

TaxBrief

Keeping you informed

Thinking about starting a business? Here's what to know before you begin.

Starting a business is an exciting move, but also a big one! Whether launching a full-time operation or turning a side hustle into something more official, the steps you take at the beginning can shape your success for years.

Congratulations! Here's what you need to know before opening your business's doors.

Choose the right business structure (and know what it means)

Your business structure affects how you're taxed, whether you can raise money, how you pay yourself and what happens if something goes wrong. These are the most common types:

- **Sole proprietorship** – A one-person business without legal separation between you and the company. You report income and expenses on your personal tax return using Schedule C (Form 1040). This option is low-cost and straightforward but includes no liability protection.
- **LLC (limited liability company)** – Popular for its flexibility, it offers liability protection and is generally taxed as a sole proprietorship (single-member) or partnership (multi-member). You may also elect S corporation treatment.
- **Partnership** – For two or more people sharing business ownership. Income is reported on a Form 1065 and passed to each partner via a Schedule K-1; from there, it is taxed on the individual partner's return. Partners generally pay self-employment tax on their share.
- **S corporation** – Like a partnership, business income is reported on the business return (Form 1120-S) and generally passes through to the owner's individual return, where it is taxed.

An S corporation requires formal payroll, including paying yourself a reasonable salary. This structure can reduce self-employment tax, as only the salary is subject to it, not distributions.

- **C corporation** – Treated as a separate legal entity from the business owner. Profits are taxed at the corporate level (21%) and again when distributed as dividends, which are taxed at the shareholder level. This structure may be appropriate if you plan to raise capital or keep earnings in the business.

If you're unsure which option fits best, we'll eliminate any guesswork by walking you through the pros, cons and tax responsibilities, so you can make an informed choice.



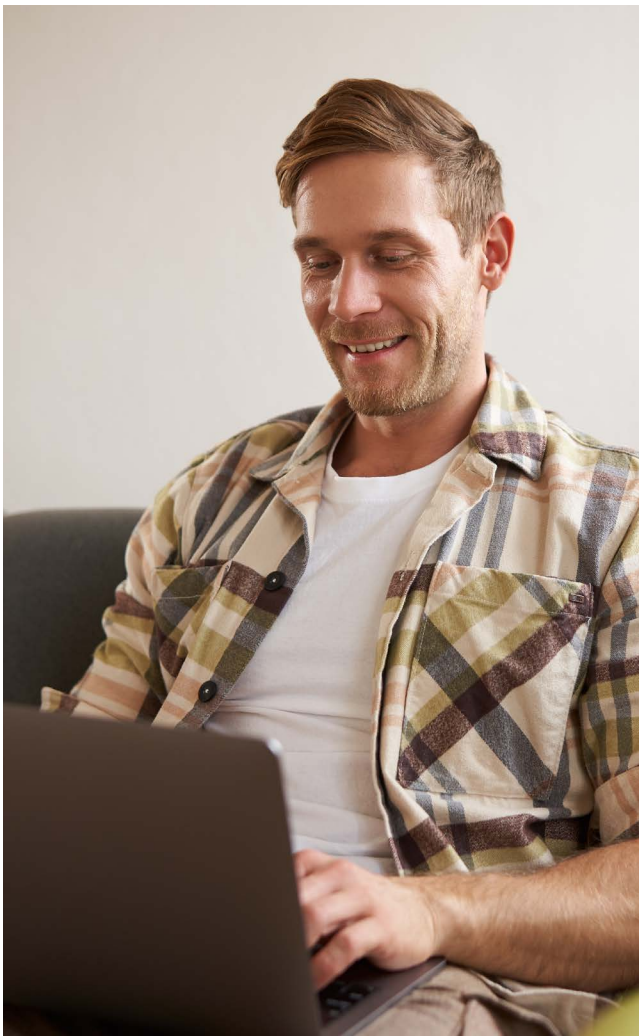
Know your registration requirements

Even without employees, most businesses need an employer identification number (EIN) for tax filings, opening business bank accounts and getting licenses. You can apply for an EIN for free at [IRS.gov/EIN](https://www.irs.gov/EIN).

Depending on your location and industry, you may also need to register your business with your state or county, file a “doing business as” (DBA) name or get specific licenses or permits:

- Register your entity if forming an LLC, corporation or partnership
- Apply for seller’s permits if your state collects sales tax
- Confirm zoning, signage and industry-specific compliance

Some states also require you to register for payroll or business tax accounts, even before hiring.



Consider how you’ll fund the business

Funding often comes from personal savings, credit cards or loans. Some business owners borrow from home equity or retirement accounts, which can carry risk or tax consequences of their own. Other options include:

- SBA-backed loans
- Crowdfunding platforms
- Friends and family (ideally with formal agreements)
- State or local grants for qualifying businesses
- Microloans for new entrepreneurs

If you’re considering using retirement savings or outside investors, we’ll help you understand the tax consequences and what rules you’ll need to follow.

Understand start-up costs and learn which ones are tax-deductible

Launching a business comes with expenses, and how you categorize them matters:

- **Start-up costs** include expenses incurred before the business opens; think training, advertising, market research, software, business formation and legal fees. You can deduct up to \$5,000 in your first year, then amortize the rest over 15 years. This deduction phases out if start-up costs exceed \$50,000.
- **Operating expenses** are day-to-day business costs (like supplies, utilities and insurance) after your business begins. These are typically deductible in the year incurred.
- **Capital expenses**, such as equipment, property and furniture, must be depreciated unless you qualify for depreciation options such as §179 or bonus.

Set up your books before you make your first sale

A sound bookkeeping system is essential not just for taxes, but for making wise business decisions. The IRS recommends tracking:

- Income by source
- Business expenses (with receipts)
- Mileage logs (if using your vehicle)

- Inventory (if applicable)
- Basis/cost in equipment or property

Most small businesses can use the cash method of accounting, which reports income when received and expenses when paid. The accrual method may apply if your company holds inventory or exceeds certain thresholds.

We'll help you implement a recordkeeping approach that makes sense for your business and keeps you on track financially.

Hiring help? Know your responsibilities as an employer

If you hire workers, you may need to:

- Withhold and deposit payroll taxes
- File Forms W-2 and W-3 annually
- File payroll return Forms 941 (quarterly) and 940 (annually)
- Follow wage, hour and benefit laws (both federal and state)
- Classify workers correctly
 - If you control how, when and where someone works, they're probably an employee, not a contractor. Misclassification is one of the most common and costly tax errors.
 - The IRS offers Form SS-8 if you need an official worker status determination, but we can usually help you assess things much sooner.
- File Form W-9 for contractors

Understand tax obligations from day one

Once your business is up and running, you'll likely owe:

- **Self-employment tax** (15.3% on net profit) if you're a sole proprietor or partner
- **Income tax**, based on your total income and deductions
- **Estimated tax payments**, due quarterly (April, June, September, January)
- **Payroll tax**, if you have employees

- **Sales or excise tax**, depending on what you sell and where it's sold

We can estimate your first-year tax liability and set you up with reminders, so you avoid penalties or surprises.

We're here to help you start smart

Starting a business can change your life. But how you start, set up, and keep records can either support your success or create headaches down the road.

Let's discuss your business idea and how to structure it to fit your goals and keep you IRS-compliant. We're not just here to file your tax forms. We're here to help you launch with confidence, avoid costly mistakes and build a business you're proud of.

