



**GETTING STARTED:
SMALL BUSINESS OWNER'S
TOOLKIT**

ACCION



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INTRODUCTION

At Accion, we are more than just a lender, we are your partner. We are excited that you've decided to take the first step with us in building capital for your business. However, this is just one piece of the puzzle -running a business requires a myriad of different skills and to be successful, you need to constantly be on the lookout for learning opportunities.

Formal continuing educational courses can be time-consuming and costly. But it's also easy to feel inundated with the amount of material online. That's why we've curated a unique collection of what we believe are the most relevant and helpful articles, just for you.

Think of this toolkit as our gift to you; our token of appreciation. We can't wait to follow the progress of your small business and be with you every step of the way.

Can't get enough? Check out our entire business resource library at:
us.accion.org/business-resources/articles-videos.



WHICH LEGAL STRUCTURE IS RIGHT FOR YOUR BUSINESS?

One of the first decisions a new business owner makes is what type of legal structure the business will have. There are several different ways to set up your company, and each will affect taxes, financing, and your personal liability. Let's examine the options and the benefits and drawbacks of each. Of course, your individual circumstances will dictate which structure makes the most sense for you, so be sure to get professional legal advice before making a final decision.

Sole Proprietorship

A sole proprietorship is a business owned by a single individual, and is the easiest type of structure to set up. This doesn't mean that there are no regulations to follow, however. The procedure will vary from state to state, but the steps needed in order to operate as a sole proprietorship are very simple.

1) CHOOSE A BUSINESS NAME -This may be your own personal name or a trade name. If you're using a trade name, most states will require that it be different from any other currently in use there. Check your state requirements and do a search with the appropriate agency to make sure the name is available.

2) BUSINESS NAME REGISTRATION -Many states require sole proprietors to register your Doing Business As (DBA) name. However, if you are simply using your own personal name as your business name, there is no need to register with your state.

3) LICENSES AND PERMITS - Most states will have a database of professions and

occupations and the licenses required. Search online for your state and “professional licensing.” Also file any required local paperwork, such as local permits or zoning.

4) EMPLOYEE IDENTIFICATION NUMBER (EIN) -This is a 9-digit number issued by the Internal Revenue Service to keep track of businesses. You’ll need this number to report your employees’ wages to the IRS. Some banks will ask for an EIN to open a business bank account. You also need it to register your business or file taxes.

It’s important for tax purposes to keep your business and personal finances separate, so set up a business bank account and get a business credit card. A sole proprietorship doesn’t offer you any personal protection from legal claims against the business, so it’s a good idea to get liability insurance as well. You will also be personally responsible for the business’s financial obligations, so consider a business liability insurance policy too.

Depending on what type of business you’re in, you may have to report sales or other taxes. Income taxes will be filed as personal income on your individual return with a Schedule C attached. You pay all the taxes an employer would otherwise pay for you, such as contributions to Social Security and Medicare, and you may have to pay estimated taxes throughout the year. Speak with an accountant and make sure you understand and follow through on the requirements.

Partnerships

A partnership is when two or more people combine to share in the profits or losses of a business. Similar to a sole proprietorship, money made or lost is reported personally by the partners on their individual income tax returns. Generally, the steps to forming a partnership are similar to those for sole proprietorships, and again, may vary slightly from state to state.

There are a few different types of partnerships, but the two most common are general and limited. In a general partnership, ownership is usually shared equally between the people involved. If a different distribution were used, you would spell that out in your partnership agreement. Limited partnerships are usually formed when one person is doing most of the actual work and another (or others) has invested money. The general partner will typically run the business, and the other partners will have limits on their involvement. Again, these would be outlined in your agreement. You are not legally required to have a written partnership agreement, but it is smart business practice to do so.

Another thing to keep in mind about partnerships is that if a partner wants to leave, the other(s) will have to buy him or her out or dissolve the business. This is another reason why it's smart to have a written agreement that includes a buy-sell or buyout agreement.

In a partnership, the partners are still personally liable for all obligations of the business. For example, if the business defaults, a creditor can come after your house, car or anything else you own. (Limited partners may have limited liability.)

In addition, any of the individual partners can legally commit the business to a contract, even one that the other partners may not agree with or are aware of. Between being responsible for the business's debt and the ability of each partner to bind the partnership to contracts, it's vitally important to trust anyone you're considering entering into a partnership with. You should also be sure that your personalities will complement each other and you'll be able to work together effectively.

As with sole proprietorships, the income or loss of a partnership passes through to the owners, and is accounted for on their individual tax returns.

Corporation

A corporation, or C corporation, is an independent entity for both legal and tax purposes, separate from the people who own it or run it. A corporation can raise money by selling stock, and a corporation will continue indefinitely, even if one of the shareholders dies or sells his or her shares. Owners of a corporation are not personally responsible for the financial obligations of the corporation, nor are they personally liable in the case of lawsuits.

Because of their independent status, the corporation itself pays taxes; the income is not passed through to the owners' individual tax returns. Owners would pay taxes just as any other employee of a business would: for the money they get for salaries, bonuses and other benefits. One thing to be aware of is the potential for double taxation. As an owner, you would pay taxes on whatever salary you obtain from the company, but you would also pay corporate taxes for the profits of the business.

It's a far more complicated, expensive, and time-consuming process to set up a corporation. The rules for forming corporations are set by each state, and each has a list of regulations, as

well. You need to prepare articles of incorporation and a set of bylaws describing how the corporation will be run. You'll most likely need an attorney to help you with the paperwork and certifications involved.

Once you're up and running, you'll probably need an accountant to handle the more complicated tax calculations and filings. You'll need to register with the IRS and state and local tax agencies, get an EIN, and pay taxes for your corporate profit. You'll also need to pay a portion of your employees' Social Security and Medicare taxes.

S Corporation

If your business qualifies according to the IRS rules, you might choose to become a special class of corporation known as an S corp. To be classified as an S corporation, you still have to become a corporation, following the general procedure outlined above.

Like a C corporation, an S corp is also a separate entity from its owners so your financial liability would still be limited, but its profits or losses would pass through to your individual tax return. The business itself is not taxed, so you're not open to the potential of being taxed twice.

S corporations can only issue common stock, which experts say can make it harder to raise capital. S corps can also only be owned by individuals, estates, and specific kinds of trusts, which limits the type of investors you can attract.

Limited Liability Company (LLC)

In many ways, this type of structure offers the benefits of both a corporation and a partnership. The owners are protected from having personal liability, as they would in a corporation, but an LLC follows the more streamlined structure of a partnership. To set up an LLC, you have to file with your state, and some states will also require an operating agreement that is similar to a partnership agreement. LLCs cannot sell stock, although they can give a percentage of ownership to outside investors.

In an LLC, the owners are known as "members." Members can be people, partnerships, corporations, or even other LLCs. The profits and losses are passed through LLCs to their members, who report

them on their individual returns, just as in a partnership.

As with partnerships and sole proprietorships, LLC members are considered to be self-employed, and have to make their own tax contributions toward Medicare and Social Security. An LLC can also request S corporation status, which may offer other tax benefits. An attorney or accountant could advise you on this, but the Small Business Administration offers a great explanation to get you started. [link?]

Why might you opt for an LLC instead of an S corporation? Filing as an LLC requires less paperwork and fewer costs to get started. There are also fewer restrictions on how the profits in an LLC are shared among its members. On the downside, similar to partnerships, in many states the business is dissolved if the member leaves, although you can put provisions in your operating agreement.

The Bottom Line

One very important thing to keep in mind is that you can change the organizational structure of your business if your situation changes. It's possible to start off as a sole proprietorship and convert to an LLC or corporation. As your needs grow and evolve, the structure of your business can change with them. As always, it's best to consult with your attorney and accountant about what would be most suitable for you.



WHAT BUSINESS INSURANCE STARTUPS NEED

When you're heading into the exciting world of entrepreneurship, insurance might be the last thing on your task list, but business insurance helps to safeguard you, your business, and your employees against liabilities and losses.

Some types of insurance are required by law, while other coverage types may be prerequisites to meet the terms of agreements with your partners or financial investors. Read on for a list of insurance policies you should consider in order to protect your startup business.

General Liability Insurance

Liability insurance, or Commercial General Business Liability, is insurance coverage that can protect you from a variety of claims that can arise from your business operations. You'll rely on your liability insurance to protect your business in the following instances:

- 1) You get sued and you need money to pay your lawyers and any potential settlement or reward.
- 2) You owe medical costs in the instance that someone gets hurt on your property.
- 3) You need to pay for property damages or injuries caused by you or an employee.
- 4) You must pay your landlord in the instance that the property you rent catches fire or suffers other damage.

5) General liability insurance can also help you cover claims of false or misleading advertising, including libel, slander, and copyright infringement.

Depending on your industry and business coverage needs, annual liability insurance premiums can range from several hundred dollars per year to thousands annually. However, should you be sued, being adequately insured could prevent you from losing much more than the relatively small cost of business liability insurance.

Commercial Property Insurance

Commercial property insurance can help you out if your property is lost or damaged in many different circumstances, such as: Fire or smoke, Wind and hail storms & Civil disobedience and vandalism

Commercial property insurance covers much more than just the building in which your business is located. The property covered by this insurance can include furniture, equipment, computers, and documents.

Workers' Compensation Insurance

If you have employees, then it's highly likely your state requires you to have worker's compensation insurance. If one of your employees is injured on the job and can't work as a result of the injuries, then your worker's compensation insurance will help cover their medical expenses, any physical rehabilitation they must undergo, and it will pay them a percentage of their lost wages. In exchange for worker's comp, as it's commonly referred to, your employee gives up the right to mire you and your business in a lawsuit, which should save you both in the form of money and headaches.

Commercial Auto Insurance

Many business owners don't obtain commercial auto insurance, because their personal auto policy covers the way they use their vehicle. However, if you use your car for any business purpose other than commuting, then there's a good chance you could benefit from a commercial auto insurance policy.

If you use your car to transport equipment, supplies, or commercial goods, if you chauffeur people

as part of your work, or if employees regularly need to operate your vehicle, then you should definitely discuss a commercial auto insurance policy with your insurance agent.

Commercial Flood Insurance

Many businesses are located in places where flooding is a common occurrence. In this case, commercial flood insurance is a no-brainer, but even if you aren't located in a flood zone, you should consider getting commercial flood insurance if there's a possibility your business would suffer in a flood due to heavy rain, melting snow, hurricanes or tropical storms.

Most property and business owner policies don't cover damage caused by flooding, so check your policy; if it doesn't cover flood damage, you should consider adding a flood policy. A standard flood policy will protect against damage to your building plus the contents if you choose to include both on your policy. Depending on your needs, you may decide to insure both to protect the structural elements of your business's property, such as walls, floors, equipment and fixtures, plus the property held inside the building, such as inventory, furniture, and wall and floor coverings

Commercial Umbrella Insurance

Sadly, lawsuits are incredibly common these days, and they can easily destroy a business that isn't properly insured. If a lawsuit were to max out the limits of your general liability insurance, commercial auto insurance, and employer's liability policies, then having a commercial umbrella policy in place could increase your liability protection.

This coverage can potentially fill the gaps where other coverage plans reach their limits. Commercial umbrella insurance gives your business additional financial protection from damaging lawsuits or accidents.

Management and Professional Liability Insurance

Management and professional liability insurance is also known as professional liability insurance (PLI), professional indemnity insurance (PII), or errors & omissions (E&O). If a customer or client were to sue you for making a mistake or an oversight in your services or product that caused them damages, then this insurance would help cover the defense costs and the damages

awarded from this type of lawsuit.

Business Income Insurance

In case of a natural disaster, most businesses tend to get insurance to cover damage to property, but this type of policy won't replace income loss due to a service interruption. This is where business income insurance comes in to cover that gap. Also, business interruption or continuation insurance helps replace loss of income in case the regular operation of your business is suspended; that way you're able to meet your financial obligations such as rent or payroll.

The Bottom Line

Having the right insurance coverage can help protect your finances and your company. It can be tough to think about getting sued or living through a natural disaster. We like to be optimistic and to think that these things can't happen to us, however, many business owners have lost their shirts because they were underinsured. Talk to other experienced business owners and find out what business insurance policies they recommend, and then speak to a trusted insurance agent to get your business covered.



HOW TO WRITE A CASH FLOW STATEMENT

One of the most important aspects of running your business is managing the amount of money that comes in and goes out. Ideally, more will be flowing in than flowing out, but it doesn't always happen that way. You may have to pay your staff and suppliers before you pay yourself.

No matter what your situation, it's helpful to have a picture of where you stand at any given time, and a cash flow statement is key. It gives you an overview of how money flows in and out of your business so you can spot trends and manage them.

Cash flow statements can be prepared monthly, quarterly, yearly, or for any period you determine to be most helpful. Most businesses find keeping track each month to be beneficial.

As with other financial statements, if you use accounting software like QuickBooks or Peachtree, the program will generate a cash flow statement for you after you enter the pertinent information. However, you can easily create your own with some simple calculations.

Here are four steps to help you create your own cash flow statement.

1) START WITH THE OPENING BALANCE

For the first month, start with the total amount of cash your business has in its bank accounts.

2) CALCULATE THE CASH COMING IN (SOURCES OF CASH)

Figure out all the money you expect to take in during the month. Only include actual money you will be receiving, not the sales you have made. For example, if you signed a contract for \$100,000 over the next six months but are only receiving \$15,000 of it this month, you would only count \$15,000 for now because that would be the cash you have on hand.

Count everything coming in, including all collections of previous sales you made on credit, any transfers of your own personal money into the business, and any loans you might have taken during the period. Basically, you will include every single dollar coming into your business, whether from operations (sales of your goods or services), investments (sales of assets such as business equipment or land), or financing activities (equity you and/or shareholders are providing, or loans).

Add the figure you've arrived at in Step 2 to your opening balance from Step 1 to get your total cash balance for the period.

3) DETERMINE THE CASH GOING OUT (USES OF CASH)

Now, count up and enter all of the payments you expect to make for the month. Include items such as inventory, rent, salaries, taxes, loan payments, etc. Take into account everything you'll spend money on this month.

If you have an annual bill for something like insurance, but have to pay for it all at one time or twice a year, you would count the payment as expenditure during the month(s) you pay it. (You should still budget for it monthly, but you'll have to come up with the cash during the month it's actually due.)

4) SUBTRACT USES OF CASH (STEP 3) FROM YOUR CASH BALANCE (SUM OF STEPS 1 AND 2)

The number you're left with will be how much cash you have left at the end of the month. It will also be your Opening Balance at the start of the next month. If the number is negative, it means you will have a shortfall, i.e. not enough cash to cover your expenses.

An Alternative Method

Instead of lumping together all of the sources of cash and all of the uses of cash, you can figure out your cash flow for each category separately. You would have one category for operating activities, one for investing activities, and one for financing activities. For each, you would total up the cash coming in and subtract the payments going out.

The Bottom Line

The biggest benefit of analyzing your cash flow is the information it provides on how to handle your expenses. While your business may be profitable in the long run, you may still have periods where you don't have the money to pay your bills. This is especially true for companies that do a lot of invoicing.

Not all customers pay on time, and sometimes, they don't pay at all. Because cash flow ONLY counts money you've actually received, it can be more realistic than your profit and loss statement when it comes to figuring out the financials of your operation.

When you see the figures in black and white, you'll realize the periods in which you either have to cut the amount of money you're spending or increase the money coming in—whether it's by booking more business, getting paid faster, or getting a loan or a line of credit.



HOW TO BUILD A WEBSITE

In this day and age, an online presence is vital when it comes to growing your business. Whether you want to build your brand, reach your clients, or sell your products online, you'll need a website that's attractive, informative, and easy to navigate.

If hiring a team of developers and designers may be more than you can afford, don't worry. Hiring freelancers and taking courses allow those with little programming knowledge and a tight budget to build a platform that will get their business noticed. Let's take a look at some of the options:

Drop and Drag Website Builders

Dozens of website building platforms are available today at little or no cost. While it can initially seem daunting to those who've previously never dabbled in programming, sites like Web.com, Wix.com, and GoDaddy.com are straightforward and easy to understand, even for beginners.

As long as you're comfortable "dropping and dragging" elements into a customized template, you can feel confident that you'll be able to create a web site. Before you choose a website builder, think about what's important to you. Do you want it to be mobile-friendly? Do you plan to send out a newsletter regularly? If you're going to do business globally, you may want to consider a multi-lingual site.

If you're feeling overwhelmed, most web builders have a customer service team at the ready to answer your questions and provide support should you get stuck along the way. With multiple platforms available at your fingertips, eliminating the cost of hiring a pro allows you to put that money into other areas of your business.

Freelancers

If you don't have the time or desire to build a website yourself, you may want to hire a freelancer. When choosing your website designer and developer, make sure to take a good look at their portfolio. Do they have experience creating sites in your field? Does each site they design look fresh and inviting rather than like replicas of one another? Do they both design and code, meaning are they both a developer AND a designer, or do they only do one of these tasks? If you've seen a site you really admire, consider contacting the business owner to find out which designer and developer they used.

Because prices vary greatly by web site creator, it's a good idea to get several bids, making sure that each estimate includes the same items for the final design. How many pages you'd like and how much help you need in creating content will also factor into the overall cost. You can expect to pay from several hundred to several thousand dollars if you go with a pro, depending on their level of experience. But if you think of your website as your virtual storefront, you'll probably want it to look as polished as possible.

Take a Course

If you're determined to build your website yourself but want a bit more hand-holding along the way, take a course. There is a plethora of online tutorials both free and tuition-based on the web and can get you started without any prior knowledge of coding.

If you're more comfortable in a face-to-face environment where you can ask questions and have someone there to walk you through the material, colleges and schools that offer continuing education classes can provide you with the tools you need to build a website that'll showcase your business.

Things to Keep in Mind as You Create Your Website

Whether you choose the DIY route or feel more comfortable hiring a professional, there are certain elements you'll want to include on your site. Here's a list of must-haves:

1) START WITH A SIMPLE DOMAIN NAME

Having a simple and catchy URL makes it easy for customers to find and remember how to get to your

web site. If you can, avoid dashes, numbers, or underscores as people tend to forget to include them. Use .com, which experts say is what most people default to, as opposed to .org or .net.

If your business name is already being used by another company, sites like Panabee and Name Vine can help in finding out what else is available.

2) MAKE SURE YOUR WEBSITE IS SECURE

Especially if you're transacting business, you'll want to know that your site can't be hacked. Find a hosting company you can trust to keep the site safe as well as up and running smoothly. A site that's slow to load is annoying for customers, who may just give up and move on to a competitor.

Look for a hosting company that offers round-the-clock tech support. Especially if you have buyers in other times zones, you don't want to miss any opportunities because of technical issues.

3) INCLUDE ALL THE ESSENTIAL WEB PAGES

- **Home Page** - Make sure it offers a clear and concise mission statement.
- **About** - Offer your bio and what makes your business special.
- **Contact** - Include a phone number, an email address, and your customer service hours. If you're a brick and mortar shop, make it easy for customers to find you by adding a link to Google Maps. It's also a good idea to include a phone number and email on every page of your web site to make it easy for users to find.
- **Testimonials** - Let customers learn more about your business from your satisfied clients.
- **FAQ** - This is a good opportunity to list the questions you get asked most frequently and answer them in a succinct manner. Ultimately, this can save you time and the hassle of repeating yourself.
- **Blog** - This is a great way to make sure you've got fresh content on your site. For example, If you own a wine shop, let customers know about a new vintage you're bringing in, a tasting you're offering, or a dinner you're co-hosting where you'll be pairing wines with various courses.

4) UTILIZE SEARCH ENGINE OPTIMIZATION

Even if your website is visually stunning and user-friendly, if customers can't find it, what good is it? You'll want to use the correct terms and keywords throughout your site to make it easy for search engines to locate.

5) KEEP IT SIMPLE

Keep your message short and sweet. You probably don't have time to compose a novella about your business. A few well-worded sentences focused on SEO key words can have some decent impact when

it comes to bringing visitors to your site. While you might be excited to present all you have to offer, if your pages appear crowded or difficult to navigate, you run the risk of visitors feeling overwhelmed and clicking away.

Make the site easy to browse by using bolded words across the top of the page or a drop down menu that's simple to understand.

6) INCLUDE SOCIAL MEDIA ICONS

Make it easy for your customers to find you on social media. If a customer likes you on Facebook or follows you on Twitter, make sure you're updating those feeds regularly so you can stay in front of them and let them know what you have to offer.

7) WHAT TO AVOID

It might be tempting to add some jazzy music or videos that auto-play when you visit your site, but it can be off-putting and jarring for visitors, especially those who are sneaking a peek while at work. Avoid flash or anything that takes longer to load as you run the risk of annoying customers by wasting their time.

The Bottom Line

You no longer need to be super tech-savvy to create a website that highlights what your business has to offer. Consider trying out a website builder and creating your site yourself. Or, turn to a professional who can make your company shine online. Maybe you'd like to go semi-pro yourself with the help of a course in website building. Whichever option you choose, make sure to include key elements that will get your site and your business noticed by your target audience.



WHAT TAXES A SMALL BUSINESS PAYS

Taxes. They're as inevitable as, well...let's just say you have to pay them. As we learned in the first article of this Tax Series, *How to Get Ready for Tax Time*, it's really important to keep track of all of your spending. As a small business owner, you're not only responsible for your individual income tax based on how much money you make, but also your business may have to file a return and pay taxes depending on the legal structure of the company.

There are federal taxes, state taxes, and in some cases, taxes for the city or municipality where you're based. The type of business will also affect what kind of taxes you're responsible for, as will whether or not you have employees. A certified professional accountant will be your best source of information for your particular situation, but here's an overview to get you started.

Income Tax

Whether they're profitable or not, all businesses must file a yearly income tax return. Depending on how your business was set up, it will either be a part of your individual return or a separate one just for the company. The legal structure will also determine which form(s) you use for filing.

Even though a return has to be filed just once a year, income tax is paid while income is earned throughout the year. Employees will usually have taxes deducted from their pay, and businesses will generally pay quarterly. Some businesses are required to make estimated tax payments so they're never far behind in what they owe. Anything additional can be paid when you file your return.

SOLE PROPRIETORSHIP

A sole proprietorship is an unincorporated business owned by one person. For tax purposes, the business and the individual are the same, and the business is taxed through the personal tax return of the owner. The owner also pays a self-employment tax, which covers Social Security and Medicare, on any profit made. We'll describe this in more detail below.

PARTNERSHIP

A partnership is a business owned by two or more people who have signed a partnership agreement and have invested in the business. The partnership itself doesn't pay income tax as a company, the partners do so on their individual tax returns. The partnership does, however, have to file an information return that shows the total amount of income, expenses and other deductions, the net income of the partnership, and the share of the income attributed to each partner.

LIMITED LIABILITY CORPORATION

An LLC can be set up in a number of different ways, and depending on how, will be treated by the Internal Revenue Service (IRS) as either a corporation, partnership, or as part of the LLC owner's tax return. LLC owners are known as "members" and generally, an LLC with one member will be similar to a sole proprietorship. One with two or more members will be treated like a partnership. An LLC can also file a form with the government and elect to be treated as a corporation.

CORPORATION

A corporation is made up of shareholders who own stock in the company, and is a separate taxpaying entity separate from its owners. Corporations pay taxes on income when it is earned. When profits are distributed to shareholders, they must pay taxes on those as well, resulting in a form of double taxation. Corporate income taxes are paid at the corporate income tax rate, which is generally lower than the personal tax rate, although the shareholders will pay at their individual rate. Note that corporate tax returns are due on March 15, not April 18, which is usually the deadline for individual returns.

S CORPORATION

An S corporation is created through a special filing when it's formed, allowing the profits of S corps to "pass through" to its owners. This allows S corporations to avoid double taxation on the corporate income, which happens with C corporations as described above. S corp income is taxable at the owners' personal tax rates, although the deadline for S corp tax returns is usually March 15.

Self-Employment Tax

Everyone who is employed in the U.S. has to pay taxes for Social Security and Medicare. If you work for an employer, they will kick in half of what's due and deduct the other half directly from your paycheck. If you work for yourself, however (this is the case if you have a sole proprietorship or partnership), you must pay 100% and make these FICA (Federal Insurance Contributions Act) payments on your own so that you will still be provided with retirement, disability, survivor and Medicare benefits.

Estimated Tax

As we noted earlier, income taxes in the U.S. are pay-as-you-go, so if you don't have taxes automatically withheld from your income by your employer, you are likely responsible for paying estimated tax on your income, interest, dividends, alimony, rent, profits from the sale of assets, and prizes or awards.

Even if you don't know how much you'll make at the end of the year, you're still responsible for paying taxes based on a good faith estimate. (You can be charged a penalty if you underestimate, so be careful!) These taxes are generally due quarterly, and include the self-employment tax described above.

Who has to pay? Usually, anyone who is self-employed in addition to all sole proprietors, partners, and S corporation shareholders who expect to owe \$1,000 or more in taxes when they file their annual return. If you are filing as a corporation, the threshold is even lower: \$500. And no matter what you estimate for this year, you probably have to pay estimated tax if you owed money for taxes in the prior year.

Employment and Payroll Taxes

If you have employees, you have another set of forms to file and taxes to pay. Employment taxes include the FICA payments for Social Security and Medicare mentioned above, income tax you withhold from your workers' paychecks, and federal unemployment tax (FUTA). Some businesses will have to deposit these funds with the government monthly; others will do it

semi-weekly.

For Social Security and Medicare taxes, remember that you will withhold half of the amount from your employees' wages and pay the other half yourself. As with all tax calculations, your accountant can help you figure out the correct amount, and the IRS has worksheets on its very comprehensive website.

FUTA is reported and paid separately from income, Social Security and Medicare taxes, and is paid by you directly out of your funds. It is not paid by your employees or deducted from their paychecks.

At the end of the year, you'll also need to prepare and file various forms related to how much was paid to each employee in the form of wages, tips and other compensation. The most common of these is the W-2, although others may apply depending on the form of payment.

Excise Taxes

This is an umbrella term covering certain kinds of environmental taxes, communications and air transportation taxes, fuel taxes, taxes on the sale or use of a variety of different articles, and tax on some sales of heavy trucks, trailers, and tractors.

Not every business has to pay excise taxes, but for those that do, it is due once a quarter. IRS Form 720 lists the items on which excise tax has to be paid.

State Taxes

In addition to the taxes the federal government requires, your state and local governments will have their own demands. As with federal taxes, the legal structure of your business will dictate how and when they're paid. Additionally, most states will require payments toward state unemployment and workers' compensation insurance.

California, Hawaii, New Jersey, New York, Rhode Island and Puerto Rico also mandate contributions toward temporary disability insurance.

If you do business in more than one state, you may be required to pay taxes in each of them,

including both income and sales tax. You can find links to your state tax office on the website of the Small Business Administration.

Sales Tax

Sales tax is imposed on the state and local level, and different places have different rules about which businesses must collect it, how much is levied, and what it is charged for. Generally speaking, if you sell products and some services, you'll need to collect sales tax and turn it over to your state's Department of Revenue. Staying on top of your business transactions regularly, as was mentioned in part one of this Tax Series, will make filing your sales taxes much easier.

Sales tax is charged on top of the price of the item you are selling, and is collected on what you sell within your state or to state residents. If you're an online retailer, you only have to pay sales tax on sales made in states where you have a physical presence, although the federal government is considering a law that would change that. You can stay up to date by checking your state laws at the legal information site Nolo.com.

Alaska, Delaware, Hawaii, Montana, New Hampshire and Oregon don't currently have a sales tax.

Franchise Taxes

Franchise tax is charged by some US states to corporations, LLCs, and some partnerships simply for the privilege of doing business in that state. Typically, it's based on the company's net worth, which is usually based on its assets or the number of shares issued. Franchise taxes vary greatly from state to state, although states with higher corporate income taxes usually have lower franchise taxes.

Keep in mind that you don't necessarily have to have a physical presence in a state to fall under its franchise tax. If you ship there, that may be enough. Each state has its own rules, so if you operate in multiple states, you may want to hire a tax professional to help you sort it out.

Real Estate Taxes

This is another class of local tax your business will have to pay if you own property. It's assessed in just the same way as the property taxes you pay on your home, based on the value of the land and any buildings you own. It may be assessed by whatever local entity has the jurisdiction where you're located, whether it's the village town, county or city.

Corporate Tax Summary

This is another class of local tax your business will have to pay if you own property. It's assessed in just the same way as the property taxes you pay on your home, based on the value of the land and any buildings you own. It may be assessed by whatever local entity has the jurisdiction where you're located, whether it's the village town, county or city.

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