

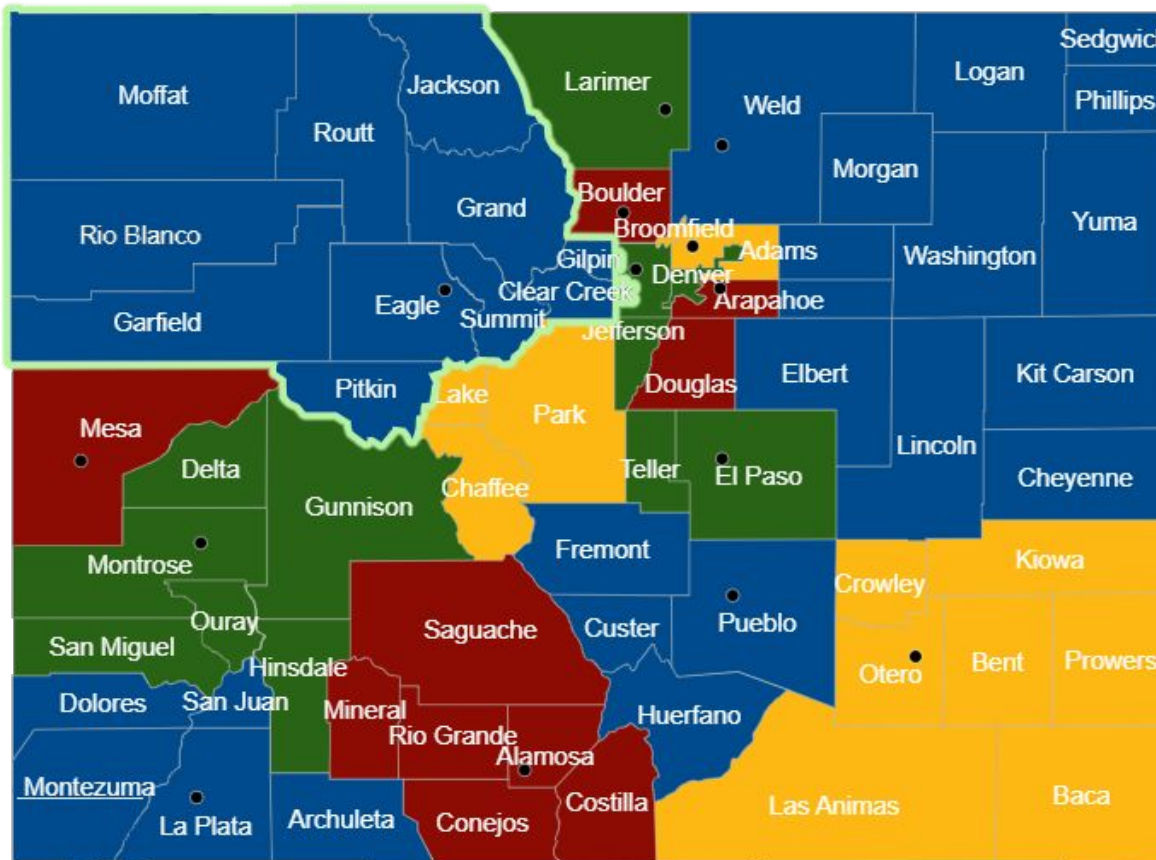


# Essential Tax Information for Startups



## No-Cost Consulting Low-Cost Training

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# **Important Announcement:**



**This presentation is a broad overview for informational purposes only.  
For specific tax guidance, please consult a CPA, bookkeeper, or tax preparer.**

**We won't talk about certain specific forms or deadlines: there are too many  
to list as they're highly specific to your business situation.**

# Today's concepts:

- What to know FIRST
- Tax on profits
  - Income tax obligations by entity type
  - Calculating profit or loss
  - Other IRS taxes
  - Estimated payments & extensions
- Tax on sales
  - Figure the tax
  - Pay the tax
  - Use tax
- Employment tax



# What to know FIRST:



- **The answer is usually “It depends”**
  - Entity type determines how income tax is filed by owner(s)
  - Product, service, and delivery determines if and how sales tax is paid
  - Employees and independent contractors are different
- **Personal and business finances go together like oil and water: they don’t**
  - Separate bank accounts - eliminates expense confusion and protects the corporate veil
  - Separate credit cards - business interest is an expense
- **Bookkeeping counts**
- **Avoid handshake horror stories**
  - Operating agreements confirm stakes
  - Contracts, invoices, receipts
- **Recruit a “Table of Advisors”**

# Income tax obligations:



## Sole Proprietorship

*One person (incl. 1099)*

Owner = Business

Profits or losses belong to the owner

Calculate profit or loss on Schedule C/1040

**Owner may pay income and self employment taxes**

## Pass-Through Entities

*One or more members*

Member  $\neq$  Business

Profits or losses pass through the business to the member(s)

One member: Calculate profit or loss on Schedule C/1040

Two or more members:  
Calculate profit or loss on Form 1065, create tax documents for members

**Member(s) may pay income and self employment taxes**

## Corporations

*One or more shareholders*

Shareholder  $\neq$  Business

Profits or losses belong to the business

Calculate profit or loss on 1120 form variant

Shareholders pay income tax on dividends (double taxation)

**Corporation pays income tax**

# Calculating profit or loss:



**Revenue**

**subtract returns/allowances/COGS**

**add other income/credits/loss**

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**Gross income**

**subtract expenses/depreciation/deductions**

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**Profit or loss <sup>1,2</sup>**

- Combined with owner's other income and deductions
- Apportioned to members according to distributive share
- Corporate profit or loss, taxed appropriately

1. *Profit or loss for tax purposes may not match other financial statements (examples: effects of home office or personal vehicle expense, less than 100% meal expense, tax penalties, or certain legal damages)*
2. *Dividends are paid from profits (double taxation)*

# Calculating profit or loss:

- **Not all money into the business contributes to profit**
  - Owner contributions
  - Loans
- **Not all business expenses are tax expenses, i.e. deductible**
  - Political contributions
  - 100% of meals
  - Certain fines, penalties, and settlements
- **Not all tax deductions are “money out of the bank”**
  - Mileage expense
  - Home office expense
  - Tax credits reduce tax, some are refundable



# Other IRS taxes:



- **Federal self employment tax on income from profit**
  - Added to your balance or refund separately from income
  - Social Security = 12.4%
  - Medicare = 2.9%
  - Personal self-employment tax deduction of “employer portion”
- **Federal & state excise tax**
  - For certain goods, services, and activities such as first sale of coal, heavy vehicle use, repurchase of stock, etc.
  - Beyond today’s scope and most SBDC clients; consult your tax professional

# Estimated payments:



- The government likes to be paid consistently over time
- File if you expect to owe more than \$1,000 (*individual*) or \$500 (*corporation*) at tax time
- Penalty and interest assessed on unpaid balance
- Payments are not actually filing returns: calculate, use a schedule, or estimate

# Extensions:

- An extension to file IS NOT an extension to pay
- Penalty and interest assessed on unpaid balance
- Some business filings cannot be extended, others can

# Sales taxes:



***Sales tax is revenue when collected and an expense when remitted  
Sales taxes are due even if you made no profit***

- **Figure the tax**
  - Taxable retail sales
    - In Colorado: destination-source sales tax rates
      - Stores & other retail locations (*Sales Tax License*)
      - Special events (*Special Event License*)
      - Delivery, including online sales and online marketplaces
    - Outside Colorado: it all depends on the state (*Nexus & Use Tax*)
  - Some service sales bundled with tangible goods are taxable
    - Example: lump-sum vs time-and-materials construction contracts (*Use Tax*) and building materials vs non-building materials

# Sales taxes:



- **Pay the tax**

- Frequency of filing and remittance depends on gross sales
- Where to file
  - Revenue Online for state, county, and special districts or Form DR100/DR0098
  - Sales & Use Tax System (SUTS) for state, county, special districts, and some cities
  - Local jurisdictions for “home rule” cities on their own forms or site

- **Use tax**

- Wholesale inventory removed for personal use: products for sale or supplies
- Supplies and materials not taxed when you purchased and not taxable to the customer
- Out-of-state customers where you have no Nexus pay the tax directly
- Use tax rate in Colorado is the same as sales tax rate, businesses use Form DR0173

# Employment taxes:



- **Federal employment taxes**

- Employee and non-payroll wage withholdings
  - Use employee's W4 and withholding methods to calculate withholding
  - Form 941
- Employee Social Security and Medicare withholdings & employer share
  - Social Security = 6.2% paid by employee, 6.2% paid by employer
  - Medicare = 1.45% paid by employee, 1.45% paid by employer
  - Form 941 or 944
- Unemployment tax
  - Federal = 6% on first \$7,000
  - Form 940
  - Some credit for paying into state

# Employment taxes:



- Colorado employment taxes

- Employee and non-payroll wage withholdings
  - Use DR1098 to calculate withholding
  - RevenueOnline/DR1094
- Unemployment insurance
  - Rates vary
  - State MyUI/UITR-1
- FAMI premiums
  - .45% paid by employee, .45% paid by employer subject to 10 or more employees
  - My FAMI+
- Workers' compensation
  - Various providers and rates

# A recap:

- What to know FIRST
- Tax on profits
  - Income tax obligations by entity type
  - Calculating profit or loss
  - Self employment tax
  - Estimated payments & extensions
- Tax on sales
  - Figure the tax
  - Pay the tax
  - Use tax
- Employment “taxes”
  - Federal
  - State





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