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Certified Public Accountants

Not All Taxes Are Income-Based: What Businesses Need to know

Federal income taxes tend to dominate any discussion of tax planning for both individuals and businesses. Of course, it is important to consider how income taxes will affect the bottom line, but this is far from the only kind of tax. Many types of tax are not based on income at all. Individuals and businesses must pay taxes on certain types of property that they own, purchases and wages paid to employees. Businesses may also be responsible for collecting taxes on behalf of customers and employees, remitting those taxes to the state or federal government and making accurate reports of the activities that led to those tax payments. Read on to learn more about businesses' potential tax obligations beyond federal and state income taxes.

Property Taxes

Local governments, such as counties, cities and school districts, handle property taxes, also known as ad valorem taxes, in most states. These taxes are often the largest source of revenue for county and municipal governments.

Property taxes can be a substantial part of a business' operating expenses. The amount of the tax depends on the assessed value of the taxed property. The most common type of property tax covers real estate. Real property owners must pay property tax on an annual basis. Businesses may also have to pay property tax on business personal property, such as company vehicles, computer equipment and office furniture.

A local government agency, usually at the county level, periodically appraises the value of all taxable property in its jurisdiction. It sends tax appraisal notices to all taxpayers each year and gives them an opportunity to dispute the appraised values. Property taxes for a calendar year are typically due early in the following year.

The amount of tax owed can change every year as the value of the property changes. Real estate, in particular, is prone to large increases in value. Many state laws and local ordinances set a cap on how much a property tax bill can increase in a single year. These laws help prevent sudden, massive increases in property values from causing comparable increases in tax bills.

Sales, Use and Excise Taxes

Businesses may be required to pay sales tax on certain purchases and to collect sales tax from customers. Use and excise taxes serve a similar function on certain types of goods or transactions. Determining a business' obligation to pay, collect and remit sales tax can be complicated.

State and local laws govern what sales are taxable and the amount of tax. Certain types of goods and services are not taxable. Some businesses might be exempt from paying sales tax on their purchases, or on purchases for specific purposes. An exempt business may be able to present an exemption certificate to a vendor or may be able to claim reimbursement from the state after the sale is complete.

Implementing and maintaining a system for tracking taxable sales can be time-consuming. Businesses that operate in multiple states, such as e-commerce businesses, must determine whether they have sufficient “nexus” in a particular state to be obligated to collect sales tax from customers in that state.

A business is responsible for remitting sales, use and excise taxes regardless of whether it collected them from customers. Failure to follow the proper procedures for remitting these taxes can result in significant penalties.

Payroll Taxes

Businesses may be responsible for multiple types of payroll tax. At the federal level, employers must withhold federal income taxes and taxes for Social Security and Medicare from employee paychecks. They must carefully account for these funds and promptly remit them to the IRS.

Employers may also have state-level payroll tax obligations. States require employers to pay unemployment tax, for example. While these taxes do not involve withholding from employee paychecks, the amounts of taxes owed are based on the wages or salary paid.

Unemployment taxes function much like insurance premiums. Payments from employers go into state unemployment insurance funds. If a former employee makes an unemployment claim, the employer’s tax rate may go up.

Some states may require employers to pay into funds for other purposes, including:

- Workers’ compensation;
- Disability; and
- Paid leave.

Much like unemployment, these funds operate like insurance.

Unclaimed Property

States require businesses to report unclaimed property, such as uncashed payroll checks, after a legally specified period of time. This is not a tax, but it is worth mentioning since it is a reporting obligation that may carry penalties for noncompliance.

Businesses must file an annual return identifying and stating the value of property that met the legal standard for unclaimed property during the preceding year. In some states, businesses must file a return even if the total value of unclaimed property for the year is zero.

Contact Frankel Zacharia today to learn more about how we can support your business.
Call 402-496-9100 or visit our website www.fzacpa.com