

IRS Check List for New Businesses

Most businesses start out small. As a new business owner you need to know your federal tax responsibilities. This page provides links to basic federal tax information for people who are starting a business. It also provides information to assist in making basic business decisions. The list should not be construed as all-inclusive. Other steps may be appropriate for your specific type of business.

Determine if it is a business or a hobby: For your activity to be considered a business rather than a hobby, your business must intend to be profitable during at least three of the last five tax years, including the current year.

Select a business structure: When beginning a business, you must decide what form of business entity to establish. Your form of business determines which income tax return form you have to file. The most common forms of business are the sole proprietorship, partnership, corporation, limited liability company (LLC), and S corporation. Legal and tax considerations enter into selecting a business structure. (See the document titled Basic Business Structures.)

Get an Employer Identification Number (EIN): An Employer Identification Number (EIN) is also known as a Federal Tax Identification Number, and is used to identify a business entity. Generally, businesses need an EIN.

Establish records: Good records will help you monitor the progress of your business, prepare your financial statements, identify source of receipts, keep track of deductible expenses, prepare your tax returns, and support items reported on tax returns. The length of time you should keep a document depends on the action, expense, or event the document records. You must keep your records as long as they may be needed to prove the income or deductions on a tax return.

Choose a tax year: A "tax year" is an annual accounting period for keeping records and reporting income and expenses. The tax years you can use are a calendar year (January 1 through December 31) or a fiscal year (12 consecutive months ending on the last day of any month except December.) Note that sole proprietors must adopt a calendar tax year.

Select an accounting method: Each taxpayer (business or individual) must figure taxable income on an annual accounting period called a tax year. 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 an accrual method. Under the cash method, you generally report income in the tax year you receive it and deduct expenses in the tax year you pay them. Under an accrual method, you generally report income in the tax year you earn it, regardless of when payment is received, and deduct expenses in the tax year you incur them, regardless of when payment is made.

Pay your business taxes: 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, and excise tax. And don't forget your state and local taxes.

Taken from <http://www.irs.gov/businesses/small/article/0,,id=99336,00.html>