

## Tips for Taxpayers Starting a New Business

### Article Highlights:

- Business Entity Type
- Types of Business Taxes
- Keeping Good Records
- Accounting Methods

Anyone starting a new business should be aware of his or her federal tax responsibilities. Here are several things you should know if you plan on opening a new business this year.

1. First, you must decide what type of business entity you are going to establish. The type of business you open will determine which tax form has to be filed. The most common types of business are the sole proprietorship, partnership, corporation, and S corporation.
2. The type of business you operate will determine what taxes must be paid and how you pay them. The four general types of business tax are income tax, self-employment tax, employment tax, and sales or excise tax.
3. An employer identification number is used to identify a business entity. Most businesses need an EIN, and your business will definitely need one if you hire employees, regardless of the type of business entity selected. Please call this office to determine whether your business needs an EIN and get assistance in obtaining one if it does.
4. Good records will help ensure the successful operation of your new business. You may choose any record-keeping system suited to your business that clearly shows your income and expenses. Except in a few cases, the law does not require any special kinds of records. However, the business you are in will affect the types of records that will have to be kept for federal tax purposes. If you need assistance or guidance in setting up your business records, please give this office a call.
5. Every business taxpayer must figure taxable income on an annual accounting period called a tax year. The calendar year and the fiscal year are the most common tax years used.
6. Each taxpayer must also use a consistent accounting method, which is a set of rules for determining when to report income and expenses. The most commonly used accounting methods are the cash method and accrual method. Under the cash method, income is generally reported in the tax year it is received, and expenses are deducted in the tax year they are paid. Under an accrual method, income is generally reported in the tax year it was earned, if not yet received, and expenses are deducted in the tax year they are incurred, even though they are not yet paid.

If you are contemplating starting a business or if you already have one, please call this office if you need assistance with your accounting, bookkeeping, payroll or sales tax reporting, or other federal or state compliance issues.