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

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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.
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 incomes 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 (LLLC)

• An LLC is a legal entity created under state law. To learn how to create an LLC in Ohio, you can visit ohio.sos.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 to 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.
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.
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 if 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