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Understanding the tax responsibilities that come with starting a business

Small business owners have a variety of tax responsibilities. The IRS knows that understanding and meeting tax obligations is vital to the success of all businesses, especially a new one. IRS.gov has the resources and information to help people through the process of starting a new business.

Here are some tips for new entrepreneurs:

Choose a business structure.

The [form of business \[Inks.gd\]](#) determines which income tax return a business taxpayer needs to file. The most common business structures are:

- [Sole proprietorship \[Inks.gd\]](#): An unincorporated business owned by an individual. There's no distinction between the taxpayer and their business.
- [Partnership \[Inks.gd\]](#): An unincorporated business with ownership shared between two or more people.
- [Corporation \[Inks.gd\]](#): Also known as a C corporation. It's a separate entity owned by shareholders.
- [S Corporation \[Inks.gd\]](#): A corporation that elects to pass corporate income, losses, deductions and credits through to the shareholders.
- [Limited Liability Company \[Inks.gd\]](#): A business structure allowed by state statute.

Choose a tax year.

A [tax year \[Inks.gd\]](#) is an annual accounting period for keeping records and reporting income and expenses. A new business owner must choose either:

- Calendar year: 12 consecutive months beginning January 1 and ending December 31.
- Fiscal year: 12 consecutive months ending on the last day of any month except December.

Apply for an employer identification number.

An [EIN \[Inks.gd\]](#) is also called a federal tax identification number. It's used to identify a business. Most businesses need one of these numbers. It's important for a business with an EIN to keep the business mailing address, location and responsible party up to date. IRS regulations require EIN holders to report

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changes in the responsible party within 60 days. They do this by completing [Form 8822-B, Change of Address or Responsible Party \[lnks.gd\]](#) and mailing it to the address on the form.

Have all employees complete these forms:

- [Form I-9, Employment Eligibility Verification U.S. Citizenship and Immigration Services \[lnks.gd\]](#)
- [Form W-4 Employee's Withholding Allowance Certificate \[lnks.gd\]](#)

Pay business taxes.

The form of business determines what [taxes must be paid \[lnks.gd\]](#) and how to pay them.

Visit state's website.

Prospective business owners should visit [their state's website \[lnks.gd\]](#) for info about state requirements.

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