

Responsibilities of Owning a Business – by Dan Sautner

Whether your company does a few thousand or a few million dollars in sales, every business has the responsibility to collect money for the government. Coming out of an employment situation, most people think of taxes in terms of that "once-per-year ordeal." They also think in terms of taxes on the net income and tend to forget about all other areas they're responsible for. Taxes accrue for a variety of reasons, and unless you're made aware of them, you could find yourself on the wrong end of interest and penalties.

It's tempting to think all of the cash in your bank account is yours, but it's not so. Part and parcel with operating a business is the collecting of sales taxes and payroll taxes for all levels of government. It's a responsibility not to be taken lightly. Some taxes are in effect for just being in business, and some relate to the type of business you're in. It's confusing, but an organized approach to learning about the issue will save you time, money and headaches.

When you start in business, you're usually required to get a business license with your local government. This also requires that you register for taxes that will be assessed, not on how much money you make, but rather on seemingly irrelevant items such as your number of employees, the level of sales and the value of your fixed assets. This first level of taxes relates somewhat to how your jurisdiction wants to raise money, but with few exceptions it doesn't relate to your net income. In total, for most new small businesses, these taxes will probably not exceed one thousand dollars. One exception to this rule would be a liquor license requirement, which then can run over two thousand dollars. This isn't much money if you budget for it, but it's a lot when it's a surprise. Once you register your business, make sure you're informed of all your obligations so you can plan accordingly.

The next level of taxes will come from the sale of goods. Your state, county and possibly even your city will want you to collect taxes on every sale you make. For retailers selling goods, this is almost universally true. For those in the service industry, you need to check local laws. Many services aren't subject to sales taxes. Many businesses have part of their sales subject to sales tax and the rest not. An example would be a service station. The parts they sell may be subject to sales tax, but the labor to put the parts on aren't. Matters are further complicated when the local jurisdiction decides to tax different items at different rates. Gasoline may be at a different rate than oil for a gas station. Food in a restaurant may be at one rate and any alcoholic beverages sold may be at another. In some cases, the rate stays the same, but the taxes are paid to different departments.

Sales tax collection usually requires you show the total of sales subject to each tax rate and then show the total of all sales. As mentioned before, some types of sales aren't subject to these taxes, but still must be reported. If the company sells any goods to another business for re-sale, then these sales are also exempt. Be careful that you document that these types of customers have a special exempt status or you could be held liable not only for the interest and penalties, but the tax itself.

Your taxing authority will provide you with forms to do all reporting. Some businesses have the luxury of all sales being in one jurisdiction. Occasionally, due to the nature of the business, such as off-site sales and service, the business will be required to report to a number of other jurisdictions. This is never pleasant, because the business owner is then required to add a new dimension to his

sales records. Once all of the information has been collected, the individual should complete the forms and remit it along with the payment, usually in the following month.

When starting your business, become very aware of all of the reporting requirements you'll be subject to. Understanding these rules will save you and your customers a lot of money.

Another area of real complexity is the area of employee reporting. Here you're paying a gross wage to the employee and then subtracting certain amounts, which then must be turned over to the government. For payroll it's mostly the federal and state levels, although some jurisdictions also have local level reporting. An example of this remittance is the income tax deducted from your employees' gross pay. This must be collected and then remitted within the specified time period. The time period varies, since it depends on how much money you're collecting. In addition to the remittance, you're also required to reconcile these payments on a quarterly and annual basis. Finally, be prepared to provide tax reporting information to your employees at the end of the year. For those close to state boundaries, you have the extra dimension of second state reporting based upon employee residency.

In addition to these remittances, you're also required to pay additional taxes relating to social security and unemployment. Soon health care will be added. Some states add the burden of providing hours and weeks worked so their unemployment funds can be properly allocated.

In some cases businesses have been able to use third parties to assist in everything but the remitting of funds. Your business is required to have these funds in on time. It's tempting to either hold back or reduce the amount of the remittance with the idea you will catch up next month. This is both illegal and extremely dangerous. These funds (sales tax and payroll taxes) are considered to be held in trust by you. Not remitting them brings down the weight of the world on your business. Failure to pay these taxes results in immediate substantial penalties, short payment terms and the possibility your business will be closed down. Even business bankruptcy won't protect the individual from the government in their collection of these monies. The best advice is to keep up to date with all of these payments and look elsewhere for the extra money.

In all cases, those who are new to business and employees should consult people familiar with the process. The government holds classes on the proper calculation and remittance. Many people and businesses prefer to transfer at least the reporting and record keeping to their accountants.

As a business owner, you're given these responsibilities whether you want them or not. Your best protection against running afoul of the rules and the various jurisdictions is to look before you leap. Contact the various levels of governments in your area and request information on your responsibilities as a business owner. Follow this with a careful reading and, at the very least, a consultation with an expert.