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## Small-business owners need crash tax course

As an owner, it would be wise to meet with an accountant and invest in record-keeping software

By JOYCE M. ROSENBERG Associated Press  
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NEW YORK — Estimated taxes. Self-employment taxes. Tax accounts.

These are words that quickly enter the vocabulary of people who have been laid off and are making the transition to working for themselves. These small business owners find they have to worry about tax matters that weren't their problem when they worked for someone else.

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Owners learn that they're responsible for twice as much Social Security and Medicare taxes as they paid when they were employees. And that they need to make tax payments to the government quarterly.

"Welcome to the self-employed world," said Jeffrey Berdahl, a certified public accountant with RLB Accountants in Allentown, Pa. "When you were an employee, everything was paid for."

The best thing a new owner can do is meet with an accountant and get a quick lesson about small business taxes. An owner should also invest in record-keeping software to ease the paperwork burden of handling their taxes.

Here is an introduction to taxes for the brand-new entrepreneur:

### Estimated payments

Because employees have their taxes withheld from their paychecks, most don't need to worry about paying the government. But paying taxes is one of the chores on business owners' to-do list. They're expected to make quarterly tax payments, known as estimated payments.

Accountants advise business owners to set aside 30 percent to 40 percent of the money they earn to cover their taxes.

That can be a hard adjustment for some owners.

If they earn \$3,000 on a project or from a sale of goods, they really can't consider all of that money as theirs. If 40 percent of that amount, or \$1,200, is allocated to taxes, the owner is left with \$1,800.

Berdahl said many owners find it hard to save money for taxes. "People who aren't budgeting to put the 30 to 40 percent away are using it for operations," he said. "Come April, they don't have anything and they have to knock on the bank's door to pay their taxes."

Moreover, the government can charge interest when estimated payments are late.

It's easy to spend tax money when it's just deposited in a business checking account. One solution is to create a separate tax account.

Skim 30 percent or 40 percent off the top of any income, deposit it into that account and leave it there until it's time to make a payment.

The IRS has a form to file estimated payments, 1040-ES, Estimated Tax for Individuals, that sole proprietors can use.

These owners will file a Schedule C, Profit or Loss From Business, when they file their 1040 forms in April.

Owners who operate as a corporation should use Form 1120-W, Estimated Tax for Corporations, to compute their payments.

They can pay their tax using the Electronic Federal Tax Payment System, or they can use Form 8109, Federal Tax Deposit Coupon.

The instructions for Form 1120-W explain the options. Tax forms can be downloaded from the IRS website, [www.irs.gov](http://www.irs.gov).

## The full amount

Many workers don't realize that while they have Social Security and Medicare taxes deducted from their paychecks, their employers are paying an equal amount to the government. Business owners have to come up with the full amount themselves. So someone who paid \$7,500 in Social Security and Medicare taxes as an employee would pay \$15,000 if they earned the same amount of money as a business owner.

"A lot of individuals get into trouble because they're not aware of it," Berdahl said.

Self-employment taxes should be paid quarterly as part of your estimated payments. They need to complete Schedule SE, Self-Employment Tax, and attach it to their 1040 forms.

As in the case of estimated taxes, owners who fall behind on their self-employment taxes may have to pay interest.

Some small business owners decide to set up their companies as what are called S corporations. In an S corporation, the corporation does not pay income tax, and the profits are passed through to shareholders in a fashion similar to a partnership.

An S corporation owner is considered to be an employee of the company and is responsible for his share of Social Security and Medicare taxes. The company pays its own share. There are no self-employment taxes.

## Keeping good records

Sadly, business owners no longer have the convenience of receiving pay stubs and W-2 forms that neatly report their income and taxes paid. So owners need to keep track throughout the year of how much they've earned and what they've sent to the government. Record-keeping software makes it easy for them to get a handle on how much estimated tax they need to pay each quarter. There is also software to make it easier to make your quarterly payments.

During tax filing season, people who do freelance or project work need to get 1099 forms from the companies or individuals they've worked for. They also need to be sure that the information on the forms is correct. The income that owners receive must be reported on Schedule C or, if they're operating as an S corporation, Form 1120S.

The IRS receives copies of 1099 forms and matches them with what owners report. So owners should attach to their returns a list of the 1099s they've received.

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