

**Suite 1204****TAX OVERVIEW**

**Tax Overview**  
**Federal Income Tax**  
**Payroll Taxes**  
**Payroll Services**

Please note that the information provided herein is not intended to be absolute. It is a compilation of information which has been harmonized to adhere to the foundation of principles as put forth by The UN, the United States and the Commonwealth so it is important that you should check current details with your particular government.

**1204.01 TAX OVERVIEW**

Because tax laws can be extremely complex, small business owners are strongly encouraged to seek professional assistance. A good accountant or CPA (Certified Public Accountant) will help navigate through local, state and federal laws and also explain how to minimize future tax obligations.

Even if you retain professional tax assistance, your tax responsibilities are still solely your obligation. You should understand how the various tax systems impact your business. Although the following information is not comprehensive, it does provide an overview of the most common business tax requirements.

The form of business you operate determines what taxes you must pay and how you pay them. The following are the four general types of business taxes.

- Income tax
- Self-Employment Tax
- Employment Taxes
- Excise Tax

**THE UNITED STATES****1204.02 FEDERAL INCOME TAX**

Different business structures (Sole Proprietorship, Partnership, Corporation, or Limited Liability Company) have different income tax requirements regarding filing dates, forms required, and tax rates and calculations. The IRS lists the various business taxes and forms required for each legal structure:

- Sole Proprietorships
- Partnerships
- Corporations
- S Corporations
- LLCs or LLPs

Federal Income tax is a pay-as-you-go tax. Business owners generally & pay income taxes in quarterly estimated income tax payments.

## **1204.03 PAYROLL TAXES**

### **Withholding Taxes**

Employers are responsible for withholding taxes from employees' paychecks, sending them to the proper government agencies, and other employer tax obligations. The major employer paid taxes (FICA, federal unemployment, and state unemployment taxes) will be explained later in this section.

### **Social Security and Medicare Taxes**

The Federal Insurance Contributions Act (FICA) provides for a federal system of old-age, survivors, disability, and hospital insurance. The first three are financed by the social security tax, while hospital insurance is financed by the Medicare tax.

Employers must withhold social security and Medicare taxes from employee's wages and pay a matching amount. These taxes have different rates and only the social security tax has a wage base limit. There is no wage base limit for Medicare Tax; all covered wages are subject to Medicare tax.

### **Federal Unemployment Tax**

The Federal Unemployment Tax Act (FUTA), together with state unemployment systems, provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay both a federal and a state unemployment tax. Only the employer pays FUTA tax; it is not deducted from the employee's wages.

Generally, employers can take a credit against FUTA tax for amounts paid into state unemployment funds. This credit cannot be more than 5.4% of taxable wages. Those entitled to the maximum 5.4% credit have an effective FUTA tax rate of 0.8% after the credit.

### **State Taxes**

Every state levies some form of tax on small business, but in some states some business structures (especially sole proprietorships) have little to no tax imposed.

### **State Unemployment Tax**

State unemployment taxes are also paid by the employer and are not deducted from the employee's wages. Each state has a different rate and different wage limits from which the taxes are calculated.

### **Self-Employed Tax**

Self-employment tax is a Social Security and Medicare tax for individuals who work for themselves, similar to Social Security and Medicare taxes withheld from the pay of wage earners. Social Security benefits are available to self-employed persons just as they are to wage earners. Like federal income tax, self-employment taxes are paid through quarterly estimated tax payments.

## **1204.04 PAYROLL SERVICES**

Generally, hiring a payroll service is a good idea for businesses in which payroll isn't the same from pay period to pay period. Businesses with hourly employees or employees earning commissions can save time and money by using a payroll service. One of the chief benefits is avoiding costly mistakes in payroll processing like failing to remit payroll taxes in a timely manner. Payroll companies calculate the amount of each paycheck and the tax obligations for each employee, print the checks, and provide payroll reports.

### **U.S. Tax Information for Corporations**

(the topics are arranged alphabetically)

<http://www.irs.gov/businesses/corporations/index.html>

## **THE UNITED KINGDOM**

It is very important to you to make sure that you pay no more in tax than you are actually obliged to pay, although you are of course legally obliged to provide accurate tax returns. Poor record-keeping, inadequate understanding of available tax relief, and lack of the right advice can all lead to paying excess tax.

The rules change with each year's Budget, so you certainly need good advice from a professional (usually your accountant) who is following the technical changes very closely and is able to apply them to your business.

An unexpected tax bill can kill a small business so you must be able to anticipate your tax liabilities. Once you know what you will be expected to pay you can set about the task of arranging your business activities so that your tax bills are kept to the minimum. At the same time, it is a good idea to save money to provide for these bills.

### **Which taxes might I face?**

There are quite a few taxes on businesses and individuals and you should be aware of the broader implications of each of them. Knowledge gives you control! There are direct taxes on income and profits (eg. Income Tax, Corporation Tax), taxes on capital (Capital Gains Tax and Inheritance Tax) and indirect taxes (eg. Customs and Excise duties, VAT, stamp duties).

### **Income Tax**

If you operate as a sole trader you will pay normal rates of Income Tax on your profits (including the salary you pay yourself).

If you operate as a partnership, the amount of Income Tax charged on profits will depend on the Income Tax rates paid by individual partners on their income.

If you operate as a limited company, you will pay income tax on your salary at normal rates. Any profits left in the business will be liable for Corporation Tax. National Insurance

National Insurance is deducted from earnings to pay for pensions, sick pay and other benefits. There are various classes of National Insurance and advice can be obtained from your local Social Security office.

### **Corporation Tax**

This is the tax paid by limited companies. It is important that company directors think carefully about ways to minimize the effects of Corporation Tax. This is an area where an accountant will be able to help you.

### **Capital Gains Tax (CGT)**

This is on capital profits obtained from the sale of some fixed assets (eg. Land, buildings, goodwill etc.) and/or investments. Any capital losses sustained from sales of assets may be offset against capital gains.

### **Inheritance Tax**

This taxes capital which is transferred at death, or within seven years before death.

### **VAT (Value Added Tax or Sales Tax)**

You must register your business for VAT if you expect your turnover to exceed the threshold specified in the Chancellor's most recent budget. Not everything is subject to the maximum rate of VAT. Some goods and services are zero rated, others are exempt altogether. It is important that you are fully aware of VAT regulations relating to your business.

VAT is simple enough if you pay VAT on all your supplies. This is what happens: You charge VAT on certain goods and services, and send the VAT you collect to Customs and Excise every month or quarter (3 months). In turn, you may be charged VAT on goods and services you need to run your business, such as materials, legal fees, telephone bills and so on. If so, you can claim it all back. In practice, you simply take the second 'outgoing' total from the first 'incoming' total. Then you pay or claim the difference. This does not apply to VAT on imports, which you must pay as soon as the goods enter the country. If this is part of your business, you may be able to arrange a special bond through your bank which would help you put off such payments. The VAT regulations change constantly, so you need to keep up to date with developments.

### **Tax on profits and income**

If you are a sole trader or in partnership, or a member of an LLP, you pay income tax. If you form a limited company, you must pay corporation tax on the profits your company makes. You must also pay income tax on your wages. These will be paid by PAYE (Pay As You Earn) as you are an employee of the company. In limited circumstances, an LLP may also become liable to Corporation Tax, e.g. on ceasing to trade.

## Other taxes

There are other taxes which you may need to be aware of, but these are the most common. If you think you have missed something in your assessment of your tax liability, ask your accountant.

### For those starting up in business

New businesses can benefit from a variety of tax allowances and relief's which could cut their tax bill.

They include:

- capital allowances for investment in equipment and premises
- tax relief and credits for spending on research and development
- stamp duty relief in disadvantaged areas

But you won't automatically receive these tax advantages. You need to find out what you can claim and then apply for them.

Read the guide to tax relief's credits and incentives for new businesses on the HM Revenue & Customs website

<http://www.inlandrevenue.gov.uk/startingup/payless.htm>

Download help sheet IR206 on capital allowances from the HM Revenue & Customs website (PDF)

<http://www.hmrc.gov.uk/helpsheets/ir206.pdf>

Find out about enhanced capital allowance investment schemes at the HM Revenue & Customs website

[http://www.inlandrevenue.gov.uk/capital\\_allowances/investmentschemes.htm](http://www.inlandrevenue.gov.uk/capital_allowances/investmentschemes.htm)

Find out about tax relief on computers lent to employees at the HM Revenue & Customs website

[http://www.inlandrevenue.gov.uk/e-commerce/sme4\\_lending.htm](http://www.inlandrevenue.gov.uk/e-commerce/sme4_lending.htm)

Read the guide to R&D tax credits on the HM Revenue & Customs website

<http://www.inlandrevenue.gov.uk/randd/index.htm>

Find out about stamp duty exemptions in disadvantaged areas at the HM Revenue & Customs website

[http://www.inlandrevenue.gov.uk/so/dis\\_relief\\_menu.htm](http://www.inlandrevenue.gov.uk/so/dis_relief_menu.htm)

Check if your area is eligible for stamp duty exemptions on the HM Revenue & Customs website

[http://www.inlandrevenue.gov.uk/so/pcode\\_search.htm](http://www.inlandrevenue.gov.uk/so/pcode_search.htm)

## Details of tax advantages for new businesses

There's a range of tax advantages which businesses may be able to use to reduce their tax bill. The table below gives a brief overview of what's available and how it could benefit your business.

### Tax advantages

Tax advantage	How it works
Capital allowances	You deduct a proportion of the cost of purchase of certain types of premises and equipment from your business' taxable profits over several years. Many small and medium-sized businesses qualify for higher rates of capital allowances on equipment in the year of purchase. The government announced in the Pre-Budget Report 2005 that first-year capital allowances will be extended to 50 per cent from April 2006. <a href="#">Download helpsheet IR206 on capital allowances from the HM Revenue &amp; Customs website (PDF)</a> .
Tax relief on computers lent to employees	Unlike most assets loaned to employees, you don't have to pay tax or National Insurance contributions on the value of any computer worth up to £2,500 that you lend to an employee. From 6 April 2005, no tax charges will arise where employees buy computers from their employer at market value that they have previously been lent. <a href="#">Find out about tax relief on computers lent to employees at the HM Revenue &amp; Customs website</a> .
Tax relief and credits for research and development	Qualifying small and medium-sized companies can deduct an allowance of 150 per cent of appropriate research and development spending when calculating their taxable profits. If your company isn't in profit it can exchange qualifying research and development losses for a cash payment from the government. <a href="#">Read a guide to whether you can claim tax relief on research and development costs at the HM Revenue &amp; Customs website</a> .
Stamp duty exemptions in disadvantaged areas	Businesses in specified disadvantaged areas are exempt from stamp duty on residential property transactions up to £150,000 (£120,000 elsewhere). The exemption from stamp duty for commercial property transactions in disadvantaged areas ended on 17 March 2005. <a href="#">Find out about stamp duty exemptions in disadvantaged areas at the HM Revenue &amp; Customs website</a> .
Enterprise Investment Scheme	This scheme helps certain types of small unquoted companies to raise capital by providing tax relief for investors in these companies. <a href="#">Read more about the Enterprise Investment Scheme at the HM Revenue &amp; Customs website</a> .

Read more about the Enterprise Investment Scheme at the HM Revenue & Customs website

<http://www.hmrc.gov.uk/guidance/eis-index.htm>

You can find this guide on <http://www.businesslink.gov.uk> by navigating to: Home > Taxes, returns & payroll > Introduction to business taxes > Tax advantages for those starting up in business

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## **CANADA**

The following link provides information on the Government of Canada:

[http://www.canada.gc.ca/depts/major/depind\\_e.html](http://www.canada.gc.ca/depts/major/depind_e.html)

The following link provides information on the individual Provinces:

<http://bsa.cbasc.org/gol/bsa/interface.nsf/vSSGBasic/su10000e.htm>

## **IRELAND**

The Government of Ireland Official Gateway

<http://www.irlgov.ie/>

Irish local government Council websites:

<http://www.outlood.com/localgov/eire.htm>

## **AUSTRALIA**

Australian Commonwealth Government Gateway

<http://www.australia.gov.au/>

General Information

<http://gov.info.au/>

Federal, State and Local Government

<http://www.nia.gov.au/oz/gov/>

## **NEW ZEALAND**

The Government of New Zealand Gateway

<http://www.govt.nz/>

The E-Government site for New Zealand

<http://www.e.govt.nz/>

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