

Disclaimer: This Module Is Not Intended To Give Advice Regarding Personal, Business, Federal, Or Other Taxes. This Is For Informational Purposes Only With Knowledge Derived From Study, Experience, Or Instruction. Please Consult Your Personal And Business Tax Advisor For Specific Details Regarding Your Tax Assessment, Filing, And Payment Options.



SEOLS
Southeastern Ohio Legal Services

Demystifying the IRS for Small Business Owners: An Overview of Small Business Taxation

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Topics Covered

1. Who are we?
2. Who do we serve?
3. How can we help?
4. Overview of small business taxation.
5. Contact information.
6. Questions?

Who We Are

- Our mission is to obtain equal access to justice for our clients through advocacy, education, and empowerment.
- SEOLS provides legal assistance for people who cannot afford an attorney.
- SEOLS is civil legal aid program. Civil legal aid programs help keep our justice system fair for all regardless of how much money you have.

Services

- Services are provided for people that need help to protect their livelihoods, their health, their homes, and their families.
- Information is provided on how to get into court, what to do in court, or what to do when dealing with government agencies.
- Easy-to-complete legal forms are also provided.

Where We Are Located

SEOLS Office

- Portsmouth
- Athens
- Chillicothe
- Newark
- New Philadelphia
- Steubenville



Business Structures

- When you start a small business, you need to decide the structure of the business.
- Choosing a business structure involves two decisions: 1) tax treatment and 2) liability of business owner.
 - Liability: who has financial responsibility for business debts.

What Are the Types of Business You Can Operate?

- Sole Proprietorship
- Limited Liability Company
- Partnership
- Corporation

90% of small businesses chose either a sole proprietorship or a limited liability company (LLC)

Sole Proprietorship

- Simplest type of business structure
- Low cost, and fast to set up
- Normally owned and operated by a single individual
- No separate legal entity is created
 - Legal entity means any company or organization that has legal rights and responsibilities separate and apart from the owner
- If the sole proprietorship is sued, the sole proprietor would have what is called ‘unlimited liability’; this means that any lawsuits against the business put the business owner’s personal money and property at risk and vice versa.

Limited Liability Company (LLC)

- An LLC is a legal entity created under state law. To learn how to create an LLC in Ohio, you can visit ohiosos.gov.
- A benefit to an LLC is members are protected from the liabilities of the business. If the business goes into debt, or is sued, the limited liability protects your personal assets.

Partnership

- A partnership is a relationship between two or more people who come together to carry on a trade or business.
- Each person contributes money, property, labor, or skills, and each expects to share both in the profits and/or the losses of the business.
- Any number of people may join in a partnership.
- Like a sole proprietorship, if the partnership is sued or can't pay its debts, the partners are each fully liable for the debt.

Corporation

- Corporations are treated by the law as legal entities. That is, the corporation has a life separate from its owners and has rights and duties of its own.
- The owners of a corporation are known as stockholders, or shareholders.
- Forming a corporation involves the transfer of money or property or both by the prospective shareholders in exchange for capital stock in the corporation.

Taxation

- The form of business you operate determines what taxes you must pay and how you pay them.
 - Income Tax (Form 1040): All business **except** partnerships must file an annual income tax return. Partnerships file an information return.
 - Self-Employment Tax (Schedule C): Sole Proprietorship, and LLCs, must pay Self-Employment tax (SE tax). SE tax is a social security and Medicare tax.
 - Employment Taxes: All business that have employees, you have certain employment tax responsibilities that you must pay, e.g., Social Security, Medicare, Federal Unemployment, etc.
 - Excise Tax: All business may be required to pay excise tax if you manufacture or sell certain products, operate certain kinds of businesses, or use various kinds of equipment, facilities, or products.
 - Usually limited cigarettes, alcoholic beverages, soda, gasoline, insurance premiums, amusement activities, and betting.

Income Tax

- Everyone is familiar with income tax. It is the tax you pay to the federal government on income that is generated.
- Form 1040 is used by U.S. taxpayers to file an annual income tax return.

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2021** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status ☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

Your first name and middle initial Last name Your social security number
 If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Presidential Election Campaign
 City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
 Foreign country name Foreign province/state/county Foreign postal code ☐ You ☐ Spouse

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency? ☐ Yes ☐ No

Standard Deduction Someone can claim: ☐ You as a dependent ☐ Your spouse as a dependent
☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: ☐ Were born before January 2, 1957 ☐ Are blind Spouse: ☐ Was born before January 2, 1957 ☐ Is blind

Dependents (see instructions):
 If more than four dependents, see instructions and check here ▶ ☐

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see instructions): Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

1 Wages, salaries, tips, etc. Attach Form(s) W-2	1
2a Tax-exempt interest	2a
3a Qualified dividends	3a
4a IRA distributions	4a
5a Pensions and annuities	5a
6a Social security benefits	6a
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	7
8 Other income from Schedule 1, line 10	8
9 Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9
10 Adjustments to income from Schedule 1, line 26	10
11 Subtract line 10 from line 9. This is your adjusted gross income	11
12a Standard deduction or itemized deductions (from Schedule A)	12a
b Charitable contributions if you take the standard deduction (see instructions)	12b
c Add lines 12a and 12b	12c
13 Qualified business income deduction from Form 8995 or Form 8995-A	13
14 Add lines 12c and 13	14
15 Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-	15

Attach Sch. B if required.
Standard Deduction for—
 • Single or Married filing separately, \$12,550
 • Married filing jointly or Qualifying widow(er), \$25,100
 • Head of household, \$18,800
 • If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2021)

Self-Employment Taxes

- Currently, the SE tax is 15.3% on net earnings. Net earning is gross income minus business expense.
 - Example: You generate \$10,000 in income for your business, and you have \$4,000 in expenses for the year. Your net earning is \$6,000. Your SE tax would be \$918.
- Why do I need to report my self-employment earnings?
 - To qualify for Social Security and Medicare benefits. A self-employed taxpayer receives one (1) work credit for every \$1,410 of earnings as of tax year 2020. The maximum credits earned per year are four (4). A minimum of forty (40) credits is needed to qualify for Social Security and Medicare benefits.

How do I report SE Taxes?

- Sole Proprietorships, LLCs, and Partnerships must file a Schedule C to declare their net profit or loss for their business.
- The schedule C is separated into two parts; Part I reports your income, and Part II reports your expenses.

SCHEDULE C
(Form 1040)

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074
2021
Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

Go to www.irs.gov/ScheduleC for instructions and the latest information.
Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

Name of proprietor

A Principal business or profession, including product or service (see instructions)

B Enter code from instructions

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN) (see instructions)

E Business address (including suite or room no.)
City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) **F**

G Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on losses ☐ Yes ☐ No

H If you started or acquired this business during 2021, check here ☐ Yes ☐ No

I Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions ☐ Yes ☐ No

J If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☐ No

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked ☐ 1

2 Returns and allowances 2

3 Subtract line 2 from line 1 3

4 Cost of goods sold (from line 42) 4

5 Gross profit. Subtract line 4 from line 3 5

6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) 6

7 Gross income. Add lines 5 and 6 7

Part II Expenses. Enter expenses for business use of your home only on line 30.

8 Advertising 8

9 Car and truck expenses (see instructions) 9

10 Commissions and fees 10

11 Contract labor (see instructions) 11

12 Depreciation 12

13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions) 13

14 Employee benefit programs (other than on line 19) 14

15 Insurance (other than health) 15

16 Interest (see instructions):
a Mortgage (paid to banks, etc.) 16a
b Other 16b

17 Legal and professional services 17

18 Office expense (see instructions) 18

19 Pension and profit-sharing plans 19

20 Rent or lease (see instructions):
a Vehicles, machinery, and equipment 20a
b Other business property 20b

21 Repairs and maintenance 21

22 Supplies (not included in Part III) 22

23 Taxes and licenses 23

24 Travel and meals:
a Travel 24a
b Deductible meals (see instructions) 24b

25 Utilities 25

26 Wages (less employment credits) 26

27a Other expenses (from line 48) 27a
b Reserved for future use 27b

28 Total expenses before expenses for business use of home. Add lines 8 through 27a 28

29 Tentative profit or (loss). Subtract line 28 from line 7 29

30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions.
Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 30

31 Net profit or (loss). Subtract line 30 from line 29.
• If a profit, enter on both Schedule 1 (Form 1040), line 3, and on Schedule SE, line 2. (If you checked the box on line 1, see instructions.) Estates and trusts, enter on Form 1041, line 3.
• If a loss, you must go to line 32.

32 If you have a loss, check the box that describes your investment in this activity. See instructions.
• If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3, and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3.
• If you checked 32b, you must attach Form 6198. Your loss may be limited.

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P Schedule C (Form 1040) 2021

Common Tax Deductions

- Business expenses are usually deductible if the business is operated to make a profit. Common deductions include:
 - Supplies
 - Car and Truck Expense
 - Depreciation
 - Travel, Meals, and Entertainment
- There are also a few deductions many don't take advantage of:
 - Healthcare tax credit
 - Home office deduction
 - Start-up costs
 - Professional fees and training costs
 - Equipment and software purchases
 - Charitable donations

Employer Identification Number (EIN)

- You will need an EIN if you pay wages, have a self-employed retirement plan, operate your business as a partnership or corporation, or if you're required to file any of these tax returns: employment, excise, fiduciary, or alcohol, tobacco, and firearms.
- Some financial institutions require an EIN to open a bank account. The IRS will give you an EIN even if you don't need it for IRS purposes.
- To apply, go to www.irs.gov and type in the keyword EIN. From there you'll find out more information including the application.

Employment Taxes

- Employers generally must withhold federal income tax, and part of social security and Medicare taxes from employees' wages based on the employee's Form W-4.
- As the employer, you will pay a matching amount to the employees' social security and Medicare taxes as well as paying Federal Unemployment Tax (FUTA). Employees do not pay this tax or have it withheld from their pay.
- For 2022, the social security tax rate is 6.2% (amount withheld) each from the employer and employee (12.4% total). The social security wage base limit is \$147,000. The tax rate for Medicare is 1.45% (amount withheld) each for the employee and employer (2.9% total). There is no wage base limit for Medicare tax; all covered wages are subject to Medicare tax.
- For more information see Publication 15- Employer's Tax Guide (Circular E).

WHAT ABOUT STATE AND LOCAL TAXES?

- Every employer maintaining an office or transacting business within the state of Ohio and making payment of any compensation to an employee, whether a resident of nonresident, must withhold Ohio income tax. There are a few exceptions, and they can be found in Ohio Revised Code §5747.06(A).
- You will need to register online through the Ohio Business Gateway (<https://gateway.ohio.gov/home>). When registering, you will need your federal employer identification number (EIN), legal name of business, and email address. Once all registration has been completed, employer withholding and school district withholding returns and payments can be submitted immediately.
- Each year the State of Ohio as well as local school districts post a table of the applicable percentages on the Department of Taxation's website to withhold from your employee's pay.

Contact our offices

Athens Office

740.594.3558
800.686.3669

Serving Athens, Gallia, Meigs, Morgan, Noble, Vinton, and Washington Counties

Chillicothe Office

740.773.0012
800.686.3668

Serving Fairfield, Fayette, Hocking, Jackson, Pickaway, Pike, and Ross Counties

Newark Office

740.345.0850
888.831.9412

Serving Knox, Licking, Muskingum, and Perry Counties

New Philadelphia Office

330.339.3998
800.686.3670

Serving Coshocton, Guernsey, Holmes, and Tuscarawas Counties

Portsmouth Office

740.354.7563
800.837.2508

Serving Adams, Lawrence, and Scioto Counties

Steubenville Office

740.283.4781
800.837.4781

Serving Belmont, Carroll, Harrison, Jefferson, and Monroe Counties

“Access to justice should be an ever-present goal.”

– Maureen O’Connor
Chief Justice, Ohio Supreme Court



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