

Sales Tax

FAQ:

Who needs this information?

Individuals who need an understanding of how to file taxes for their business.

How can this information help me?

This module provides information that will teach individuals the many steps they will have to take when filing taxes for their business, whether it is a sole-proprietorship, partnership, corporation, LLC, etc...

IRS Definition of Income:

Business income may include income received from the sale of products or services. For example, fees received by a person from the regular practice of a profession are business income. Rents received by a person in the real estate business are business income. A business must include in income payments received in the form of property or services at the fair market value of the property or services (IRS).

Iowa Department of Revenue:

<https://tax.iowa.gov/>

This resource has information about taxes for individuals, businesses, tax professionals and local government organizations.

Steps to Follow:

How to get an Employer Identification Number:

Step 1: Determine Your Eligibility

- You may apply for an EIN online if your principal business is located in the United States or U.S. Territories.
- The person applying online must have a valid Taxpayer Identification Number (SSN, ITIN, EIN).
- You are limited to one EIN per [responsible party](#) per day.

Step 2: Understand the Online Application

- You must complete this application in one session, as you will not be able to save and return at a later time.
- Your session will expire after 15 minutes of inactivity, and you will need to start over.

Step 3: Submit Your Application

- After all validations are done you will get your EIN immediately upon completion. You can then download, save, and print your EIN confirmation notice.

Taxes for Different Types of Businesses:

Sole Proprietorship:

- Businesses that are sole proprietorships are taxed as individuals.
- File using a Schedule C (Form 1040).
- Report the amount of net profit or loss on your 1040, if you operate more than one business, you prepare a separate Schedule C for each business.
- If you run your business as a sole proprietor, you may need to pay estimated taxes to the IRS throughout the year. These payments cover tax liabilities not covered by withholding.
- How to calculate and pay estimated taxes as a sole proprietor
 - You pay estimated taxes if you expect to owe more than \$1,000 in taxes AND you expect your withholding and refundable credits to be less than the smaller of 90% of the tax to be shown on your 2017 return, or 100% of the tax shown on your 2016 return.
 - You don't have to pay estimated taxes if you were a U.S. citizen or resident alien for all of 2016 tax year AND you had no tax liability for the full 12-month 2016 tax year.
 - Estimated taxes are paid in quarterly installments throughout the year.
 - January 1 – March 31 are due typically in mid-April
 - April 1 – May 31 are due mid-June
 - June 1 – August 31 are due mid-September
 - September 1 – December 31 are due mid-January
 - To calculate your estimate tax, you'll need:
 - Adjusted growth income from the previous tax year
 - Deduction amount of self-employment tax
 - Forecasts of taxable income from invoices, 1099s, etc.
 - List of applicable credits from IRS form 1040
 - Estimate of business expenses for the year
 - Sole proprietors use Form 1040-ES, Estimated Tax for Individuals to calculate and pay estimated tax.
 - You can pay estimated taxes online, by phone or by mail.

Partnership:

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 income or loss on his or her tax return.

Partners are not employees and should not be issued a Form W-2. The partnership must furnish copies of Schedule K-1 (Form 1065) to the partners by the date Form 1065 is required to be filed, including extensions.

If you are a partnership or a partner (individual) in a partnership, use the information in the charts below to help you determine some of the forms that you may be required to file.

Chart 1 (Partnership)

If you are a partnership then you may be liable for...	Use Form...	Separate Instructions...
Annual return of income	1065, U.S. Return of Partnership Income (PDF)	Instructions for Form 1065 U.S. Return of Partnership Income (PDF)
<u>Employment taxes:</u> <ul style="list-style-type: none">• Social security and Medicare taxes and income tax withholding• Federal unemployment (FUTA) tax• Depositing employment taxes	941, Employer's Quarterly Federal Tax Return (PDF) and 943, Employer's Annual Federal Tax Return for Agricultural Employees (for farm employees) (PDF) 940, Employer's Annual Federal Unemployment (FUTA) Tax Return (PDF)	Instructions for Form 941 Employers QUARTERLY Federal Tax Return (PDF) Instructions for Form 943 Employers Annual Federal Tax Return for Agricultural Employees (PDF) Instructions for Form 940 Employers Annual Federal Unemployment

Chart 1 (Partnership)

If you are a partnership then you may be liable for...	Use Form...	Separate Instructions...
		(FUTA) Tax Return (PDF)
Excise Taxes	Refer to the Excise Tax Web page	

Chart 2 (Individual Partners in a Partnership)

If you are a partner (individual) in a partnership then you may be liable for...	Use Form...	Separate Instructions...
Income Tax	1040, U.S. Individual Income Tax Return (PDF) and Schedule E (Form 1040), Supplemental Income and Loss (PDF)	Instructions for 1040 U.S. Individual Income Tax Return (PDF) Instructions for Schedule E (Form 1040) (PDF)
Self-employment tax	1040, U.S. Individual Income Tax Return (PDF) and Schedule SE (Form 1040), Self-Employment Tax (PDF)	Instructions for Schedule SE (Form 1040) (PDF)
Estimated tax	1040-ES, Estimated Tax for Individuals (PDF)	

Corporation:

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. For federal income tax purposes, a C corporation is recognized as a separate taxpaying entity. A corporation conducts business, realizes net income or loss, pays taxes and distributes profits to shareholders.

The profit of a corporation is taxed to the corporation when earned, and then is taxed to the shareholders when distributed as dividends. This creates a double tax. The corporation does not get a tax deduction when it distributes dividends to shareholders. Shareholders cannot deduct any loss of the corporation.

If you are a C corporation, use the information in the chart below to help you determine some of the forms you may be required to file.

Corporations that have assets of \$10 million or more and file at least 250 returns annually are required to electronically file their Forms 1120 and 1120S for tax years ending on or after December 31, 2007. For more e-file information, see [e-file for Business and Self-Employed Taxpayers](#).

Corporations

If you are a C corporation or an S corporation then you may be liable for...	Use Form...	Separate Instructions...
Income Tax	1120, U.S. Corporation Income Tax Return (PDF)	Instructions for Form 1120 U.S. Corporation Income Tax Return (PDF)
Estimated tax	1120-W, Estimated Tax for Corporations (PDF)	Instructions for Form 1120-W (PDF)
Employment taxes <ul style="list-style-type: none">• Social security and Medicare taxes and income tax withholding	941, Employer's Quarterly Federal Tax Return (PDF) or	Instructions for Form 941 (PDF) Instructions for Form 943 (PDF)

If you are a C corporation or an S corporation then you may be liable for...	Use Form...	Separate Instructions...
<ul style="list-style-type: none"> Federal unemployment (FUTA) tax 	943, Employer's Annual Federal Tax Return for Agricultural Employees (PDF) (for farm employees)	Instructions for Form 940 (PDF)
	940, Employer's Annual Federal Unemployment (FUTA) Tax return (PDF)	
Excise Taxes	Refer to the Excise Tax Web page	

LLC:

A Limited Liability Company (LLC) is a business structure allowed by state statute. Each state may use different regulations, and you should check with your state if you are interested in starting a Limited Liability Company.

Owners of an LLC are called members. Most states do not restrict ownership, and so members may include individuals, corporations, other LLCs and foreign entities. There is no maximum number of members. Most states also permit “single-member” LLCs, those having only one owner.

A few types of businesses generally cannot be LLCs, such as banks and insurance companies. Check your state’s requirements and the federal tax regulations for further information. There are special rules for foreign LLCs.

Classifications

Depending on elections made by the LLC and the number of members, the IRS will treat an LLC as either a corporation, partnership, or as part of the LLC’s owner’s tax return (a “disregarded entity”). Specifically, a domestic LLC with at least two members is classified as a partnership for federal income tax purposes unless it files Form 8832 and affirmatively elects to be treated as a corporation. And an LLC with only one member is treated as an entity disregarded as separate from its owner for income tax purposes (but as a separate entity for purposes of employment tax and certain excise taxes), unless it files Form 8832 and affirmatively elects to be treated as a corporation.

Effective Date of Election

An LLC that does not want to accept its default federal tax classification, or that wishes to change its classification, uses Form 8832, Entity Classification Election, to elect how it will be classified for federal tax purposes. Generally, an election specifying an LLC's classification cannot take effect more than 75 days prior to the date the election is filed, nor can it take effect later than 12 months after the date the election is filed. An LLC may be eligible for late election relief in certain circumstances. See Form 8832 General Instructions for more information.

Real Life Scenario:

Babysitter: If you don't work for an employer and if your babysitting earns you \$400 or more, you're self-employed. This involves filing Schedule C with your tax return, which might seem like a lot of trouble if your income was only \$400 or so. However, it's entirely possible that you could end up erasing your earnings by completing Schedule C. This form reports what you earned, but it also allows you to take deductions from that income for business expenses. For example, if you advertised your services at some point during the year or had business cards printed, these costs are deductible. Likewise, if you purchased toys or games to amuse the children in your care, or if used your home to provide child care, you can take deductions for these things. Depending on your income, the deductions might exceed what you earned, resulting in negative income. You'd still have to file Schedule C, but it would show a business loss.

More on babysitter: <https://finance.zacks.com/federal-income-tax-rules-babysitting-income-5556.html>

Other Helpful Resources:

How Sole Proprietors are Taxed: <https://www.nolo.com/legal-encyclopedia/how-sole-proprietors-are-taxed-30292.html>

Small Business Administration tax information: <https://www.sba.gov/business-guide/manage-your-business/pay-taxes>

IRS: <https://www.irs.gov/>