or is paid, whichever is later. For more information about recordkeeping for employment taxes, see Publication 15.

Assets. Keep records relating to property until the period of limitations expires for the year in which you dispose of the property in a taxable disposition. You must keep these records to figure any depreciation, amortization, or depletion deduction, and to figure your basis for computing gain or loss when you sell or otherwise dispose of the property.

Generally, if you received property in a nontaxable exchange, your basis in that property is the same as the basis of the property you gave up, increased by any money you paid. You must keep the records on the old property, as well as on the new property, until the period of limitations expires for the year in which you dispose of the new property in a taxable disposition.

Records for nontax purposes. When your records are no longer needed for tax purposes, do not discard them until you check to see if you have to keep them longer for other purposes. For example, your insurance company or creditors may require you to keep them longer than the IRS does.

Sample Record System

This example illustrates a single-entry system used by Henry Brown, who is the sole proprietor of a small automobile body shop. Henry uses part-time help, has no inventory of items held for sale, and uses the cash method of accounting.

These sample records should not be viewed as a recommendation of how to keep your records. They are intended only to show how one business keeps its records.

1. Daily Summary of Cash Receipts

This summary is a record of cash sales for the day. It accounts for cash at the end of the day over the amount in the Change and Petty Cash Fund at the beginning of the day.

Table 3. **Period of Limitations**

IF you...	THEN the period is...
1. Owe additional tax and situations (2), (3), and (4), below, do not apply to you	3 years
2. Do not report income that you should report and it is more than 25% of the gross income shown on the return	6 years
3. File a fraudulent return	Not limited
4. Do not file a return	Not limited
5. File a claim for credit or refund after you filed your return	Later of: 3 years or 2 years after tax was paid
6. File a claim for a loss from worthless securities or a bad debt deduction	7 years

Henry takes the cash sales entry from his cash register tape. If he had no cash register, he would simply total his cash sale slips and any other cash received that day.

He carries the total receipts shown in this summary for January 3 ($267.80), including cash sales ($263.60) and sales tax ($4.20), to the *Monthly Summary of Cash Receipts*.

Petty cash fund. Henry uses a petty cash fund to make small payments without having to write checks for small amounts. Each time he makes a payment from this fund, he makes out a petty cash slip and attaches it to his receipt as proof of payment. He sets up a fixed amount ($50) in his petty cash fund. The total of the unspent petty cash and the amounts on the petty cash slips should equal the fixed amount of the fund. When the totals on the petty cash slips approach the fixed amount, he brings the cash in the fund back to the fixed amount by writing a check to "Petty Cash" for the total of the outstanding slips. (See the *Check Disbursements Journal* entry for check number 92.) This restores the fund to its fixed amount of $50. He then summarizes the slips and enters them in the proper columns in the monthly check disbursements journal.

2. Monthly Summary of Cash Receipts

This shows the income activity for the month. Henry carries the total monthly net sales shown in this summary for January ($4,865.05) to his *Annual Summary.*

To figure total monthly net sales, Henry reduces the total monthly receipts by the sales tax imposed on his customers and turned over to the state. He cannot take a deduction for sales tax turned over to the state because he only collected the tax. He does not include the tax in his income.

3. Check Disbursements Journal

Henry enters checks drawn on the business checking account in the *Check Disbursements Journal* each day. All checks are prenumbered and each check number is listed and accounted for in the column provided in the journal.

Frequent expenses have their own headings across the sheet. He enters in a separate column expenses that require comparatively numerous or large payments each month, such as materials, gross payroll, and rent. Under the *General Accounts* column, he enters small expenses that normally have only one or two monthly payments, such as licenses and postage.

Henry does not pay personal or nonbusiness expenses by checks drawn on the business account. If he did, he would record them in the journal, even though he could not deduct them as business expenses.

Henry carries the January total of expenses for materials ($1,083.50) to the *Annual Summary.* Similarly, he enters the monthly total of expenses for telephone, truck/auto, etc., in the appropriate columns of that summary.

4. Employee Compensation Record

This record shows the following information.

- The number of hours Henry's employee worked in a pay period.
- The employee's total pay for the period.
- The deductions Henry withheld in figuring the employee's net pay.
- The monthly gross payroll.

Henry carries the January gross payroll ($520) to the *Annual Summary.*

5. Annual Summary

This annual summary of monthly cash receipts and expense totals provides the final amounts to enter on Henry's tax return. He figures the cash receipts total from the total of monthly cash receipts shown in the *Monthly Summary of Cash Receipts.* He figures the expense totals from the totals of monthly expense items shown in the *Check Disbursements Journal.*As in the journal, he keeps each major expense in a separate column.

Henry carries the cash receipts total shown in the annual summary ($47,440.95) to Part I of Schedule C (not illustrated). He carries the total for materials ($10,001.00) to Part II of Schedule C.

A business that keeps materials and supplies on hand generally must complete the inventory lines in Part III of Schedule C. However, there are no inventories of materials and supplies in this example. Henry buys parts and supplies on a per-job basis; he does not keep them on hand.

Henry enters annual totals for interest, rent, taxes, and wages on the appropriate lines in Part II of Schedule C. The total for taxes and licenses includes the employer's share of social security and Medicare taxes, and the business license fee. He enters the total of other annual business expenses on the "Other expenses" line of Schedule C.

6. Depreciation Worksheet

This worksheet shows the information used in figuring the depreciation allowed on assets used in Henry's business. Henry figures the depreciation using the modified accelerated cost recovery system (MACRS). He purchased and placed in service several used assets that do not qualify for the section 179 deduction. Depreciation and the section 179 deduction are discussed in Publication 946. Henry uses the information in the worksheet to complete Form 4562, *Depreciation and Amortization* (not illustrated).

7. Bank Reconciliation

Henry reconciles his checkbook with his bank statement and prepares a bank reconciliation for January as follows.

1. Henry begins by entering his bank statement balance.
2. Henry compares the deposits listed on the bank statement with deposits shown in his checkbook. Two deposits shown in his checkbook— $701.33 and $516.08—were not on his bank statement. He enters these two amounts on the bank reconciliation. He adds them to the bank statement balance of $1,458.12 to arrive at a subtotal of $2,675.53.
3. After comparing each canceled check with his checkbook, Henry found four outstanding checks totaling $526.50. He subtracts this amount from the subtotal in (2). The result of $2,149.03 is the adjusted bank statement balance.
4. Henry enters his checkbook balance on the bank reconciliation.
5. Henry discovered that he mistakenly entered a deposit of $600.40 in his checkbook as $594.40. He adds the difference ($6.00) to the checkbook balance of $2,153.03. There was a $10.00 bank service charge on his bank statement that he subtracts from the checkbook balance. The result is the adjusted checkbook balance of $2,149.03. This equals his adjusted bank statement balance computed in (3).

The only book adjustment Henry needs to make is to the *Check Disbursements Journal* for the $10 bank service charge. He does not need to adjust the *Monthly Summary of Cash Receipts* because he correctly entered the January 8 deposit of $600.40 in that record.

Daily Cash Receipts

1. Daily Summary of Cash Receipts

Date January 3, 20 —

Cash sales		263.60
Sales tax		4.20
TOTAL RECEIPTS		267.80
Cash on hand		
Cash in register (including unspent petty cash)		
Coins	23.75	
Bills	143.00	
Checks	134.05	
TOTAL CASH IN REGISTER		300.80
Add: Petty cash slips		17.00
TOTAL CASH		317.80
Less: Change and petty cash		
Petty cash slips	17.00	
Coins and bills . . . . (unspent petty cash)	33.00	
TOTAL CHANGE AND PETTY CASH FUND . .		50.00
TOTAL CASH RECEIPTS		267.80

2. Monthly Summary of Cash Receipts

Year 20— **Month** January

Day	Net Sales	Sales Tax	Daily Receipts	Deposit
3	263.60	4.20	267.80	
4	212.00	3.39	215.39	
5	194.40	3.10	197.50	680.69
6	222.40	3.54	225.94	
7	231.15	3.68	234.83	
8	137.50	2.13	139.63	600.40
10	187.90	2.99	190.89	
11	207.56	3.31	210.87	401.76
12	128.95	2.05	131.00	
13	231.40	3.77	235.17	
14	201.28	3.21	204.49	
15	88.01	1.40	89.41	660.07
17	210.95	3.36	214.31	
18	221.80	3.53	225.33	439.64
19	225.15	3.59	228.74	
20	221.93	3.52	225.45	
21	133.53	2.13	135.66	589.85
22	130.84	2.08	132.92	
24	216.37	3.45	219.82	352.74
25	220.05	3.50	223.55	
26	197.80	3.15	200.95	
27	272.49	4.34	276.83	701.33
28	150.64	2.40	153.04	
29	224.05	3.56	227.61	
31	133.30	2.13	135.43	516.08
TOTALS	4,865.05	77.51	4,942.56	4,942.56

3. Check Disbursements Journal

Year 20— **Month** January

Day	Paid To	Check #	Amount of Check	Materials	Gross Payroll	Federal Withheld Income Tax	FICA Social Security Reserve	FICA Medicare Reserve
3	Dale Advertising	74	85.00					
4	City Treasurer	75	35.00					
4	Auto Parts, Inc.	76	203.00	203.00				
4	John E. Marks	77	214.11		260.00	(20.00)	(16.12)	(3.77)
6	Henry Brown	78	250.00					
6	Mike's Deli	79	36.00					
6	Joe's Service Station	80	74.50	29.50				
6	ABC Auto Paint	81	137.50	137.50				
7	Henry Brown	82	225.00					
14	Telephone Co.	83	27.00					
15	National Bank (Tax Deposit)	84	119.56			40.00	32.24	7.54
18	National Bank	85	90.09					
18	Auto Parts, Inc.	86	472.00	472 .00				
18	Henry Brown	87	275.00					
18	John E. Marks	88	214.11		260.00	(20.00)	(16.12)	(3.77)
21	Electric Co.	89	175.30					
21	M.B. Ignition	90	66.70	66.70				
21	Baker's Fender Co.	91	9.80	9.80				
21	Petty Cash	92	17.00	15.00				
21	Henry Brown	93	225.00					
25	Baker's Fender Co.	94	150.00	150.00				
25	Enterprise Properties	95	300.00					
25	State Treasurer	96	12.00					
25	State Treasurer	97	65.00					
			3,478.67	1,083.50	520.00	-0-	-0-	-0-
	Bank service charge		10.00					
TOTALS			3,488.67	1,083.50	520.00	-0-	-0-	-0-

3. Check Disbursements Journal (Continued)

State Withheld Income Tax	Employer's FICA Tax	Electric	Interest	Rent	Telephone	Truck/ Auto	Drawing	General Accounts	
								Advertising	85.00
								License	35.00
(6.00)									
							250.00		
								Holiday Party	36.00
						45.00			
							225.00		
					27.00				
	39.78								
			18.09					Loan	72.00
							275.00		
(6.00)									
		175.30							
								Postage	2.00
							225.00		
				300.00					
12.00									
								Sales Tax	65.00
-0-	39.78	175.30	18.09	300.00	27.00	45.00	975.00		295.00
									10.00
-0-	39.78	175.30	18.09	300.00	27.00	45.00	975.00		305.00

4. Employee Compensation Record

Name John E. Marks ☐ Full Time Soc. Sec. No. 567-00-8901

Address 1 Elm St., Anytown, NJ 07101 ☒ Part Time Date of Birth 12-21-65

Phone 555-6075 No. of Exemptions 1 / single

		Hours Worked				Earnings			Deductions				
Pay Period Ending	Date Paid	S M T W T F S	S M T W T F S	Total Regular Hours	Overtime	Regular Rate	Overtime Rate	Total	Social Security	Medicare	Federal Income Tax	State Income Tax	Net Pay
1 - 1	1 - 4	5 555	5 546	40		$6.50	.	$260.00	$16.12	$3.77	$20.00	$6.00	$214.11
1 - 15	1 - 18	444442	43443	40		$6.50	.	$260.00	$16.12	$3.77	$20.00	$6.00	$214.11
				80		.	.	$520.00	$32.24	$7.54	$40.00	$12.00	$428.22
						.	.	.	.	.	.	.	.
QUARTERLY TOTALS						.	.	$1,262.40	$78.23	$18.31	$100.00	$30.00	$1,035.86

5. Annual Summary

Month	Cash Receipts	Materials/ Supplies	Gross Payroll	FICA Taxes	Bank Charges	Electric	Interest	Insurance	Rent	Telephones	Truck/ Auto	Advertising	Office Expenses	Taxes/ Licenses	Misc.
January	$4,865.05	$1,083.50	$520.00	$39.78	$10.00	$175.30	$18.09	.	$300.00	$27.00	$45.00	$85.00	$36.00	$100.00	$2.00
February	3,478.32	874.93	235.40	17.68	7.50	153.10	18.09	210.00	300.00	21.50	28.50	.	.	.	.
March	3,942.00	724.90	507.00	38.08	11.25	145.81	18.09	.	300.00	32.10	51.30	.	.	.	.
December	3,656.52	609.23	520.00	39.78	10.00	169.00	18.09	.	300.00	23.13	37.62	.	4.00	.	71.91
TOTALS	$47,440.95	$10,001.00	$5,434.00	$408.09	$92.30	$1,642.37	$217.08	$420.00	$3,600.00	$324.09	$571.46	$85.00	$40.00	$218.00	$344.00

6. Depreciation Worksheet

Description of Property	Date Placed in Service	Cost or Other Basis	Business/ Investment Use %	Section 179 Deduction and Special Allowance	Depreci- ation Prior Years	Basis for Depreciation	Method/ Convention	Recovery Period	Rate or Table %	Depreciation Deduction
Used Equipment— Transmission Jack	1 - 3	3,000	100%	—	—	3,000	200 DB/HY	7	14.29%	$429
Used Pickup Truck	1 - 3	8,000	100%	—	—	8,000	200 DB/HY	5	20%	1,600
Used Heavy Duty Tow Truck	1 - 3	30,000	100%	—	—	30,000	200 DB/HY	5	20%	6,000
Used Equipment— Engine Hoist	1 - 3	4,000	100%	—	—	4,000	200 DB/HY	7	14.29%	572
										$8,601

7. Bank Reconciliation as of

Date January 31, 20 —

Closing balance shown on bank statement		1,458.12
Add deposits not credited:		
1/28	701.33	
1/31	516.08	
TOTAL DEPOSITS NOT CREDITED		1,217.41
Subtotal		2,675.53
Subtract outstanding checks:		
No. 90	66.70	
91	9.80	
94	150.00	
95	300.00	
TOTAL OUTSTANDING CHECKS		526.50
Adjusted balance per bank statement		2,149.03
Balance shown in checkbook		2,153.03
Add: Deposit of $600.40 for 1/8 entered as $594.40 (difference)		6.00
		2,159.03
Subtract: Bank service charge		10.00
Adjusted checkbook balance		2,149.03

How to Get More Information

This section describes the help the IRS and other federal agencies offer to taxpayers who operate their own businesses.

Internal Revenue Service

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Free help with your return. Free help in preparing your return is available nationwide from IRS-certified volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-moderate income taxpayers and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 and older with their tax returns. Most VITA and TCE sites offer free electronic filing and all volunteers will let you know about credits and deductions you may be entitled to claim. To find the nearest VITA or TCE site, visit IRS.gov or call 1-800-906-9887 or 1-800-829-1040.

As part of the TCE program, AARP offers the Tax-Aide counseling program. To find the nearest AARP Tax-Aide site, call 1-888-227-7669 or visit AARP's website at www.aarp.org/money/taxaide.

For more information on these programs, go to IRS.gov and enter keyword "VITA" in the upper right-hand corner.

Internet. You can access the IRS website at IRS.gov 24 hours a day, 7 days a week to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2011 refund. Go to IRS.gov and click on *Where's My Refund*. Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2011 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, including talking tax forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- Use the online Internal Revenue Code, regulations, or other official guidance.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant available online at www.irs.gov/individuals
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-TAX -FORM (1-800-829-3676) to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* To check the status of your 2011 refund, call 1-800-829-1954 or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2011 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund. If you check the status of your refund and are not given the date it will be issued, please wait until the next week before checking back.
- *Other refund information.* To check the status of a prior-year refund or amended return refund, call 1-800-829-1040.

Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to listen in on or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you are more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary—just walk in. If you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. If you have an ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to www.irs.gov/localcontacts or look in the phone book under *United States Government, Internal Revenue Service*.

Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

Taxpayer Advocate Service. The Taxpayer Advocate Service (TAS) is your voice at the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights. We offer free help to guide you through the often-confusing process of resolving tax problems that you haven't been able to solve on your own. Remember, the worst thing you can do is nothing at all.

TAS can help if you can't resolve your problem with the IRS and:

- Your problem is causing financial difficulties for you, your family, or your business.
- You face (or your business is facing) an immediate threat of adverse action.
- You have tried repeatedly to contact the IRS but no one has responded, or the IRS has not responded to you by the date promised.

If you qualify for our help, we'll do everything we can to get your problem resolved. You will be assigned to one advocate who will be with you at every turn. We have offices in every state, the District of Columbia, and Puerto Rico. Although TAS is independent within the IRS, our advocates know how to work with the IRS to get your problems resolved. And our services are always free.

As a taxpayer, you have rights that the IRS must abide by in its dealings with you. Our tax toolkit at www.TaxpayerAdvocate.irs.gov can help you understand these rights.

If you think TAS might be able to help you, call your local advocate, whose number is in your phone book and on our website at www.irs.gov/advocate. You can also call our toll-free number at 1-877-777-4778 or TTY/TDD 1-800-829-4059.

TAS also handles large-scale or systemic problems that affect many taxpayers. If you know of one of these broad issues, please report it to us through our Systemic Advocacy Management System at www.irs.gov/advocate.

Low Income Taxpayer Clinics (LITCs). Low Income Taxpayer Clinics (LITCs) are independent from the IRS. Some clinics serve individuals whose income is below a certain level and who need to resolve a tax problem. These clinics provide professional representation before the IRS or in court on audits, appeals, tax collection disputes, and other issues for free or for a small fee. Some clinics can provide information about taxpayer rights and responsibilities in many different languages for individuals who speak English as a second language. For more information and to find a clinic near you, see the LITC page on www.irs.gov/advocate or IRS Publication 4134, *Low Income Taxpayer Clinic List*. This publication is also available by calling 1-800-829-3676 or at your local IRS office.

Free tax services. Publication 910, IRS Guide to Free Tax Services, is your guide to IRS services and resources. Learn about free tax information from the IRS, including publications, services, and education and assistance programs. The publication also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on the telephone. The majority of the information and services listed in this publication are available to you free of charge. If there is a fee associated with a resource or service, it is listed in the publication.

Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code—Title 26 of the U.S. Code.
- Links to other Internet based Tax Research materials.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
  – The first release will ship the beginning of January 2012.
  – The final release will ship the beginning of March 2012.

Purchase the DVD from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for $30 (plus a $6 handling fee).

Small Business Administration

The Small Business Administration (SBA) offers training and educational programs, counseling services, financial programs, and contract assistance for small business owners. The SBA also has publications and videos on a variety of business topics. The following briefly describes assistance provided by the SBA.

Small Business Development Centers (SBDCs). SBDCs provide counseling, training, and technical services to current and prospective small business owners who cannot afford the services of a private consultant. Help is available when beginning, improving, or expanding a small business.

Business Information Centers (BICs). BICs offer a small business reference library, management video tapes, and computer technology to help plan a business. BICs also offer one-on-one assistance. Individuals who are in business or are interested in starting a business can use BICs as often as they wish at no charge.

Service Corps of Retired Executives (SCORE). SCORE provides small business counseling and training to current and prospective small business owners. SCORE is made up of current and former business people who offer their expertise and knowledge to help people start, manage, and expand a small business. SCORE also offers a variety of small business workshops.

Internet. You can visit the SBA website at *www.sba.gov.* While visiting the SBA website, you can find a variety of information of interest to small business owners.

Phone. Call the SBA Answer Desk at 1-800-UASK-SBA (1-800-827-5722) for general information about programs available to assist small business owners.

Walk-in. You can walk in to a Small Business Development Center or Business Information Center to request assistance with your small business. To find the location nearest you, access the SBA on the Internet or call the SBA Answer Desk

Other Federal Agencies

Other Federal agencies also publish publications and pamphlets to assist small businesses. Most of these are available from the Superintendent of Documents at the Government Printing Office. You can get information and order these publications and pamphlets in several ways.

Internet. You can visit the GPO website at *www.access.gpo.gov*.

Mail. Write to the GPO at the following address.

Superintendent of Documents
U.S. Government Printing Office
P.O. Box 371954
Pittsburgh, PA 15250–7954

Phone. Call the GPO toll-free at 1-866-512-1800 or at 202-512-1800 from the Washington, DC area.

Index

To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

■

BOULDER Small Business Development Center

Checklist for Starting a New Business

Answer **"Yes"** or **"No"** to the following:

______ You have written a description of the products and/or services that you will be providing and defined the market area you are going to serve.

______ You have written a business plan, defining your long range and short range goals and objectives.

______ You have a written financial plan, including projected profit and loss statements and cash flow statements for a period of at least two years for three cases: 1) expected case 2) worst case and 3) best case.

______ You have outlined the money requirements for your start-up costs and for your three cash flow projections and secured financial backing to cover the worst case projection for at least two.

______ You have studied your market, checked zoning regulations, state and local licensing requirements and found a good location for your business.

______ You have developed a marketing plan and budget.

______ You have decided under what business form you will operate – sole proprietorship, partnership, LLC or corporation.

______ You have an attorney, an accountant, a banker and an insurance agent and you have sought their advice.

IF YOU DID NOT ANSWER YES TO ALL THE ABOVE, THEN STOP!!
You are **not** ready to begin business. If you need further help developing your business plan, call the Boulder Small Business Development Center at 303-442-1475.

Steps to Start Up Your Business

1. Legal Structure: Secretary of State
(www.sos.state.co.us)

Registration is done online

a) Trade Name/ Sole Proprietor
b) Trade Name/a Non-Reporting Entity *(e.g., a general partnership)*
c) Corporation
d) Limited Partnership
e) Limited Liability Company (LLC)
f) S Corporation *(You must set up a Corporation with the Secretary of State first then to elect to be an S Corporation must file Form 2553. The election permits the income of the S corporation to be taxed to the shareholders of the corporation rather than to the corporation itself.)*
g) Limited Liability Partnership (LLP)
h) Limited Partnership Association (LPA)

As an extension of your legal structure set up with the Secretary of State, you can set up a Statement of TRADE NAME under "filing a document – Affecting an existing record."

2. Federal Identification Number *(the only Legal structure that does not need a EIN # is a sole proprietor with no employees and no independent contractors, he/she is in business by themselves.)*

An Employer Identification Number (EIN) is a nine-digit number that IRS assigns in the following format: 00-0000000. However, for employee plans an alpha (for example, P) or the plan number (e.g., 003) may follow the EIN. The IRS uses the number to identify taxpayers who are required to file various business tax returns. Employers, sole proprietors, corporations, partnerships, nonprofit associations, and trusts, estates of decedents, government agencies, certain individuals and other business entities use EINs. (www.irs.gov)

To obtain an EIN: You can call toll free ***1(800)-829-4933*** M-F 7:30 am -5:30 pm or fax your request 24/7 to 1 (215) 516-3990, or visit https://sa.www4.irs.gov/modiein/individual/index.jsp to apply online.

3. **If you are selling a tangible product** you need to get a State Sales tax License and also a local Sales tax license. (www.colorado.gov/revenue) *Form # CR0100 and CR0101*, the Instruction Sheet. This is a three-part form used to set up a:

1) Trade Name for a Sole Proprietorship or General partnership
2) Sales tax and
3) withholding for the State of Colorado.

4. **You do need to check on the State Licensing Requirements** on page www.state.co.us/oed and go under Occupational/Industry Licensing Database.

5. **And the Local level** (All the Cities and Counties were you are doing business)

Filing a Trade Name with the Colorado Secretary of State

Trade names must be filed electronically through the Secretary of State's website, www.sos.state.co.us. Paper filing is not available for trade name filings. Department of Revenue forms will not be accepted.

To file documents online for a new record:

- Under the Business Information column, select "File a document … creating a new record".

- Select the appropriate form for your transaction.

- Complete the form. All fields with a red asterisk (*) must be completed.

- Select "Submit" after information has been entered in the appropriate fields. The Transaction Preview page will be displayed after selecting "Submit", unless an attachment is necessary, in which case the Manage Attachments page will be displayed. For more information on managing attachments click here.

- If the Web site does not proceed to the Transaction Preview page, scroll to the top of the page and look for error messages in red. Correct the errors and then select "Submit".

- The Transaction Preview page will display an image of the document. Review the document for errors. If any changes or corrections need to be made, select "Return to Form" at the bottom of the screen to go back to the form. Otherwise, select "Accept" to proceed to the payment screen.

- A copy of the document may be printed from the Transaction Preview page by selecting the print button in the image window.

- Enter either credit card or prepaid account information on the Online Payment page, then select "Pay Now". Do not click "Pay Now" more than once. Clicking "Pay Now" more than once may result in multiple charges to your account.

- A confirmation page will display. The document is now filed and will appear in the History and Documents for the affected record. You may print a copy of the confirmation page for your records.

Do not use the Internet browser's "Back" button while navigating the Secretary of State Web site. Using the "Back" button will cause errors to occur and may result in the loss of information.
If after submitting the payment online you receive a message saying the page has expired or you have been timed out, return to the Business Center and search the business database for the record. Enter the entity name or ID number and select "Search". If you enter a name, a list of entities with similar names will display. Select the ID Number of the appropriate entity. If you do not find your record by the entity name or ID number, your document was not filed.
You can find more information at the "Helpful Filing Tips & Troubleshooting Information" page.

Note: Form SS-4 begins on the next page of this document.

Change to Domestic Employer Identification Number (EIN) Assignment by Toll-Free Phones

Beginning January 6, 2014, the IRS will refer all domestic EIN requests received by toll-free phones to the EIN Online Assistant. You can access the Assistant by going to www.irs.gov, entering “EIN” in the “Search” feature and following instructions for applying for an EIN online.

Attention
Limit of one (1) Employer Identification Number (EIN) Issuance per Business Day

Effective May 21, 2012, to ensure fair and equitable treatment for all taxpayers, the Internal Revenue Service (IRS) will limit Employer Identification Number (EIN) issuance to one per responsible party per day. For trusts, the limitation is applied to the grantor, owner, or trustor. For estates, the limitation is applied to the decedent (decedent estate) or the debtor (bankruptcy estate). This limitation is applicable to all requests for EINs whether online or by phone, fax or mail. We apologize for any inconvenience this may cause.

Change to Where to File Address and Fax-TIN Number

There is a change to the Instructions for Form SS-4 (Rev. January 2011). On page 2, under the "Where to File or Fax" table, the address and Fax-TIN number have changed. If you are applying for an Employer Identification Number (EIN), and you have no legal residence, principal place of business, or principal office or agency in any state or the District of Columbia, file or fax your application to:

Internal Revenue Service Center
Attn: EIN International Operation
Cincinnati, OH 45999
Fax-*TIN*: 859-669-5987

This change will be included in the next revision of the Instructions for Form SS-4.

Form **SS-4**

(Rev. January 2010)

Department of the Treasury
Internal Revenue Service

Application for Employer Identification Number

(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)

▶ See separate instructions for each line. ▶ Keep a copy for your records.

OMB No. 1545-0003

EIN

Type or print clearly.

1 Legal name of entity (or individual) for whom the EIN is being requested

2 Trade name of business (if different from name on line 1)	3 Executor, administrator, trustee, "care of" name
4a Mailing address (room, apt., suite no. and street, or P.O. box)	5a Street address (if different) (Do not enter a P.O. box.)
4b City, state, and ZIP code (if foreign, see instructions)	5b City, state, and ZIP code (if foreign, see instructions)

6 County and state where principal business is located

7a Name of responsible party	7b SSN, ITIN, or EIN

8a Is this application for a limited liability company (LLC) (or a foreign equivalent)? . . . . ☐ **Yes** ☐ **No**

8b If 8a is "Yes," enter the number of LLC members . . . . ▶

8c If 8a is "Yes," was the LLC organized in the United States? . . . . ☐ **Yes** ☐ **No**

9a **Type of entity** (check only one box). **Caution.** If 8a is "Yes," see the instructions for the correct box to check.

- ☐ Sole proprietor (SSN) ______
- ☐ Partnership
- ☐ Corporation (enter form number to be filed) ▶ ______
- ☐ Personal service corporation
- ☐ Church or church-controlled organization
- ☐ Other nonprofit organization (specify) ▶ ______
- ☐ Other (specify) ▶
- ☐ Estate (SSN of decedent) ______
- ☐ Plan administrator (TIN) ______
- ☐ Trust (TIN of grantor) ______
- ☐ National Guard
- ☐ State/local government
- ☐ Farmers' cooperative
- ☐ Federal government/military
- ☐ REMIC
- ☐ Indian tribal governments/enterprises

Group Exemption Number (GEN) if any ▶

9b If a corporation, name the state or foreign country (if applicable) where incorporated	State	Foreign country

10 **Reason for applying** (check only one box)

- ☐ Started new business (specify type) ▶ ______
- ☐ Hired employees (Check the box and see line 13.)
- ☐ Compliance with IRS withholding regulations
- ☐ Other (specify) ▶
- ☐ Banking purpose (specify purpose) ▶ ______
- ☐ Changed type of organization (specify new type) ▶ ______
- ☐ Purchased going business
- ☐ Created a trust (specify type) ▶ ______
- ☐ Created a pension plan (specify type) ▶ ______

11 Date business started or acquired (month, day, year). See instructions.

12 Closing month of accounting year

13 Highest number of employees expected in the next 12 months (enter -0- if none).
If no employees expected, skip line 14.

Agricultural	Household	Other

14 If you expect your employment tax liability to be $1,000 or less in a full calendar year **and** want to file Form 944 annually instead of Forms 941 quarterly, check here. (Your employment tax liability generally will be $1,000 or less if you expect to pay $4,000 or less in total wages.) If you do not check this box, you must file Form 941 for every quarter. ☐

15 First date wages or annuities were paid (month, day, year). **Note.** If applicant is a withholding agent, enter date income will first be paid to nonresident alien (month, day, year) . . . . ▶

16 Check **one** box that best describes the principal activity of your business.
☐ Construction ☐ Rental & leasing ☐ Transportation & warehousing ☐ Health care & social assistance ☐ Wholesale-agent/broker
☐ Real estate ☐ Manufacturing ☐ Finance & insurance ☐ Accommodation & food service ☐ Wholesale-other ☐ Retail
☐ Other (specify)

17 Indicate principal line of merchandise sold, specific construction work done, products produced, or services provided.

18 Has the applicant entity shown on line 1 ever applied for and received an EIN? ☐ **Yes** ☐ **No**
If "Yes," write previous EIN here ▶

Third Party Designee

Complete this section **only** if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.

Designee's name	Designee's telephone number (include area code) ( )
Address and ZIP code	Designee's fax number (include area code) ( )

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.

Name and title (type or print clearly) ▶

Applicant's telephone number (include area code) ( )

Applicant's fax number (include area code) ( )

Signature ▶ Date ▶

Do I Need an EIN?

File Form SS-4 if the applicant entity does not already have an EIN but is required to show an EIN on any return, statement, or other document.[1] See also the separate instructions for each line on Form SS-4.

IF the applicant...	**AND...**	**THEN...**
Started a new business	Does not currently have (nor expect to have) employees	Complete lines 1, 2, 4a–8a, 8b–c (if applicable), 9a, 9b (if applicable), and 10–14 and 16–18.
Hired (or will hire) employees, including household employees	Does not already have an EIN	Complete lines 1, 2, 4a–6, 7a–b (if applicable), 8a, 8b–c (if applicable), 9a, 9b (if applicable), 10–18.
Opened a bank account	Needs an EIN for banking purposes only	Complete lines 1–5b, 7a–b (if applicable), 8a, 8b–c (if applicable), 9a, 9b (if applicable), 10, and 18.
Changed type of organization	Either the legal character of the organization or its ownership changed (for example, you incorporate a sole proprietorship or form a partnership) [2]	Complete lines 1–18 (as applicable).
Purchased a going business [3]	Does not already have an EIN	Complete lines 1–18 (as applicable).
Created a trust	The trust is other than a grantor trust or an IRA trust [4]	Complete lines 1–18 (as applicable).
Created a pension plan as a plan administrator [5]	Needs an EIN for reporting purposes	Complete lines 1, 3, 4a–5b, 9a, 10, and 18.
Is a foreign person needing an EIN to comply with IRS withholding regulations	Needs an EIN to complete a Form W-8 (other than Form W-8ECI), avoid withholding on portfolio assets, or claim tax treaty benefits [6]	Complete lines 1–5b, 7a–b (SSN or ITIN optional), 8a, 8b–c (if applicable), 9a, 9b (if applicable), 10, and 18.
Is administering an estate	Needs an EIN to report estate income on Form 1041	Complete lines 1–6, 9a, 10–12, 13–17 (if applicable), and 18.
Is a withholding agent for taxes on non-wage income paid to an alien (i.e., individual, corporation, or partnership, etc.)	Is an agent, broker, fiduciary, manager, tenant, or spouse who is required to file Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons	Complete lines 1, 2, 3 (if applicable), 4a–5b, 7a–b (if applicable), 8a, 8b–c (if applicable), 9a, 9b (if applicable), 10, and 18.
Is a state or local agency	Serves as a tax reporting agent for public assistance recipients under Rev. Proc. 80-4, 1980-1 C.B. 581 [7]	Complete lines 1, 2, 4a–5b, 9a, 10, and 18.
Is a single-member LLC	Needs an EIN to file Form 8832, Classification Election, for filing employment tax returns and excise tax returns, or for state reporting purposes [8]	Complete lines 1–18 (as applicable).
Is an S corporation	Needs an EIN to file Form 2553, Election by a Small Business Corporation [9]	Complete lines 1–18 (as applicable).

1 For example, a sole proprietorship or self-employed farmer who establishes a qualified retirement plan, or is required to file excise, employment, alcohol, tobacco, or firearms returns, must have an EIN. A partnership, corporation, REMIC (real estate mortgage investment conduit), nonprofit organization (church, club, etc.), or farmers' cooperative must use an EIN for any tax-related purpose even if the entity does not have employees.

2 However, do not apply for a new EIN if the existing entity only (a) changed its business name, (b) elected on Form 8832 to change the way it is taxed (or is covered by the default rules), or (c) terminated its partnership status because at least 50% of the total interests in partnership capital and profits were sold or exchanged within a 12-month period. The EIN of the terminated partnership should continue to be used. See Regulations section 301.6109-1(d)(2)(iii).

3 Do not use the EIN of the prior business unless you became the "owner" of a corporation by acquiring its stock.

4 However, grantor trusts that do not file using Optional Method 1 and IRA trusts that are required to file Form 990-T, Exempt Organization Business Income Tax Return, must have an EIN. For more information on grantor trusts, see the Instructions for Form 1041.

5 A plan administrator is the person or group of persons specified as the administrator by the instrument under which the plan is operated.

6 Entities applying to be a Qualified Intermediary (QI) need a QI-EIN even if they already have an EIN. See Rev. Proc. 2000-12.

7 See also *Household employer* on page 4 of the instructions. **Note.** State or local agencies may need an EIN for other reasons, for example, hired employees.

8 See *Disregarded entities* on page 4 of the instructions for details on completing Form SS-4 for an LLC.

9 An existing corporation that is electing or revoking S corporation status should use its previously-assigned EIN.

Departmental Use Only

CR 0100AP (08/05/14)
COLORADO DEPARTMENT OF REVENUE
Registration Control Section
PO Box 17087
Denver CO 80217-0087

Colorado Sales Tax Withholding Account Application

You can now apply online, see page 3 for more information. If applying by paper, read the instructions (on page 4) before completing this form.

A

1. Reason for Filing This Application — Required

☐ Original Application ☐ Change of Ownership ☐ Additional Location

Do you have a Department of Revenue Account Number? ☐ Yes ☐ No

If Yes, Account Number

2. Indicate Type of Organization. If you are not an individual you must have a FEIN number.

☐ Individual ☐ Limited Liability Company (LLC) ☐ Corporation/'S' Corp. ☐ Government
☐ General Partnership ☐ Limited Liability Partnership (LLP) ☐ Association ☐ Joint Venture
☐ Limited Partnership ☐ Limited Liability Limited Partnership (LLLP) ☐ Estate/Trust ☐ Non–Profit (Charitable)

B

1a. Last Name or Business Name	First Name	Middle initial
1b. Proof of Identification (Requirements – See page 4)		
2a. Trade Name/ Doing Business As (If applicable, and for informational purposes only)	2b. FEIN (required)	2c.SSN

Physical Place of Business

3a. Principal Address (A Colorado address is required if a location in the state)	City	State	Zip
3b. County	3c. If business is within limits of a city, what city?	3d. Phone Number ( )	

Mailing address — enter mailing address here if different than the physical address

4a. Last Name or Business Name	First Name	Middle Initial	4b. Phone Number ( )
4c. Mailing Address	City	State	Zip

5. List specific products (you must list the products you sell) and/or services you provide and Explain In Detail in section 5a. below.

Do you sell alcohol?	☐ Yes	☐ No	Do you rent out items for 30 days or less?	☐ Yes	☐ No
Do you sell tobacco products?	☐ Yes	☐ No	Do you sell Prepaid Wireless?	☐ Yes	☐ No
Is your business in a special taxing district?	☐ Yes	☐ No	Do you sell medical marijuana?	☐ Yes	☐ No
Do you rent motor vehicles for 30 days or less?	☐ Yes	☐ No	Do you sell adult usage marijuana?	☐ Yes	☐ No

5a. List specific products and/or services you provide and Explain In Detail

6a. Owner/Partner/ Corp. Officer Last Name		Owner/Partner/ Corp. Officer First Name	Middle Initial
6b. Title	6c. FEIN	6d. SSN	6e. Phone Number ( )
6f. Address		City	State / Zip
7a. Owner/Partner/ Corp. Officer Last Name		Owner/Partner/ Corp. Officer First Name	Middle Initial
7b. Title	7c. FEIN	7d. SSN	7e. Phone Number ( )
7f. Address		City	State / Zip

(Form continued on page 2)

If you acquired the business in whole or in part, complete the following:

8a. Prior Last Name or Business Name	First Name	Middle Initial	8b.Date of Acquisition (MM/DD/YY)

8c. Address	City	State	Zip

C

1. If seasonal, mark each business month: ☐ Jan ☐ Feb ☐ Mar ☐ Apr ☐ May ☐ Jun ☐ Jul ☐ Aug ☐ Sep ☐ Oct ☐ Nov ☐ Dec

2a. **Filing Frequency:** If sales tax is collected:

☐ $15.00/ month or less — Annually ☐ Under $300/ month — Quarterly

☐ Wholesale Only — Annually ☐ $300/ month or more — Monthly

2b. First Day of Sales (MM/DD/YY)

3. Indicate which applies to you: ☐ Retail-Sales ☐ Wholesaler ☐ Charitable ☐ Retailers-Use

Revenue Registration Account Number (Dept. Use Only)

D

1. **Filing frequency** If wage withholding amount is **W2** (Withholding of $50,000 plus see Section D page 6)

☐ $1 – $6,999/Year — Quarterly ☐ $7,000 – $49,999/ Year — Monthly ☐ $50,000 +/ Year — Weekly

2. ☐ **W2** Withholding ☐ **1099** Withholding

1a. Filing frequency If wage withholding amount is **1099** (Withholding of $50,000 plus see Section D page 6)

☐ $1 – $6,999/Year — Quarterly ☐ $7,000 – $49,999/ Year — Monthly ☐ $50,000 +/ Year — Weekly

2a. ☐ **Oil/Gas** Withholding

3a. First Day of Payroll, if applicable (MM/DD/YY)

3b. Payroll Records Phone Number ( )

E

Period Covered From	To	Fees (see fees on page 3)				
MM/YY	MM/YY	(0020-810)	State Sales Tax Deposit	**(355)**	$	00
MM/YY	MM/YY 12/	(0080-750)	Sales Tax License	**(999)**	$	00
MM/YY	MM/YY 12/	(0100-750)	Wholesale License	**(999)**	$	00
MM/YY	MM/YY	(1000-750)	Wage W2 Withholding	**(999)**	$	00
MM/YY	MM/YY	(1020-750)	1099 Withholding	**(999)**	$	00
MM/YY	MM/YY 12/	(0160-750)	Charitable License	**(999)**	$	00

Mail to and Make Checks Payable to:
Colorado Department of Revenue,
PO Box 17087
Denver, CO 80261-0087

Amount Owed $ .00

The State may convert your check to a one time electronic banking transaction. Your bank account may be debited as early as the same day received by the State. If converted, your check will not be returned. If your check is rejected due to insufficient or uncollected funds, the Department of Revenue may collect the payment amount directly from your bank account electronically.

F

I declare under penalty of perjury in the second degree that the statements made in this application are true and complete to the best of my knowledge.

Signature of Owner, Partner, or Corporate Officer Required	Title	Date (MM/DD/YY)

(See fees and additional information on page 3)

Fee Schedule

• Trade name registration:
Trade name registrations must be done with the Colorado Secretary of State.

• Unemployment insurance:
Colorado unemployment insurance tax is administered by the Colorado Department of Labor and Employment.

• Wholesale and retail license
If first day of sales is:

January to June even–numbered years 2014, 2016, 2018	$16.00
July to December even–numbered years 2014, 2016, 2018	$12.00
January to June odd–numbered years 2013, 2015, 2017	$ 8.00
July to December odd–numbered years 2013, 2015, 2017	$ 4.00
• Charitable License	$ 8.00
• **A deposit** is required on a retail sales tax license only	$50.00

(The retailers use tax license does not require a $50 deposit or a $16 license fee.)

Fee Notes

- The $50 deposit will be refunded automatically after a business has collected and paid $50 in state sales taxes. Do Not deduct the deposit on your sales tax return. The deposit is only required on a business first location.
- There is no charge for a multiple or single event license If a business has a current wholesale or retail sales tax license.
- For single and multiple event licenses complete the DR 0589 "Sales Tax Special Event Application."
- All licenses except the single event license are valid through December 31 of each odd–numbered year.

If you have any questions, visit *www.TaxColorado.com* or call 303-238-SERV(7378)

Instructions:

Go to page 4 for additional information.

1. Apply Online and Save Time!
Visit *www.Colorado.gov/CBE* to register through Colorado Business Express and receive your license number the same day. A license will be mailed to you after any fees have been posted to your account. Allow 2 to 3 weeks to receive your paper license. If you are unable to register through CBE, see the instructions below.

2. Mailing the CR 0100AP to the Department of Revenue:
Download the form from the department's Taxation Web site at *www.TaxColorado.com*

Complete the form and make a copy for your records before mailing the original to the Department of Revenue at the following address. Allow four to six weeks for processing.
Colorado Department of Revenue
Registration Control Section
PO Box 17087
Denver, CO 80261-0087

3. Visiting a walk-in service center:
Bring two copies of the completed CR 0100AP Colorado Sales Tax Withholding Account Application to a service center listed on this form. You will receive your account number and a temporary license immediately.

For walk-in service, please bring two copies of the completed form to:

Denver Service Center
1375 Sherman St.
Denver CO 80261

Colorado Springs Service Center
2447 N. Union Blvd.
Colorado Springs CO 80909

Pueblo Service Center
827 W. 4th St., Suite A
Pueblo CO 81003

Grand Junction Service Center
222 S. 6th St., Room 208
Grand Junction CO 81501

Fort Collins Regional Service Center
3030 S. College Ave.
Fort Collins CO 80525

Taxpayer ID Requirements:

All walk-in and mail-in business and individual applications for a Sales/Use, 1099, or W2 Wage Withholding account with the Colorado Department of Revenue must provide valid proof of identification at the time of application. Valid proof includes a legible copy of a Colorado Driver's License, Colorado Identification Card, United States Passport, Resident Alien Card (including eligibility for employment). United States Naturalization papers, and/or Military Identification Card. If applicant is from another state, a valid driver's license or other picture ID from that state is required.

Instructions For The Colorado Sales Tax Withholding Account Application • Form CR 0100AP

General Information

The CR 0100AP is used to open a sales tax, retailer's use, W-2 withholding, 1099 withholding or an oil/gas withholding account or to add an additional location to an existing account. Please complete all areas of the sections indicated below for the account type(s) you need. Colorado Department of Revenue (DOR) forms and publications referenced in this document are available on the DOR Taxation Web site at *www.TaxColorado.com* (If you obtain this form from our Web site, the department will need two copies of the completed form).

- To apply for a state sales tax license, complete sections A,B,C,E and F.
- To apply for a withholding account complete sections A, B, D, and F. Complete both sections if you require both licenses.
- To electronically open an account, go to *Colorado Business Express, www.Colorado.gov/cbe.*

Refer to the following definitions.

- **W-2 Withholding.** Employers are required to withhold state income tax from all employees in Colorado.
- **1099 Withholding.** Payers who withhold tax on Colorado income reported on 1099 forms. (example: contract labor)
- **Oil and Gas Withholding.** Every producer of crude oil, natural gas, or oil shale shall withhold one percent from the amount owed to any person owning a working interest, a royalty interest, a production payment or any interest in carbon dioxide or oil and gas production in Colorado. No withholding is required from payments made to Colorado or the U.S. Government (see Department of Revenue publication FYI Withholding 4).
- **Trade Names** are registered with the Colorado Secretary of State. A trade name is not required to obtain a tax account.
- **State Sales Tax License.** A state sales tax license is required of ALL businesses that sell tangible personal property in Colorado, regardless of whether the sale is retail or wholesale.
- **State and Local Sales.** Colorado has a 2.9 percent sales tax. Additionally, many cities and counties impose their own local sales tax on purchases and transactions within their boundaries.

For a complete listing of all applicable tax rates and exemption information, please see "Colorado Sales/Use Tax Rates " (DR 1002) on our Web site at *www.TaxColorado.com* The DR 1002 is revised in January and July each year.

You may also visit *www.Colorado.gov/RevenueOnline* to find tax rates by city, county and business account number through Revenue Online.

Due to the complexities surrounding the laws on the collection and remittance of sales/use taxes in Colorado, it is advised that you attend a live class offered or take an online tax class offered by the department after opening your business and/or obtaining a sales tax license. Visit *www.TaxSeminars.state.co.us* for class schedule and registration.

Section A

Box 1. Reasons for filing this application.

- **Original Application.** A new (start-up) business.
- **Change of ownership.** An existing business that changes its legal structure. Does not include changes of stockholders of corporations and members in limited liability companies.
- **Additional Location.** The business already has a Colorado account number but is adding a new business location.
- **Do you have a Department of Revenue Account Number?** If your business or organization currently has a Department of Revenue account number, enter it here. A sales tax deposit is required on a business's first retail sales tax location only as long as each additional location uses the same account number.

Box 2. Type of Organization. Check the box that indicates the legal structure for your business/organization.

Note: Married couples must register as a general partnership if both spouses are owners of the business.

Section B

Line 1a. Taxpayer Name. The name should be typed/printed as follows:

- **Individual (sole proprietorship).** Last name, first name, and middle name or initial.
- **General Partnership, Association or Joint Venture.** The last name, first name, and middle initial of two principal partners. If there are additional partners, attach a separate sheet.
- **Corporation, Limited Partnership, Limited Liability Company (LLC), Limited Liability Partnership (LLP), or Limited Liability Limited Partnership (LLLP).** The legal name of the business must be the same as filed with the Colorado Secretary of State.
- **Government.** Enter the legal name of the government agency.
- **Non-Profit.** Enter the name of the non-profit Organization.

Line 1b. Proof of Identification/Taxpayer ID Requirements: All walk-in and mail-in business and individual applicants for a sales/use tax or withholding account with the Colorado Department of Revenue must provide valid proof of identification at the time of application. **Valid** proof includes a legible copy of a Colorado Driver's License, Colorado Identification Card, United States Passport, Resident Alien Card (indicating eligibility for employment), United States Naturalization papers, and/or Military Identification Card. If the applicant is from another state, a valid driver's license or other picture ID from that state is required. Do not enter a social security number here. Couriers must bring in a photo copy of the valid ID attached to the application.

Line 2a. Trade Name/Doing Business As. If the taxpayer will be doing business under any name other than the name on Line 1, the "trade name" should be typed/printed here. Trade names must be registered with the Colorado Secretary of State.

Line 2b. Federal Employer Identification Number (FEIN). An FEIN is required to open a new account with the Colorado Department of Revenue. FEINs are issued by the Internal Revenue Service, *www.irs.gov.* Individuals (Sole Proprietors) can use their social security numbers. All other entities must have a FEIN number.

Line 2c. Social Security Number (SSN). Enter the Social Security number of the owner if this is an application for an individual (Sole Proprietor). If the Sole Proprietor has an FEIN number, complete Line 2b.

Line 3a. Principal Place of Business. This is the address of the organization's/entity's principle place of business in Colorado. **Do Not** use a post office box. If you do not have a physical location in Colorado, type/print a brief explanation (e.g., sales representative only). If the principal place of business is a rental property (example: condo, apartment, or townhouse), list the address of the rental unit. The leasing company or manager should be at the mailing address.

- If the application is for a Retailers Use account, use the principal place of business in your state.
- If a business will be operating from variable locations, enter "Mobile."
- For sales tax purposes only, if a business will have multiple fixed locations, a separate application must be filed for each location.

Line 3b. Enter the county in which your principal place of business is located. If you are not sure which county, refer to the DR 1002 available on the department's Web site at *www.TaxColorado.com* under "Forms."

Line 3c. Enter the city in which your principal place of business is located.

Line 3d. Enter the telephone number for your business.

Line 4a. Name. If you want mail sent to an individual or in care of (c/o), enter the name of the person here.

Line 4b. Telephone. Enter the telephone number for the mailing address.

Line 4c. Mailing Address. Enter the street address, city, state and zip code where the business or organization will receive mail from the department.

Line 5. List Specific products and/or Services you provide and explain in detail. Write a brief description of products, services and/or function of the business/organization. The information you provide will help us determine the appropriate North American Industry Classification System (NAICS) code for your business. It will also help us get tax information and updates to you, depending on your business type.

Additional space is provided on page 1, part B, 5a. Mark the following on the form:

Is your business in a special taxing district?	☐ Yes	☐ No
Do you rent out items for 30 days or less?	☐ Yes	☐ No
Do you sell alcohol?	☐ Yes	☐ No
Do you rent motor vehicles for 30 days or less?	☐ Yes	☐ No
Do you sell prepaid wireless?	☐ Yes	☐ No
Do you sell tobacco products?	☐ Yes	☐ No
Do you sell medical marijuana?	☐ Yes	☐ No
Do you sell adult usage marijuana?	☐ Yes	☐ No

Lines 6a through 7f. Owner/Partner/Corp. Officer. All organizations, including sole proprietors, must complete these lines. Type/print the name, title, FEIN (Federal Employer Identification Number), social security number, and home address of each individual, partner, corporate officer or member. If there are more than two owners, attach a separate sheet and provide the same information for additional owners. For a partnership between corporations or limited liability companies, list each legal name, address, and FEIN separately.

Lines 8a through 8c. Prior Taxpayer Name. If you purchased the business, enter the information about the previous taxpayer and the date you acquired the business. Enter the prior taxpayer's Federal Employer Identification Number (FEIN).

Section C—Sales Tax

Box 1. Seasonal Businesses. If your business sells a product only during certain months each year, mark the months of sales. You must file a separate sales tax return for each month.

Box 2a. Filing Frequency.

- If you are a retail business and collect an amount of $15 or less in tax each month, you may file annually.
- If you are a retail business and collect less than $300 in tax each month, you must file a return each quarter.
- If you collect $300 or more in tax each month, you must file monthly.
- Businesses that pay more than $75,000 per year in state sales tax must pay by Electronic Funds Transfer (EFT). You must complete the form "Authorization for Electronic Forms Transfer" (DR 5785). See e-Payment Options at *www.TaxColorado.com*
- Wholesale businesses with a sales tax liability of $180 per year or less can file annually. If sales tax liability exceeds $180 per year, a retail sales tax license is required.

Box 2b. First Day of Sales. Enter the date you will begin sales. **Note:** You are advised to use an earlier date so that you can use your sales tax license to purchase items tax-exempt for resale. However, sales tax returns are due effective the date that you report in this box.

Line 3. Type of sales that apply to your business.

- **Retail Sales.** A retailer is a business that sells products to final purchasers and is required to collect the appropriate sales taxes. A retailer may also sell wholesale, but is not required to have a separate wholesale license. RTD/CD and local taxes must also be collected, if applicable.
- **Wholesaler.** A business that sells to retail merchants, jobbers, dealers, or other wholesalers for the purpose of resale. This license cannot be used to purchase items for yourself.
- **Charitable.** If your organization has been designated as "charitable 501(c)(3)," the organization will be exempt from paying the $50 deposit for a retail sales tax license. Your license fee is $8. Please attach a copy of the IRS 501c3 letter.
- **Retailers Use.** The Colorado use tax of 2.9 percent should be collected by vendors who have no business location in the state but sell products in Colorado. RTD/CD and RTA local taxes must also be collected, if applicable.
- **Multiple Event and Single Event.** Must apply on form DR 0589. This license is required if you engage in retail sales at more than one special event during a two-year period. Businesses holding a wholesale or retail license which make sales at these events must have a separate multiple events license and complete a separate application (no additional fee for businesses that already have a sales tax license). A single event license is required if you make retail sales at a single special event. The exact date(s) and location of the event must be noted under "Event Location" when you apply for the license.

Section D — Withholding

Filing frequency. If you will have employees, estimate how much wage withholding you expect to pay for all your employees in one year. New businesses can file quarterly or can request more frequent filing if desired. Businesses with annual wage withholding of $50,000 or more must file and remit withholding taxes by Electronic Funds Transfer (EFT). For more information, print the publication "Electronic Funds Transfer Program for Wage Withholding" (DR 5782) from our Web site at *www.TaxColorado.com*

Section E — Fees

Do not enter period covered from to

- **Sales Tax Deposit.** A deposit is required on a retail license. Charitable organizations are exempt. The deposit is refunded automatically after a business collects and remits $50 in State sales taxes. **Do not** deduct the deposit from your sales tax return. The deposit is only required on a business's first location if each additional location uses the same account number. (See instructions for Section A, Box 1.) A $50 deposit is not required for a retailers use account.
- **Sales Tax License.** Standard Colorado Sales Tax License is $16 for a two-year period. The license is renewed at the beginning of each even numbered year and expires at the end of each odd-numbered year (e.g., Jan. 1, 2014 - Dec. 31, 2015). It is prorated in increments of six months if the license is purchased after June 30 of any year. See chart on page 3 of the CR 0100AP form. A $16 license fee is not required for a retailer's use account.
- **Wholesale License** is $16 for a two-year period. The fee is prorated in the same method as the standard Colorado sales tax license. This license is for businesses that make sales only to other licensed vendors for resale.
- **Withholding Tax** has no fee for registration.
- **Charitable License.** The fee is $8.

Section F — Signature

A signature must be on this document or it will not be processed.

Please include the title of the person signing and the date signed.

Allow four to six weeks to receive a license by mail when completing and sending in a CR 0100AP form. If you apply for a license through Colorado Business Express (CBE) you will receive your license number the same day. Allow 2 to 3 weeks to receive your paper license. If you apply for your license at a Service Center you will receive your account number and a temporary license immediately. Allow several weeks for the permanent license to arrive in the mail.

City of Longmont FINANCE DEPARTMENT

Sales and Use Tax Division
Civic Center Complex
Longmont, CO 80501

Dear Businessperson:

As an entity engaged in business within the City of Longmont, you are required to have a Sales and Use Tax License. This applies to retailers, manufacturers, wholesalers, contractors, professionals, and service businesses. Also included are any charitable, nonprofit, and tax exempt entities.

Please find an application for a Sales and Use Tax License on the reverse side of this letter. This application should be completed and returned to the City of Longmont, Sales and Use Tax Division, Civic Center Complex, Longmont, CO 80501, with the applicable $25.00 license fee, **before** your business operations commence. Payment of the license fee does not constitute an approval of your application nor does it entitle you to operate your business. The Sales and Use Tax License is perpetual, expiring if the business terminates its operations or if there is a change in ownership.

In addition to the Sales and Use Tax License, the City of Longmont has separate licensing requirements for specific industry types and we encourage you to contact the City Clerk's office at 303-651-8649 to verify whether your business may need any additional licensing. After submitting your Sales and Use Tax License application, copies will be sent to the City's Building Inspection Division, Fire Prevention, Code Enforcement, Public Works and Natural Resources Department, and City Clerk's Office to ensure compliance with City ordinances. **The issuance of a Sales and Use Tax License does not signify that you are in compliance with Zoning, Fire Code, Occupational Licensing or other City ordinances.** If you have any concerns regarding these other departments or ordinances it is strongly suggested that you contact the Sales and Use Tax Division at 303-651-8672 **prior** to engaging in business.

You should receive your Sales and Use Tax License within two weeks. In addition to a license, monthly or quarterly filers will receive sales and use tax return forms. Annual filers' return forms will be mailed to you at the end of December. You must complete your periodic return even if you have no sales to report. If sales are zero, please indicate so on your return and send it to the Sales and Use Tax Division.

If you have any questions, you may contact a Sales and Use Tax Division staff person at 303-651-8672. A quarterly seminar is provided free to all tax filers to assist with the completion of returns and answer any questions regarding sales and use tax issues. If you are interested, please contact me to register. Thank you for your cooperation and welcome to the City of Longmont!

Sincerely,

Sales and Use Tax
City of Longmont
sales.tax@LongmontColorado.gov
303-651-8672

APPLICATION FOR SALES AND USE TAX LICENSE

City of Longmont - www.LongmontColorado.gov

Civic Center Complex • 350 Kimbark Street • Longmont Colorado 80501 • 303-651-8672

Type of Business

□ Service □ Wholesale
□ Retail □ Other
□ Manufacturing

Filing Frequency

□ Annual Filing: No sales tax generated
□ Quarterly Filing: Less than $50.00 per month
□ Monthly Filing: More than $50.00 per month

Please enclose a $25.00 license fee with application

1. Nature of Business (describe) ______________________________

______________________________NAICS code ________

2. Business Owner______________________________
3. Business Name/Trade Name______________________________
4. Phone Number (Business) ____________________ Phone Number (Alternate) ____________________
5. Name of Contact Person ______________________Email______________________
6. Business Structure (check one please)

   □ *Sole Proprietor (include Social Security no.)______________________________

   *Notarized Lawful Presence Form required with proof of identification

   □ Partnership (include Names, Social Security nos. of Partners)______________________________

   □ Corporation (include Federal I.D. #)______________________________

   □ LLC □ LLP (include Federal I.D. #)______________________________

   □ Nonprofit (include Colorado Exempt #)______________________________

7. Business Address (physical location)______________________________

   Street Number Street Name Ste/Apt

   ____

   City State ZIP

   ______________________________ Check one: □ Commercial Establishment □ Private Residence*

   Zoning District (Not sure? Check with Planning 303-651-8330) *(If private residence located in Longmont, you must file a Home Occupation Affidavit.)

8. Mailing Address (if different than location) ______________________________

   Street Number Street Name Ste/Apt

   ____

   City State ZIP

9. Name of previous business at present location______________________________
10. Date business activity in Longmont begins______________
11. Number of locations in Longmont________ (Separate application required for each location)
12. Did you purchase an existing business? □ Yes □ No
13. If answer to line 12 is yes, was Sales or Use tax paid on the assets purchased? □ Yes □ No

AFFIDAVIT

I declare, under the penalty of perjury in the second degree, that this application has been examined by me, that the statements made herein are made in good faith pursuant to City of Longmont sales and use tax ordinances and regulations and, to the best of my knowledge, are true, correct and complete.

Print Applicant or Agent Name______________________________

Signature______________________Title______________________Date______________________

FOR OFFICIAL USE ONLY

Sales Tax Review: Account #___________-_________ Geo:_______ Filing Status_________

NAICS Code__________ HOA Form______ Lawful Presence Form______ Identification______

DEPARTMENT OF ECONOMIC DEVELOPMENT **Building Inspection Division**

385 KIMBARK LONGMONT CO 80501 PHONE: 303-651-8332 FAX: 303-651-8930

HOME OCCUPATION AFFIDAVIT

****To be filed with Sales & Use Tax****

PLEASE TYPE OR PRINT

Applicants Name:_____________________________ Business Name: _____________________________________

Address: ____

City: ____ State: __________ Zip: ________________________

Telephone #: __________________________________ Zoning of the Property: ____________________________

Describe all business activities at the residence **IN DETAIL** ____
____

****IMPORTANT DISCLAIMER****

Applicants are strongly cautioned that it is their responsibility to check with City of Longmont Code Enforcement Division to confirm the business use they intend to engage in is an allowed use in the zone district where the business is going to be located. Failure to verify business use appropriateness related to zone district -prior to business start up - will result in severe consequences, including the issuance of a cease and desist order for the business. Code Enforcement may be reached by calling 303-651-8321 or 303-651-8695.

I acknowledge I have read and understand this disclaimer_________________.

Section 15.10.020 #153 defines a Home Occupation, it states: "Home Occupation means an accessory use of a dwelling unit (or of an accessory structure allowed on a residential lot) for gainful employment of the residents of the dwelling unit, which use does not change the essential residential character or appearance of the dwelling unit."

Longmont Municipal Code Section 15.04.030.C.4 states:

It is the intent of this subsection to regulate home occupations so the average neighborhood resident, under normal circumstances, will not be aware of their existence. Home occupations must meet all of the following criteria:

a) Home occupations shall be conducted entirely within the principal structure or an accessory structure associated with the residential use, (but not within an accessory dwelling unit) and shall be carried on by the inhabitants of the principal dwelling and no others. A person who does not reside within the principal dwelling cannot be employed in the home occupation.

b) Home occupations shall be **clearly** incidental and secondary to the use of the dwelling for dwelling purposes and shall not change the residential character of the property.

c) The total area used for a home occupation shall not exceed an area representing one-half (50%) of the first-floor building area of the principal dwelling unit.

d) There shall be no advertising or other display or indications of a home occupation with the exception of the signage permitted per Chapter 15.06 (Signs), of this Development Code.

e) There shall be no substantial retailing or wholesaling of stocks, supplies or products conducted on the premises of a home occupation, however, delivery of retail products to the consumer off the premises such as in the course of a mail order business, shall be permitted.

f) There shall be no exterior storage on the premises of supplies or material used in the home occupation, nor of any chemically hazardous, explosive or combustible material within the dwelling or upon the exterior of the property.

g) A home occupation shall not render unusable off-street parking required for the dwelling per this Development Code. A home occupation shall provide additional off-street parking area adequate to accommodate all needs created by the home occupation, without changing the residential character of the premises. Home occupations shall provide adequate screening of off-street parking areas provided for the home occupation.

h) A home occupation shall not generate or result in nuisances such as traffic, on-street parking, noise, vibration, odor, glare, fumes, electrical interference or hazards greater than that usually associated with residential uses.

I have read and understand the ordinance stated above and agree to abide by it under penalty of law and to notify the City of any changes in this home occupation. I understand that this application is intended to inform applicants of the regulations and in no way legitimizes any use that does not strictly conform to the provisions of the ordinance as stated above.

Date: _____________________________ Signature____

DR 0099 (05/15/13)
STATE OF COLORADO
Department of Revenue
Denver CO 80261
www.TaxColorado.com

PRSRT STD
U.S. POSTAGE PAID
DENVER, CO
PERMIT NO. 212

COLORADO

SALES AND USE TAX
GENERAL INFORMATION AND REFERENCE GUIDE

WHAT'S INSIDE?

The Department of Revenue's online tax system Revenue Online, offers convenient and secure access to conduct business with the department on a computer, laptop, smart phone or tablet. You may verify sales tax license or exemption certificate numbers, view local tax rates, find local taxes by address and more. Sign up for access to manage your tax account and file and pay online at *www.Colorado.gov/RevenueOnline*

To view the most up-to-date news and information from the department, visit the Taxation Web site at *www.TaxColorado.com*

Information referenced in this publication, Colorado tax forms (designated by a DR number) and FYI publications are available at *www.TaxColorado.com*

If you plan to open a business in Colorado, prepare sales and use tax returns, or if you're interested in learning more about Colorado tax laws then this booklet is for you. If you are new to Colorado sales and use taxes, the Glossary on pages 10 and 11 may be helpful. See page 12 in this booklet for details on the benefits of using the department's online tax system, Revenue Online.

Colorado Sales Tax

Colorado imposes a sales tax of 2.9% percent on retail sales transactions of 18 cents or more. A 3% tax may still be required on sales or leases originating prior to 1/1/200l. Although, many cities and counties impose their own local sales/use tax on purchases and transactions within their boundaries, the Colorado Department of Revenue (CDOR) collects sales tax for approximately 330 cities and counties, and special districts. These jurisdictions are referred to as "state-collected" or "statutory," and include all Colorado counties that impose sales tax, with the exception of Denver and Broomfield counties which are home-rule self-collected jurisdictions.

Cities and counties that have enacted a "home-rule" charter and have elected to administer and collect their own local sales and use taxes are referred to as "self-collected" or "home-rule." Home-rule jurisdictions **must be contacted directly** for information surrounding their requirements when doing business in their jurisdictions.

See publication Colorado Sales/Use Tax Rates (DR 1002) for a list of all cities, counties and special districts in Colorado.

Goods

For state-collected jurisdictions, most goods are subject to sales tax. An example of goods exempt by law from state and state-collected local sales taxes include, prescription drugs, insulin and insulin supplies, and medical supplies prescribed by a doctor.

Some items such as food for home consumption and farm equipment may be exempt from state sales and use tax but may not be exempt from city, county and/or special district taxes.

Services

Most services are not subject to Colorado sales tax. Exceptions to this guideline include: rooms and accommodations; catering; commercial gas and electric service; steam; and intrastate telephone and telegraph services. The transportation of tangible personal property between a retailer and purchaser is a service presumed to be not subject to sales or use tax. Transportation charges are not taxable if they are both (1) separable from the sales transaction, and (2) stated separately on a written invoice or contract. See publication FYI Sales 29, "Special Regulation: Transportation Charges" for more information. Dealer preparation and handling charges for motor vehicles are taxable.

If a service is provided after the sale of tangible property, the serviced charge must be itemized separately on the invoice/bill to become a nontaxable service. For example, if you order cabinets with an agreement to install, the installation charges must be separately stated on the invoice. If it is not separated, the entire invoice is taxable. In addition, fabrication labor used in preparing the tangible property is never exempt, such as the labor used to manufacture curtains, cabinets, tables, chairs, window coverings, etc. See publication FYI Sales 52, "Service Enterprises" for more details.

For local sales/use tax rates, visit Revenue Online at *www.Colorado.gov/RevenueOnline* For more detailed information on state-collected local taxes, see publication FYI Sales 62 "Guidelines for Determining When to Collect State-Collected Local Sales Tax."

Colorado Consumer Use Tax

Consumer use tax is a complement to state sales tax. Consumer use tax is payable to the state by individuals and businesses when sales tax is due but has not been collected. Individuals and businesses have always been required to pay sales or use tax on taxable purchases from out-of-state vendors if the item is sold, leased, or delivered in Colorado for use, storage, distribution, or consumption in the state. An example would be when you purchase an item from an out-of-state retailer who does not collect Colorado sales tax, then the use tax is due. A second example would be for items purchased over the Internet and no sales tax is charged by the retailer.

Colorado state use tax is the same rate as the sales tax, 2.9%. With proof of payment, sales tax paid to another state may be credited against state use tax due in Colorado for a particular item. Use tax is also collected by some special districts.

The Colorado Department of Revenue collects state and Regional Transportation District/Scientific and Cultural Facilities District (RTD/CD) and Regional Transit Authority (RTA) use tax, but does not administer or collect county or city use tax. Local use tax is paid directly to the taxing authority to which it is owed or to county motor vehicle offices. At their option, state-collected cities and counties may charge use tax on motor vehicles, construction and building materials. Self-administered local jurisdictions make their own use tax regulations and must be contacted directly for information.

Both individuals and businesses can file and pay consumer use tax online at *www.Colorado.gov/RevenueOnline* The online system has built-in tax rates for the jurisdictions applicable to the business or residence address. The system calculates the amount of tax owed based on the purchase total and will help you avoid errors and is easy to use.

Use tax payments may also be remitted to the Department of Revenue on a *"Consumer Use Tax Return"* (DR 0252). RTA use tax payments may be remitted through Revenue Online or on the *"RTA Consumer Use Tax Return"* (DR 0251). Individuals can file the "*Individual Consumer Use Tax Return*" (DR1306) if unable to file online. Contact local jurisdictions and home-rule cities directly about use taxes owed to counties and cities. For more detailed information on consumer use tax, see publication FYI General 10 "Consumer Use Tax."

Who Must Have A License

General Guidelines

A Colorado sales tax license is proof that a business is properly registered with the Department of Revenue and is authorized to make tax-free purchases of merchandise for resale and collect tax on the sale of the merchandise.

If your business sells tangible personal property, either retail or wholesale, you must obtain a Colorado sales tax license and maintain a sales tax account with the State of Colorado. Vendors of taxable services must obtain a Colorado sales tax license and must charge sales tax on these services. If you have more than one physical business location where sales are made, a separate license is required for **each location.** For example, if a company has a chain of stores, each store must have a license.

In addition, if a business makes sales at a location other than its regular business location, a "special event" license must be obtained. Examples of events are craft or collector's shows. This special event license (see Types of Licenses) is required whether or not you have a permanent business location.

An individual who makes retail sales from a private residence that total $1,000 or less in a calendar year is not required to have a sales tax license. However, taxes on these sales must be collected and paid by April 15 of the following year on the *"Retail Sales Tax Return for Occasional Sales"* (DR 0100A). For more information on this topic, see publication FYI Sales 8 "Sales Tax Requirements for Small Home Businesses."

Types of Licenses

Four types of sales tax licenses are available in Colorado:

- ✔ **Standard Retail Sales Tax License —** for businesses with a permanent location in Colorado where retail sales are conducted on a regular basis.
- ✔ **Wholesale License —** for businesses that make sales only to other licensed vendors for resale.
- ✔ **Single Event Sales Tax License —** required when an individual, organization or vendor plans to conduct retail sales at a location other than the regular business location (if any). The license is valid for **one event only**. Examples would be a craft or collector's show. Organizers of an event may choose to obtain a single event license and collect and remit tax on behalf of the participating vendors.
- ✔ **Multiple Events Sales Tax License —** a two-year license for those engaged in retail sales at more than one special event in a two-year period. It is more cost-effective than the single event license for vendors who plan to sell at more than one event in a two-year period. All multiple event licenses expire on December 31st of odd-numbered years.

  As with the single event license, an organizer of more than one event in a two-year period, where retail sales are made by three or more vendors, may elect to obtain a multiple events license in lieu of having each individual participating vendor obtain separate licenses. Organizers obtaining this license will collect and remit tax on behalf of the vendors and will retain applicable vendor's fees. Single or multiple event sales tax licenses are required, and sales tax must be collected, at charitable events as well as for-profit events.
- ✔ **Retailer's Use License —** a two-year license for out-of-state companies without a business presence in Colorado. There is not a $50 deposit nor a $16 license fee for this license. See publication FYI Sales 5, "Sales Tax Information for Out-of-State Businesses" for additional information about this license.

License Fees

The single event license costs $8 for each event. The standard Colorado sales tax license, the wholesale license and the multiple events license each cost $16. A business that has a standard Colorado sales tax license may obtain a single or multiple event license free of charge. All licenses, with the exception of the single event license, are effective for a two-year period.

Two-year licenses are renewed at the beginning of each even-numbered year, and expire at the end of each odd-numbered year, as follows:

Jan. 1, 2012 – Dec. 31, 2013
Jan. 1, 2014 – Dec. 31, 2015
Jan. 1, 2016 – Dec. 31, 2017

Your cost for a license purchased after the start of an even-numbered year will be prorated in six-month increments, as follows:

Date purchased:	Fee:
Jan. 1, 2012 – June 30, 2012	$16
July 1, 2012 – Dec. 31, 2012	$12
Jan. 1, 2013 – June 30, 2013	$8
July 1, 2013 – Dec. 31, 2013	$4

For example, if you open your business July 15, 2012, the first six months of the license period have already elapsed. Therefore, you would pay $12 for a license for the remaining 18 months of the 2012-13 license period.

Tax Deposit for New Businesses

A new retail business is required to pay a one-time $50 tax deposit to help ensure that only legitimate businesses acquire sales tax licenses. The deposit is automatically refunded to the retailer after remittance of $50 in **state** sales tax on the sales tax return. If a business fails to remit any sales tax, no portion of the $50 deposit will be refunded, regardless of the length of time the business account is open.

Applicants for the wholesale license, single event license, and the multiple events license **are not** required to pay this deposit.

Obtaining A Sales Tax License

Three methods of obtaining a license are:

• use Colorado Business Express online, *www.Colorado.gov/ColoradoBusinessExpress* The service will take you step-by-step through the application process and you will receive your license/account number immediately. A copy of the license will be sent in the mail, or

• at any CDOR service center, where you can get your account number and a temporary license immediately, or

• complete the "Colorado Sales Tax/Withholding Account Application" (CR 0100) and mail it in. See the "Instructions for the Colorado Tax Account Application" (CR 0101) on the Web site at *www.TaxColorado.com* Allow four to six weeks for processing. You will receive your license and account number in the mail.

Pay the appropriate fee(s) when you submit your application. The fees explained on this page are noted in the Colorado Business Express system and on the back of the tax application form. If applying in-person, be sure to bring with you 2 copies of a completed CR 0100. No cash or credit cards are accepted as payment at the CDOR service centers. All applicants, other than individuals, are required to have a Federal Employer Identification Number (FEIN).

If you are applying for a Special Event License, you are required to complete the Sales Tax Special Event Application (DR 0589). You are required to have a special event license prior to the event.

Colorado Sales Tax License

Must be

- displayed in a conspicuous place at the business location.
- renewed every two years (except single event licenses).

- canceled by the business if the business closes.
- kept up to date by the business. You may make mailing address changes quickly in Revenue Online. However, changes to the site location must be made by completing and mailing form DR 1102, "Address Change or Business Closure Form" or, communicating with a department representative directly. There is no charge for name, owner name and address changes to a license when a business retains the current license. If there are changes in the type of ownership, such as changing from a sole owner to a partnership, a new license is required. A new tax account license should be obtained through any of the methods available and applicable fees will be due.
- used to purchase goods as a wholesaler or **for resale** by retailers.

May NOT be

- used to obtain personal goods or business assets tax-free. **Purchase for resale exemption applies only to purchases of goods for resale that are part of your regular business sales**.

For further information on sales tax licenses, see publication FYI Sales 9 "Sales Tax Licenses and Filing Requirements."

Related Information

Trade Name Information

The Colorado Department of Revenue does not process the registration of trade names for any type of business. The filing of trade names, renewals, inquiries and collection of trade name fees is provided by the Colorado Secretary of State's office at ***www.sos.state.co.us***

Buying or Selling a Business

If you are buying a business, you may

- request a "Tax Status Letter" about the business from the Department of Revenue. The letter indicates the department's current information regarding the standing of the business, tax payments and tax delinquencies. Complete the "Request for Tax Status Letter" (DR 0096) and remit the completed form along with the appropriate fee. The fee is $7 per tax. The seller of the business may request the letter for the buyer or the buyer may request the letter with a power of attorney from the seller.

As the buyer of a business that sells goods, you must

- obtain a sales tax license.
- pay sales tax on the tangible personal property, excluding inventory, included in the purchase of the business by the 20th day of the month following the sale. Submit the tax with a completed "*Retail Sales Tax Return for Occasional Sales*" (DR 0100A).

If you are selling a business, you must

- pay all business taxes due at the time of the sale.
- pay sales tax collected on the sale of tangible property.
- close the business's sales tax account with CDOR.

You must not close an account until all required tax returns and taxes due are submitted. Returns, even if zero, may be filed through your Revenue Online account. For additional information about buying and selling businesses, see publication FYI Sales 74 "Sales Tax Filing and Changes in Account Status."

Information for Particular Types of Businesses

Vending Machine Operators

Fees: Owners, operators, lessors and lessees of vending machines who have control of the receipts must obtain a Colorado sales tax license. To obtain this license, complete a *"Colorado Sales Tax/Withholding Account Application"* (CR 0100). You must also pay a $50 deposit which will be refunded after you have remitted at least $50 in state sales tax to the Department of Revenue.

Vending Machine Stickers: At the time you obtain your sales tax license, you must also purchase an identification decal or sticker for each machine. Each decal costs 10 cents. To obtain the stickers, complete a *"Request for Vending Machine Decals"* (DR 0235). The sticker should be placed on the front or side of the machine and should always be visible and accessible. The sticker allows Department of Revenue agents to identify the machine and its owner. Machines without stickers are subject to confiscation by the Department of Revenue.

For additional information about vending machines, taxability of items sold in the machines, and reporting and paying tax, see publication FYI Sales 59 "Vending Machines." Also, see publication FYI Sales 58, "Requirements for Sales Tax Remittance for Multiple Location Companies" for additional information on adding new locations.

Rental Businesses

If you have a leasing company and collect sales tax on lease/rental agreements, you must secure a leasing permit in addition to your sales tax license. Complete and return to the CDOR a *"Permit to Collect Sales Tax on the Rental or Lease Basis"* (DR 0440). There is no fee for this permit. Leasing businesses with multiple locations must complete one DR 0440 for **each** business location.

This requirement is applicable to all businesses that rent or lease tangible personal property to customers on a short or long term basis. If the lease on rental is for a period of less than three years and the DR 0440 is not filed, you must pay sales tax up front on all rental equipment. Sales tax must not be shown on later charges or invoices during the term of a lease period that is less than three years. Examples include, but are not limited to, motor vehicles, construction equipment, formal wear, videos and digital equipment, computers and peripherals, lawn and garden equipment.

For information about motor vehicle leasing, see publication FYI Sales 56 "Sales Tax on Leases of Motor Vehicles and Other Tangible Personal Property."

For information about the Motor Vehicle Daily Rental Fee, see publication FYI General 19, "Motor Vehicle Daily Rental Fee."

Contractors Improving Real Property

Contractors who build and construct real property improvement and who bid work under lump sum contracts are considered to be the users and consumers of materials used during the contract work and must pay sales tax to their vendors on all purchases.

When is a license needed? Contractors and subcontractors performing only lump-sum contracts **do not** need a Colorado sales tax license. However, they must pay all applicable Colorado sales and use taxes on all purchases of building supplies, construction materials and all other tangible personal property. The only nontaxable purchases of building materials contractors and subcontractors may make are those for construction work for tax-exempt organizations.

Retailer-Contractors: Retailer-contractors are contractors who are also retail merchants of building supplies or construction materials. Retailer-contractors must open and maintain Colorado sales tax accounts. Complete and submit an account application either through Colorado Business Express, *www.Colorado.gov/ColoradoBusinessExpress* or with a *"Colorado Sales Tax/Withholding Account Application"* (CR 0100) to the Department of Revenue with the appropriate fees (see "License Fees" section on page 3 of this booklet). You will receive a sales tax license, which allows you to purchase items tax-free that are for resale to retail customers. Like all other retail vendors, you must collect and remit to the CDOR all state and state-administered local sales tax on retail sales. You will receive sales tax returns for this purpose.

See publication FYI Sales 6 "Contractors and Retailer-Contractors–Definitions and Sales Tax Requirements" for more information about purchasing materials, delivery to work locations and taxability.

Mobile Businesses

Businesses that sell goods via a mobile vehicle must obtain a sales tax license for the business. These businesses will pay the $16 license fee and $50 deposit. Appropriate state and local taxes for the areas where sales are made must be collected and remitted to the department. See the publication *"Colorado Sales/Use Tax Rates"* (DR 1002) for local tax rates. A separate return must be filed for each jurisdiction where sales are made. Home-rule cities must be contacted directly when sales are made within their jurisdictions. If you sell food, contact your local health agency to determine local licensing requirements.

Aviation Fuel Vendors

Vendors who sell aviation jet fuel at Colorado airports are required to collect state sales and local taxes, report gallons sold by location and pay such sales separately from other retail sales reported on form DR 0100. A separate aviation return reporting form is sent to taxpayers to facilitate such reporting.

The aeronautics division of the Colorado Department of Transportation distributes the funds to Colorado FAA-designated public use airports.

If a vendor sells aviation jet fuel in Colorado, it must contact the department to be set up to receive reporting forms. For further information, see publication FYI Sales 57 "Sales and Use Tax Applicable to Gasoline and Special Fuels."

Out-of-State Businesses

A business located outside the State of Colorado must obtain a sales tax license if it maintains in Colorado – directly or indirectly, or by a subsidiary – an office, distributing house, salesroom, warehouse or other place of business, or if the business leases tangible personal property that will be used in Colorado. Other out-of-state businesses should obtain a Colorado retailer's use tax license. For more details concerning out-of-state vendor responsibilities, see publication FYI Sales 5 "Sales Tax Information for Out-of-State Businesses."

Collecting Sales Tax

Generally, the vendor is responsible for collecting sales tax on any sale of tangible personal property made within the state that is not a wholesale sale. All such sales of 18 cents or more are subject to 2.9% Colorado state sales tax plus all applicable city, county and special district sales taxes. [§39-26-106(1)(a), C.R.S.]

Local Sales Taxes

City, county and special district sales taxes collected by the state are administered in the same manner as state sales tax. If the sale is subject to state sales tax, it is also subject to state-collected local sales tax. Examples of exceptions to this guideline are: food for home consumption; machinery and machine tools (as defined on form DR 1191); gas and electricity for residential use; occasional sales by charitable organizations; farm equipment; food sold through vending machines; low-emitting heavy vehicles (over 10,000 pounds); renewable energy components; beetle wood products; and school-related sales. These items are exempt from state sales tax, but cities and counties may elect to tax such items. The collection of city and county sales taxes are not required when the retail goods are delivered to a destination outside the boundaries of the vendor's local taxing jurisdiction, if the vendor does not have a business presence there. However, special district use taxes may be due.

See the publication *"Colorado Sales/Use Tax Rates"* (DR 1002). The DR 1002 is updated every January and July and contains:

- explanations of state and regional sales/use taxes;
- a list of city, county and special district sales tax rates for which the state collects the tax; and
- phone numbers and tax rates for home-rule cities that collect and administer their own taxes.

It is important to check our Web site for changes to tax rates effective January and July every year. If you have multiple locations, you should determine if it is necessary to make changes to your branch/sites by adding, amending or closing branches to prevent filing errors on your return. See publication FYI Sales 58, "Requirements for Sales Tax Remittance for Multiple Location Filers" for additional information.

This publication also includes information about local use taxes and special exemptions in particular local tax jurisdictions. For further information, see publication FYI Sales 62 "Guidelines for Determining When to Collect State-Collected Local Sales Tax."

Special District Taxes

RTD/CD Sales and Use Tax

Most of the Denver metropolitan area lies within a special tax district. It is two separate tax districts with almost identical boundaries. The authorities and sales/use tax rates are: Regional Transportation District (RTD), 1.0 percent and Scientific and Cultural Facilities District (CD), 0.1 percent for a combined rate of 1.1 percent. Beginning January 1, 2012, the RTD/CD tax rate is 1.1%. If you are collecting tax on leases contracted prior to January 1, 2012, you will need to file a "*Colorado Baseball/Football District Tax Return-Supplement"*(DR 0200) to report the Football District Tax (FD) collected. More information on RTD/CD may be found in publication *"Colorado Sales/Use Tax Rates"* (DR 1002) located on the Web site at *www.TaxColorado.com*

To find out whether an address you are delivering to is within RTD/CD boundaries, contact RTD at *www.rtd-Denver.com*

Local Improvement District Tax (LID)

A sales tax is imposed on all transactions that are subject to state sales tax within certain designated areas in Jefferson, Boulder, Broomfield, Douglas, and Mesa Counties.

Mass Transit District Tax

A sales tax in Eagle, Pitkin and Summit Counties is imposed on all transactions that are subject to state sales tax. The tax is remitted when you file your return through your Revenue Online account or on the *"Colorado Retail Sales Tax Return"* (DR 0100).

Multi-Jurisdiction Housing Authority (MHA)

Summit County has a multi-jurisdictional housing authority sales tax.

Public Safety Improvements (PSI)

Montrose County has a Public Safety Improvements sales tax.

Rural Transportation Authority (RTA)

If your business is located in Eagle, El Paso, Garfield, Gunnison, Pitkin Counties or in the City of Sterling, a Rural Transportation Authority (RTA) may be imposed. The RTA sales tax is reported when you file your return through your Revenue Online account or on the "*Colorado Retail Sales Tax Return*" (DR 0100). The RTA consumer use tax is reported on "*RTA Consumer Use Tax Return*" (DR 0251). The RTA retailer's use tax is reported when you file your return through Revenue Online or when you file the *"Retailer's Use Tax Return"* (DR 0173). The areas that impose the RTA may be found in publication *"Colorado Sales/Use Tax Rates,"* (DR 1002).

Metropolitan District Tax (MDT)

Aspen Park Metropolitan District, located in Jefferson County, and Bachelor Gulch, located in Eagle County, levy a sales tax. See publication *"Colorado Sales/Use Tax Rates"* (DR 1002) for additional information.

Self-Collected Home-Rule Cities

Home-rule cities that collect their own local sales/use taxes may have different guidelines and must be contacted directly. These cities are listed in *"Colorado Sales/Use Tax Rates"* (DR 1002), along with their contact information.

County Lodging Tax

Counties may impose a tax on lodging services including hotels, motels, condominiums, and camping spaces. Tax is remitted quarterly on "*County Lodging Tax Return*" (DR 1485). County Lodging Tax applies to gross room rental income, no reductions for rentals that are exempt from state sales tax applies.

Local Marketing District Tax

The town of Vail, the cities of Steamboat Springs and Estes Park, and Alamosa and Gunnison County levy a Local Marketing District tax on hotel and motel rooms. The tax is remitted quarterly to the Department of Revenue on the"*Local Marketing District Tax Return*" (DR 1490).

Miscellaneous Fees

Motor Vehicle Daily Rental Fee

This fee is applicable to motor vehicle rentals by companies whose primary business is renting motor vehicles for less than 45 days. For such rentals, the fee applies for each day each vehicle is rented. The fee is paid by the customer and should be separately stated on the rental contract as the Colorado Road Safety Program Fee. This $2 fee should not be included in the amounts subject to state and local sales tax. If a vehicle is separately rented to more than one customer in a given day, the $2 fee should be charged to each customer. See publication FYI General 19, " Motor Vehicle Daily Rental Fee" for more information.

Prepaid Wireless Service Fee

Retailers of prepaid wireless service are required to collect a fee of 1.4% of the purchase price of the service. Prepaid wireless service includes retail purchase of prepaid service, purchases made on the Internet and recharge minutes.

The proceeds of this fee are distributed to local Colorado E911 authorities. The fee is remitted on the form *"Prepaid Wireless Fee"* (DR 0526) at the same time a retailer or wholesaler remits their sales tax return. For further information, see publication FYI General 21, "E911 Surcharge."

New Tire Recycling Development Fee

Retailers of new tires are required to collect a fee of $1.50 on every new motor vehicle tire sold by a tire retailer to a consumer. The fee applies to any passenger vehicle including motorcycle tires but not to tires of trucks that weigh more than 15,000 pounds that have been recapped or reprocessed.

The proceeds of this fee go towards recycling programs for tires. This fee is remitted on the *"New Tire Fee Return"* (DR 1772) at the same time a retailer remits their sales tax return. For further information, see publication FYI General 13 "Waste Tire Recycling Development New Tire Fee."

Deliveries to Customers

When a purchaser, who has no intent of reselling, takes first possession of sold items (except motor vehicles) at your business location, you must collect all applicable sales taxes for the jurisdictions in which your business is located, regardless of where the purchaser resides (even out-of-state) or intends on using the item.

When conditions of the sale dictate that an item be delivered by regular mail, parcel post, common carrier or your business's vehicle, the destination is regarded as the point of sale, and the sales taxes of only the jurisdictions which both seller and buyer share in common would be collected by the seller unless a "nexus" has been established.

For example, if the delivery site is within the same city in which your business is located, you would collect all appropriate taxes, such as city, county, RTD/CD and state. If you deliver outside the city, county and any special taxing districts in which your business is located, the only jurisdiction you would share would be the state; therefore, the state sales tax would be collected. However, use taxes are due for deliveries made into special districts that impose a use tax. The use tax should be reported on form DR 0173, Retailers Use Tax Return. If your company has a business location (sales office, warehouse, store, etc.) or has otherwise established a "nexus" within the destination city, you would collect all sales taxes applicable for that location (detailed information is provided in publication FYI Sales 62, "Guidelines for Determining When to Collect State-Collected Local Sales Tax"). Deliveries shipped outside Colorado are not subject to Colorado sales taxes.

If the purchased goods are turned over to an independent contractor/ subcontractor for delivery to the customer it is the store location, not the delivery destination, that is considered the point of sale. An example of this would be a carpet purchase that the retailer turns over to an independent installer for delivery and installation.

While no sales taxes are collected for jurisdictions the buyer and seller do not share in common, special district use tax due by the seller and local use tax may be owed by the purchaser when those deliveries occur in special district areas and home-rule city jurisdictions. Vendors must maintain adequate records to prove where deliveries took place, and that deliveries occurred prior to any use by the buyers of items purchased.

Delivery charges could be taxable. See the Glossary on pages 10 and 11 of this booklet. See publication FYI Sales 62 "Guidelines for Determining When to Collect State-Collected Local Sales Tax" and publication

FYI Sales 29, "Special Regulation: Transportation Charges" for more detailed information on delivery taxability and motor vehicle taxability.

Record Keeping

You must keep records of all of your business transactions to enable both you and the CDOR to determine the correct amount of sales and use taxes for which you are liable. These records must include:

- ✔ complete, accurate beginning and ending inventories
- ✔ purchase receipts
- ✔ sales receipts
- ✔ canceled checks/bank statements
- ✔ invoices
- ✔ dated delivery acceptance receipts showing location
- ✔ bills of lading
- ✔ all other account books and documents pertaining to the business.

If you make nontaxable sales to other retailers or wholesalers, remember to keep copies of their sales tax license exemption certificates and keep customer-signed statements that purchases are for resale. Vendors accept resale licenses in good faith. Vendors should verify whether a business that purchases items should be exempt at "Verify a Sales Tax License" service at *www.Colorado.gov/RevenueOnline* You must have the business sales tax license or exemption certificate number to use the service. See publication FYI Sales 1, "How to Document Sales to Retailers, Tax-Exempt Organizations and Direct Pay Permit Holders."

Vendors must keep and preserve all invoices of goods and merchandise purchased for resale for three years. These records must be available for review by the Department of Revenue. [Sales Tax Regulation (39-)26-116]

Burden of Proof

When a vendor makes a tax-exempt sale, records must be kept that sufficiently demonstrate the purchaser's tax exemption for each sale. [Sales Tax Regulation 39-26-105.1(c)] The retailer or vendor bears the burden of proving that the purchaser is entitled to exemption from sales tax. You may request the purchaser sign a verification affidavit for your records. For further information on verification of tax-exempt sales, see publication FYI Sales 1, "How to Document Sales to Retailers, Tax-Exempt Organizations and Direct Pay Permit Holders." Verify a Sales Tax License at *www.Colorado.gov/RevenueOnline*

Inventory Usage

If your business takes out of its inventory goods that were purchased tax-free for resale and uses the goods for personal or business purposes, you must pay **sales** tax on those items when they are taken out of inventory and used. The cost of the items must be entered on line 10 of the *Retail Sales Tax Return* (DR 0100). Tax is due for state, special districts, county or state-collected municipal tax.

Accounting Methods

For sales tax purposes, you may report your gross sales either on an accrual basis as sales are made or on a cash basis as payment is received. [Within the standard set by §39-26-111 C.R.S.] However, you may not alternate methods. You must keep records for at least three years.

Closure of Inactive Accounts

Any licensed account, exclusive of wholesale accounts, that shows no sales tax remitted for any period of 12 consecutive months will be closed automatically by the CDOR. Such inactivity is considered evidence that the licensee is not in the business of selling at retail.

You should verify your account status on Revenue Online before you stop filing your returns. An estimated billing will be issued for any period open for one day or more where a return has not been filed.

Filing Returns and Paying Taxes

General Filing Information

The Department of Revenue encourages online filing through Revenue Online, *www.Colorado.gov/RevenueOnline* Sign up to access your account; file and pay online and manage your account, including address changes, viewing payment and filing histories and filing protests. The advantage of filing online is that all the appropriate tax rates for your business are accounted for and your return is calculated, which helps you avoid errors and billing notices. If you choose to file on paper, the chance of error is greater. Once you file online or apply for a license through Colorado Business Express (CBE) online, the department will not mail returns. Single location, seasonal, annual filers, and accounts with multiple locations that do not file online should receive preprinted forms approximately 10 days before the close of each filing period. Each form will be preprinted with the licensee's name, address, account number, the taxing districts for which you normally collect tax, and the return's due date. Enter the amounts of sales and taxes on the applicable lines. If no tax was collected, enter 0. **Failure to receive a return does not relieve you of your legal responsibility for filing a return on or before the due date.**

You may pay the department electronically or by check. See the Payment Options for additional information.

Colorado law requires that you file the required sales tax returns even when you have no retail sales activity. Filing a zero return on Revenue Online is convenient and secure. An estimated billing will be issued for any period that does not have a return filed.

Amended Return

You may file an amended return through your Revenue Online sales tax account. Or, on the tax return, you are required to mark the amended return box. A separate amended return must be filed for each period. The amended return must show all tax columns as corrected, not merely the difference(s). The amended return will replace the original return in its entirety.

When filing an amended return by paper, be sure to use the correct vendor or service fee to prevent filing errors. If filing an amended return electronically, the vendor fee will be calculated for you automatically. See publication, "History of Local Sales/Use Tax Rates" (DR 1250) for tax rates and exemption history.

If you have submitted an amended return electronically or on paper and you anticipate a credit you must file a *"Claim for Refund"* (DR 0137). Proper documentation must be submitted with the DR 0137 to prove a refund is due. See publication FYI Sales 90, "Sales and Use Tax Refund Requirements" for additional information.

Electronic Filing Options

Sales/use tax returns can be submitted through *www.Colorado.gov/RevenueOnline* To sign up for Revenue Online account access, you will need your Colorado Account Number (CAN) which is the same as your license number. Your license will also have a letter ID printed on it which will help you to set up your account access. You will be able to create your own Login ID and Password. Once you start using Revenue Online, in addition to filing your returns, you will be able to see all the returns you have filed and your payment history. Sales tax filers that do not have sales tax to report for a specific filing period may login to Revenue Online and file a "zero" return.

Payment Options

You may pay your tax electronically through Revenue Online by eCheck, credit card or Electronic Funds Transfer (EFT). There is a fee to pay by eCheck or by credit card. See the Taxation Web site at *www.TaxColorado.com* for current fees. See Electronic Funds Transfer (EFT) below for additional informaiton. For all online payments, whether made by EFT, credit card or eCheck, a confirmation number is displayed after the payment is made and the payment history will be displayed in the Revenue Online account by clicking on the ID type and the View Payments link.

To remit your payment by check, include a copy of the bill or letter received and note your account number and payment period on the check. Make check payable and mail to the Colorado Department of Revenue, Denver, CO 80261-0013.

Electronic Funds Transfer (EFT)

Sales tax account holders are required to remit by Electronic Funds Transfer (EFT) all state and local sales taxes required to be remitted to the Department of Revenue **IF:** the liability for state sales tax for the previous calendar year was more than $75,000.

Vendors who do not meet this requirement are encouraged to use EFT as it minimizes the potential of processing errors. Using Revenue Online to make payments meets this requirement or you may use one of the EFT payment options described below.

There is a fee for online tax payments by eCheck or credit card submitted through Revenue Online. Either of these methods is a good alternative to make immediate payments while registering for EFT is a good option for future recurring payments.

You can sign up for EFT through your Revenue Online account or by using the *Authorization for Electronic Funds Transfer (EFT) Payments* (DR 5785). Pre-registration is required for EFT. By signing up in Revenue Online, you can use your EFT Number and PIN Code within a few days. For more information on how to register, please visit *www.Colorado.gov/Revenue/EFT*

Colorado's EFT program offers two methods of electronic payment, ACH Debit and ACH Credit. You may choose either or both. We offer an ACH debit service which is accessible through the Web or telephone, or you may choose to initiate ACH credit payments through the banking system using a standard format. Both options are free, but you must be registered with the department to use either service. You may incur fees or charges from your financial institution. It is important for you and your financial institution or representative to read and follow the requirements in publication *"Colorado Department of Revenue Electronic Funds Transferred (EFT) Program for Tax Payments"* (DR 5782).

If a vendor pays less than $75,000 and cannot file by EFT or through Revenue Online, the tax return should be completed and mailed along with a check or money order to the department. Be sure to write your account number, tax type and period on all checks and correspondence. Please note that this process does increase the chances of an error or problem and the use of electronic payment options are strongly recommended. The forms are available on the Taxation Web site, *www.TaxColorado.com*

Note: Although payments for sales/use tax are made using EFT, a return through Revenue Online or on a paper form (DR 0100) is still required and must be received by the due date.

Determining Filing Frequency

Retailers are required to file returns each month except when:

- your total sales tax liability is under $300 a month **AND** you have made a prior arrangement with the CDOR to file quarterly.
- your sales tax liability is under $15 per month **AND** you have prior approval from the department to file annually.
- your business is wholesale. Wholesalers file annually.

If you make sales only during certain months of the year, you may indicate on the sales tax account application online at *www.Colorado.gov/ColoradoBusinessExpress* or on the paper application (CR 0100) the months beginning and ending the season. Your account will then be listed as "seasonal" and monthly returns will be required only for those months that you indicate the business will be open.

Completing the Sales Tax Return

✔ Vendors must keep and preserve all invoices of goods and merchandise purchased for resale for three years. These records must be available for review by the Department of Revenue. [Sales Tax Regulation (39-)26-116]

✔ All entries of state and local taxes on the sales tax return must be rounded to the nearest dollar. Round amounts under 50 cents down to 0 (zero) cents. Increase amount from 50 to 99 cents to the next dollar. Your sales tax remittance must not differ from the exact amount of tax collected by more than 50 cents.

✔ A return must be filed even if the tax is 0 (zero) cents. If there is no tax due in an applicable column, you ***MUST ENTER A 0 (ZER0)*** in that column. Failure to enter zeros will result in the issuance of an automatic estimated non-filer notice.

✔ A business will be billed an estimated billing for any period return not filed. It is the responsibility of the business owner to file a return for any period the account is open for one day or more.

✔ Reporting the deductions and exemptions correctly on the form *"Colorado Retail Sales Tax Return"* (DR 0100) is critical to make sure that the return is posted correctly. The department will check all the information you report on lines 1 through 4 to verify the form is being accurately filed. The information on the form is important to ensure proper allocation and distribution of monies to local governments and special districts.

As noted earlier in this publication, the department encourages use of the Revenue Online system at *www.Colorado.gov.RevenueOnline* for filing and paying taxes, as well as managing tax accounts, including change of address and account closure.

Single copies of the "*Retail Sales Tax Return*" (DR 0100) are **not** mailed to Colorado businesses that have a single location, are seasonal filers, or annual filers that have registered or filed their return online. If your business has multiple locations, electronic filing is encouraged instead of filing a separate DR 0100 for each location. These forms are personalized for each business that is subject to state-administered local tax. The tax rates for county, city, special district and state are printed at the top of the form for each business location. If a type of tax does not apply to the business location, the words NOT APPLICABLE will appear in the column for that tax.

Companies that need to remit the baseball district and/or football district tax collected (such as leasing companies and credit sales companies) will receive "*Colorado Special District Sales Tax Return - Supplement*." (DR 0200). This return is only used to remit baseball and/or football district tax. Form DR 0200 can also be downloaded from our Taxation Web site at *www.TaxColorado.com*

Multiple-Location/Jurisdiction Electronic Filing

A multiple location/jurisdiction filer is any entity filing sales or use taxes with the Colorado Department of Revenue with more than a single location, either physical or nonphysical. It is important that a multiple location/jurisdiction sales tax filer read and be familiar with FYI Sales 58 "Requirements for Sales Tax Remittance for Multiple Location Filers".

Filing methods for sales tax include: XML (use a software/vendor that is approved through the department for XML), Excel Spreadsheet (filed electronically that must be pre-approved by the department), Multiple Single/File-complete an online form through Revenue Online, and paper filing. To file by paper, a paper return must be submitted for each site/branch for each physical or non-physical location.

In order to prevent filing errors, it is important to verify your sites/branches on Revenue Online under Other Services prior to filing each period to ensure you are filing a return for every open site/branch and that you have the correct tax rates.

Practical Filing Tips

- ✔ Sign up to access your tax account through Revenue Online, *www.Colorado.gov/RevenueOnline* and file and pay your sales tax. Revenue Online is better than a paper return because it knows what your sales tax rates are for your specific account and business locations. You will avoid errors, which would result in billing notices. If you have a "zero" return, you may also file through Revenue Online. Additionally, you may view your return and payment history.
- ✔ The law requires that you list sales tax separately from the purchase price of the items you sell on all invoices, billings and business records. Exceptions to this are sales of liquor by drink and vending machine sales. It is also illegal to advertise that you will make sales tax-free or "absorb" the sales tax. Violation of these guidelines could subject you to penalties.
- ✔ If you cannot file online,follow the form instructions carefully. The instructions are on the back of the sales tax return.
- ✔ If you overpaid sales tax on a previous return, you may deduct the overpayment amount on line 3C **only** if there is not an existing credit on the account due to the overpayment. The calculation to figure the dollar amount of sales on line 3C would be to divide the tax overpayment by the same tax rate you used to calculate the tax due on the original return. The calculation must be done for each applicable tax for the site. If there is credit on a previous period or a question as to the calculation of the overpayment of tax, it is preferred that a *Claim for Refund* (DR 0137) be filed with an amendment for the applicable period(s) and site(s). You may view your account at *www.Colorado.gov/RevenueOnline*
- ✔ Report on line 6 and remit to the department any excess tax collected. Tax reported on this line should be apportioned out to all types of taxes for which YOU are liable. It is illegal for you to keep excess tax.
- ✔ If you are liable for state-collected city, county or special district sales tax which may not be reflected on the form, contact the department to correct your location jurisdiction or to apply the new sites/branches. For additional information, see publication FYI Sales 58.

Due Dates

Returns must be **filed online** or **postmarked** on or before the 20th day of the month following the reporting period, as follows:

Monthly Returns: due the 20th day of the month following the reporting month. For example, a January return is due February 20.

Quarterly Returns:

January – March due April 20
April – June due July 20
July – September due October 20
October – December due January 20

Annual Returns: due January 20.

Multiple or Single Events: due the 20th of the month following the **start** of the event. Use "*Special Event Retail Sales Tax Return*" (DR 0098). For example, if an event started on Friday, July 30 and ended Sunday, August 1, the return would be due August 20 because the event started in July.

EFT FILERS: payment and return are due the 20th day of month following the reporting period. You may submit payment through EFT and submit the return through Revenue Online.

If the due date falls on a weekend or holiday, the next business day is considered the due date.

Penalties/Interest for Late Filings

If your return is not postmarked on or before the due date for the period, you must pay a penalty of 10 percent of the tax due plus interest at the current statutory rate. Postal meter dates are not accepted as proof of timely filing; only the postmark itself is accepted. Failure to file by the due date will also result in revocation of your vendor's fee. Current interest and penalty rates may be obtained from publication FYI General 11 "Colorado Civil Tax Penalties and Interest."

To ensure the payment is properly applied to your account, send a copy of the letter or bill you received and note the account number, tax type (i.e. sales tax), and payment period on your check. If paying for more than one type of tax with the same check, note the amount of payment and payment period for each tax type on your check. Do not send cash. Make check payable and mail to the Colorado Department of Revenue, Denver, Colorado 80261-0013. You may also pay bills electronically using Revenue Online.

Failure to File

If you fail to file a return and pay the amount of tax by the date it is due, the CDOR will automatically send you a request for taxes due plus penalty, and interest. You will also be billed for the vendor's fee if you had deducted it. Further delay in filing could result in a "Warrant for Distraint," which allows the Department of Revenue to seize your business and sell your assets to satisfy your tax debt. The business may be seized and sold even where a creditor or lender has claims on the property (see §39-26-117 CRS.)

No Taxes Due?

Here's What You Must Do!

You must file a sales tax return every period, even if no tax has been collected or no tax is due. File your return through Revenue Online or complete the DR 0100 form by typing or writing the number 0 in all columns that apply to jurisdictions in which tax is applicable. If you use the online system, there is no need to send in copies of your DR 0100. Failure to file will result in estimated billings. If you do not file the required sales tax returns, the department will close your account and your license will no longer be valid.

Tax Computation Tables Available

For the convenience of retailers, the Department of Revenue has developed tax tables for different sales tax percentages. Just enter the tax rate to see how much tax is due on a sales price. This service is available at *www.Colorado.gov/RevenueOnline*

You can specify the tax percentage tables and view and print the tables.

Be sure to write your Colorado account number on all checks and correspondence!

How to Get Help

If you have questions not covered in this booklet or if you have problems connected with sales and use taxes, you may obtain assistance by telephone, through the mail, over the Web, or in person.

Colorado Tax Questions

By U.S. Postal Mail:
Colorado Department of Revenue
Taxpayer Service Division
Denver, CO 80261-0013

You may send the department Secure Messages through your Revenue Online account.
www.Colorado.gov/RevenueOnline

By Phone:
(303) 238-SERV (7378)

The Taxpayer Service Division maintains five service centers.
Walk-in hours: 8 a.m. - 4:30 p.m., Monday through Friday.

Colorado Springs Service Center
2447 North Union Blvd.

Denver Service Center
1375 Sherman St.

Fort Collins Service Center
3030 S. College Avenue

Grand Junction Service Center
222 S. Sixth St., Room 208

Pueblo Service Center
827 W. 4th St., Suite A

To Obtain Sales Tax Information and Publications

Visit the Colorado Taxation Web site at *www.TaxColorado.com*

To Obtain a Colorado Sales or Withholding Tax Account

Visit the Colorado Business Express Web site at *www.Colorado.gov/ColoradoBusinessExpress* and apply online.

To Access Your Tax Account, File and Pay Online

Sign up through Revenue Online at *www.Colorado.gov/RevenueOnline* then login any time

Federal Tax Questions

Internal Revenue Service
1999 Broadway
Denver, CO 80202
(303) 446-1675 or (800) 829-1040-Individual
(800) 829-4933-Business
www.irs.gov

Colorado Secretary of State

To register corporation, limited liability company, or limited partnership trade names or to obtain Colorado trademark information, (303) 894-2200. Or see the Secretary of State's Web site at ***www.sos.state.co.us***

U.S. Commissioner of Patents and Trademarks

(800) 786-9199

Regional Transportation District (RTD)

For boundaries, call (303) 299-6000.
www.RTD-Denver.com

Helpful Information

FYIs: Free information publications on income, sales, use, fuel, excise, withholding and estate taxes. FYIs may be obtained through our Web site at *www.TaxColorado.com*

Tax Forms: Forms are available at *www.TaxColorado.com*

Colorado Income Tax Withholding Tables (DR 1098): Current withholding tables and latest requirements for withholding Colorado income tax from your payroll, available at *www.TaxColorado.com*

Colorado Business Resource Guide: Published by the Colorado Office of Economic Development and International Trade, call (303) 892-3840 or 1625 Broadway, Ste. 2700, Denver, CO 80202, or on the Web at *www.coloradosbdc.org*

Colorado Sales/Use Tax Rates (DR 1002): All state, special district and state-collected city and county sales tax rates. Also, rates and telephone numbers for all home-rule cities. Updated each January and July, available at *www.TaxColorado.com*

Site/branch: A site/branch must be assigned to each physical or non-physical location. The Department of Revenue's tax system enters each location by the site/branch number. It is important to verify the site/branch locations each month before filing your return. You may verify your sites/branches at *www.Colorado.gov/RevenueOnline* under Other Services.

Location/Jurisdiction Codes for Sales Tax Filing (DR 0800): The location/jurisdiction code is determined by the location address of the actual site location. When you file sales tax returns on Revenue Online at *www.Colorado.gov/RevenueOnline* by single file, XML/Excel spreadsheet or by paper, you must use the six digit location/jurisdiction code(s). *History of Local Sales/Use Taxes* (DR 1250):

The DR 1250 can be viewed from the Taxation Web Site at *www.TaxColorado.com* The form lists each locality and the history of tax rates and exemptions.

Taxation Weblog and InfoEmail Subscription Services: Businesses may subscribe to information, including law changes, filing methods and quick updates, from the Department of Revenue delivered to their email box. Visit *www.TaxColorado.com* to "Get Connected."

Sales/Use Tax Glossary

Accrual Accounting — reporting all sales in the month they were made, whether money was received or whether a credit sale (where the vendor has billed tax on a sale but the customer has not paid the entire sales price at the time the vendor's sales tax return is due). Only this method allows claim of "Bad Debt Deductions."

Delivery Charges — charge for transportation to the place where title is to pass, by agreement between vendor and purchaser. Title is deemed to have passed from the seller when the seller is no longer liable for any losses to the product in route. Unless it can be proven that the purchaser of tangible personal property assumes the risks of ownership during delivery.

Exempt — To free from a duty or obligation required of others; to excuse; release. *(The American Heritage Dictionary of the English Language)*

License — A Colorado sales tax license is a license to purchase tangible personal property items tax free for the purpose of selling that tangible personal property, and collecting and remitting to the Department of Revenue sales tax on those sales.

Multiple Events — multiple sales events that occur at irregular intervals away from an established place of regular retail business. Organizers of such events may obtain the sales tax license, in lieu of the vendors obtaining separate licenses, if each event has a minimum of three vendors. If such events occur more than three times in the same location in any calendar year, a Standard Sales Tax License must be obtained rather than a Multiple Events Sales Tax License.

Purchase Price — the full charge to acquire the item, including labor and overhead, exclusive of any sales tax. In the case of retail sales involving the exchange of tangible personal property, the purchase price would exclude the fair market value of the property exchanged if such exchanged property is to be subsequently sold in the usual course of the retailer's business. Example: When a new automobile purchase transaction includes the trade-in of another automobile, the fair market value of the trade-in may be subtracted from the purchase price of the new car before sales tax on the new car is calculated if the car traded in is to be resold by a dealer holding a sales tax license.

Retail Sale — any sale of tangible personal property made within the state that is not a wholesale sale.

Retailer — a person doing retail business, known to the trade and public as such, and selling to the user or consumer, and not for resale.

Revenue Online -- a Web site where taxpayers can conveniently and securely conduct business with the Department of Revenue on their computers, laptops, smartphones and tablets. The information available in Revenue Online does not represent the entirety of your information with the Department of Revenue. But the service makes it possible for you to manage your accounts without the need to contact the department by phone, email or in person. You may also file returns and pay taxes through your Revenue Online account. *www.Colorado.gov/RevenueOnline*

Sale — any transaction whereby a person in exchange for any consideration (such as money or its equivalent, property, the rendering of a service or promise of any of these things) transfers or agrees to transfer tangible personal property or performs a taxable service.

Service Fee — Also known as the vendor's fee. Colorado allows sales tax licensees to keep a percentage of the state sales tax collected as a service fee for collecting the monies. The fee may be kept by the licensee only if the tax return is filed on time. Many local jurisdictions grant service or vendor's fees as well. See the publication *"Colorado Sales/Use Tax Rates"* (DR 1002) for local vendor's fee rates. The correct vendor's fee will automatically be deducted for a timely filed and paid return on Revenue Online.

Single Event — any sales event conducted away from an established place of regular retail business. The event occurs only once. Individual vendors may be relieved of obtaining Single Event Sales Tax Licenses if there are a minimum of three vendors and the license is obtained by the event organizer. It is the license holder who remits the sales taxes.

Tangible Personal Property — all goods, wares, merchandise, products and commodities, and all tangible or corporeal things and substances which are dealt in, capable of being possessed and exchanged; the term does not include real property, such as land and buildings nor does it include contracts, deeds, mortgages, stocks, bonds, certificates of deposit or membership and other items having no intrinsic value.

Use Tax (Consumer) — a complement to state and RTD/CD and RTA sales tax, it is imposed on the storage, use or consumption in Colorado of tangible personal property upon which sales tax has not been paid; the consumers use tax rate is the same as the state sales tax rate and RTD/CD tax where applicable. Businesses can file consumer use tax online at *www/Colorado.gov/RevenueOnline* The online system has built-in tax rates for the jurisdictions applicable to the business address. The tax system is easy to use, calculates the amount of tax owed based on the purchase total, and will help you avoid filing errors. Consumers use tax can also be paid with a *"Consumer Use Tax Return" (*DR 0252) or *"RTA Consumer Use Tax Return"* (DR 0251).

Use Tax (Local) — consumer use tax that may be imposed by state-collected municipalities and counties on motor vehicles, building and construction materials; local use taxes are administered and collected by the local taxing jurisdictions. Contact them directly for information about rates and compliance requirements.

Use Tax - Retailer's — an equivalent to the state sales tax collected by out-of-state vendors who do not maintain business locations in this state but who are otherwise "doing business in this state" as defined by Colorado law. Such vendors should obtain a Colorado Retailer's Use Tax License by completing a tax account application (CR 0100) and should collect state use tax as well as RTD/CD, and RTA taxes where applicable. See the form Colorado Sales/Use Tax Rates (DR 1002). The Retailer's Use Tax Return (DR 0173) can be filed electronically on Revenue Online. Signing up for access will allow your to manage your tax account and file and pay online. There must be a separate return with the correct branch number on each RTA Tax remittance, either for Roaring Fork RTA, Pikes Peak RTA, Baptist Road RTA, or South Platte Valley RTA.

Use Tax — Retailer's — Special Districts — an equivalent to the special district sales tax collected by out-of-district vendors who do not maintain business locations in the district but who are otherwise "doing business in" the district as defined by §39-26-102(3) C.R.S.

Vendor — same as "retailer."

Wholesale Sale — a sale by wholesalers to retail merchants, jobbers, dealers or other wholesalers for resale, that is not subject to sales tax; it does not include a sale by wholesalers to users or consumers not for resale. These transactions are retail sales and subject to sales tax.

Wholesaler — a person doing a regularly organized wholesale or jobbing business, known to the trade as such and selling to retail merchants, jobbers, dealers or other wholesalers who intend to resell the merchandise.

Tax Workshops and Education

The department offers live and online workshops on Colorado sales tax laws, Colorado sales tax returns, Revenue Online, and use tax laws. Most live workshops are held in the Denver Metro area, Colorado Springs, Fort Collins, Pueblo, and the Western Slope. CPE credit is available, unless otherwise stated. Due to limited seating, reservations are required for all live workshops. Visit the main Workshops and Education Web page *www.TaxSeminars.state.co.us* for details on topics, formats, locations, and information on how to make a reservation.

www.Colorado.gov/RevenueOnline

Manage your account.
File and pay online.
Get started with Revenue Online today!

You can now access your sales tax account information, file your sales tax return, see your payment history, make payments online, and much more – all on a one-stop, streamlined Web site called **Revenue Online**. The following services have been updated or are now available for the first time online.

- **Access Your Sales Tax Account (Sign Up/Login)**
- **File a Return (single locations and smaller multiple location businesses)**
- **Upload XML or department-approved Excel spreadsheet returns for larger, multiple location businesses**
- **File a Zero sales tax return**
- **File Special Events returns**
- **Make a Payment**
- **Send Secure Messages regarding your account**
- **View Payments**
- **Amend a Return**
- **View Letters from the department**
- **Change your mailing address**
- **Close your account**
- **File a Protest**
- **Sign up to pay by EFT**
- **View sales/use tax rates for you business**
- **Verify a sales tax license or exemption certificate**
- **View tax rates at a specific address**
- **View tax rate charts for items priced from $0.01 to $100**

Sign Up and begin using your account Login immediately. Visit *www.Colorado.gov/RevenueOnline* today!

Small Business Start-Up Resources

University of Colorado @ Boulder Business Library

-located on campus on the top floor of the Business building. All of the University's libraries are open and free to the public. In order to check books out obtain a public patron card at Norlin Library--a Colorado driver's license is required. For directions, hours, book availability or general questions visit the University Library website at http://www-libraries.colorado.edu or call the business library direct at 303-492-8367. Below are a list of *some of* the many available sources.

STEPS TO SMALL BUSINESS START-UP
Reference: bus HD 62.5 .P565
Pinson and Jinnett, 2000

THE GUIDE TO RETAIL BUSINESS PLANNING
Reference: bus HD 62.5 P87
Purdy, 1997

SMALL BUSINESS ADVISOR
Reference: bus HD 62.7 E568
The Entrepreneur Magazine, 1999

ENCYCLOPEDIA OF SMALL BUSINESS
Reference: bus HD 62.7 H553
Volume 1 and 2
Hillstrom and Hillstrom, 1998

MANCUSO'S SMALL BUSINESS BASICS
Reference: bus HD 62.7 M366
Mancuso, 1998

SMALL BUSINESS PROFILES
Reference: bus HD 62.7 565
Bourgoin, 1994

SMALL BUSINESS SOURCE BOOK
Reference: (behind reference desk) bus HD 2346 U5 S66
13th edition, Volumes 1 and 2
Suchowski and MacFarlane, 1999

BUSINESS PLANS HANDBOOK
Reference: (behind circulation desk) bus HD 62.7 B865
Volumes 1-8
Each Volume has a different editor and publish date

ANATOMY OF A BUSINESS PLAN
Reference: (behind circulation desk) bus HD 30.28.P5
Pinson and Jinnett, 2001

THE SUCCESSFUL BUSINESS PLAN
Reference: (behind circulation desk) bus HD 62.5 .A27
Abrams, 2000

STARTING AND MANAGING THE SMALL BUSINESS
Bus HD 62.5 K87
Kuriloff, Hemphill, and Cloud, 1993

THE HARVARD ENTREPRENEURS CLUB
Bus HD 62.5 H3739
Sharma, 1999

MASTERING ENTERPRISE
Bus HD 62.5 M39
Birley and Muzyka, 1997

SMALL BUSINESS SURVIVAL GUIDE
Bus HD 62.7 P72
Prentice Hall, 1993

EVERYTHING YOU NEED TO KNOW TO MANAGE A SMALL BUSINESS
Bus HD 62.7 R468
Rasnik, 1998

SMALL BUSINESS ANSWER BOOK
Bus HD 62.7 5328
Schell, 1996

THE REAL WORLD ENTREPRENEUR FIELD GUIDE: GROWING YOUR OWN BUSINESS
Bus HD 62.5 B362
Bangs and Pinson, 1999

LEADING EDGE BUSINESS PLANNING FOR ENTREPRENEURS
Bus HD 62.5 .A738
Arkebauer and Miller, 1999

Boulder Public Library – Main Branch

-located at 1000 Canyon Blvd. (actually 11th and Arapahoe) the Boulder Public Library is open and free to the public. A library card may be obtained by presenting a photo ID and documentation of a current Colorado mailing address. This may include a driver's license, post-marked mail addressed to the applicant, car registration or a copy of a lease. . For directions, hours, book availability or general questions visit the Boulder Public Library website at http://www.boulder.lib.co.us or call the library direct at 303-441-3100. Below are a list of *some of* the many available sources.

BUSINESS PLANS HANDBOOK
Reference: (behind reference desk) 658.4012
Volumes 7 & 8, each has different editor and publish date

HOW TO WRITE A BUSINESS PLAN
Reference: (behind reference desk) 650.1141
Mckeever, 1999

BUSINESS PLANNING GUIDE: CREATING A PATH FOR SUCCESS IN YOUR BUSINESS
Reference: 658.4012
Bangs, 1998

THE COMPLETE BOOK OF BUSINESS PLANS: SIMPLE STEPS TO WRITING A POWERFUL BUSINESS PLAN
658.4012
Covello, 1994

ANATOMY OF A BUSINESS PLAN
658.022
Pinson and Jinnett, 1999

LEGAL GUIDE FOR STARTING AND RUNNING A SMALL BUSINESS
Reference: (behind reference desk) 346.0652
Steingold, 2001

LEGAL FORMS FOR STARTING AND RUNNING A SMALL BUSINESS
Reference: (behind reference desk) 346.0652
Steingold, 2001

SMART START YOUR COLORADO BUSINESS
Reference: (behind reference desk) 650.11
1997

HOW TO START A BUSINESS IN BOULDER: WHERE TO GO AND WHO TO CALL FOR ADVICE, LICENSES, PERMITS AND APPLICATIONS
Reference: 658.110978863
Boulder Chamber of Commerce, 1999

THE SMALL BUSINESS START-UP KIT
Reference: 658.022
Pakroo, 2000

THE SMALL BUSINESS SOURCEBOOK
Reference: 658.022
14th edition, 2001

HOW TO START, FINANCE AND MANAGE YOU OWN SMALL BUSINESS
Reference: 658.022
Mancuso, 1993

DRIVE A MODEST CAR AND 16 OTHER KEYS TO SMALL BUSINESS SUCCESS
Reference: 658.022
Warner, 2002

SMALL BUSINESS START-UP GUIDE: PRACTICAL ADVICE ON SELECTING, STARTING, AND OPERATING A SMALL BUSINESS
658.022
Sullivan, 1996

STARTING AND MANAGING THE SMALL BUSINESS
658.022
Kuriloff, Hemphill, and Cloud, 1993

START UP: AN ENTREPRENEUR'S GUIDE TO LAUNCHING AND MANAGING A NEW BUSINESS
658.022
Stolze, 1994

BEFORE YOU GO INTO BUSINESS, READ THIS!
658.022
Nottonson, 1999

THE REAL WORLD ENTREPRENEUR FIELD GUIDE: GROWING YOUR OWN BUSINESS
658.022
Bangs and Pinson, 1999

BE YOUR OWN BUSINESS: THE DEFINITIVE GUIDE TO ENTREPRENUERIAL SUCCESS
658.421
Ludden, 1998

START SMALL, FINSIH BIG: 15 KEY LESSONS TO START- AND RUN -YOUR OWN SUCCESSFUL BUSINESS
658.041
Deluca, 2000

BUSINESS BASICS: A MICROBUSINESS START-UP GUIDE
658.022
Dodd, 1998

THE BUSINESS OF BLISS: HOW TO PROFIT FROM DOING WHAT YOU LOVE
658.0082
Allon, 1999

**Boulder Public Library also has books on how to start a specific business, for example*

ESPRESSO!: STARTING AND RUNNING YOUR OWN SPECIALTY COFFEE BUSINESS
647.95068
Monaghanm, 1995

HOW TO START & OPERATE A MAIL-ORDER BUSINESS
658.872
Simon, 1993

HOW TO START AND RUN A SUCCESSFUL PHOTOGRAPHY BUSINESS
770.232
Kopelow, 1992

RESTAURANT START-UP GUIDE
647.95068
Rainsford, 2001

121 INTERNET BUSINESSES YOU CAN START FROM HOME: PLUS A BEGINNER'S GUIDE TO STARTING A BUSINESS ONLINE
658.0410285
Gielgun, 1997