

NAVIGATING THROUGH THE TAX MAZE

The specific taxes that are applicable to organizations vary based on the legal structure selected, the location of the business, the number of employees hired, and other varying factors. Although the following is a summary of the different types of taxes that most businesses are required to pay, it should not be construed as a comprehensive list. A tax accountant should be contacted to verify the taxes that are applicable to your organization.

FEDERAL

When forming your business, one of the first steps is to apply for a Federal Taxpayer Identification Number. If you are in a trade or business, your taxpayer ID number is generally your Employer Identification Number (EIN) that must be shown on all of your business tax returns as well as on any tax related documents.

When filing income tax returns as an individual proprietor, partner in a partnership, or member of an LLC, you must place your Social Security Number and EIN on your personal income tax return (Form 1040), forms 1040 for sole proprietorships, partners and LLCs, and 1120 for corporations.

If you have changed the legal form of the organization (i.e: incorporated your individual proprietorship, formed a new partnership, or vice versa), you must get a new EIN. The same is true if there is a change in ownership of the business, such as the purchase or inheritance of an existing business. You cannot use the EIN of the former owner, even if he/she may be your spouse.

To apply for an EIN, complete the online application at the Internal Revenue Service website:

www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online

As an employer, you are responsible for withholding and paying certain taxes connected with the salaries, wages, tips and other compensation paid to your employees. The most common taxes are the Federal Income Tax, Federal Insurance Contribution Tax Act (FICA) and the Federal Unemployment Tax Act (FUTA). It is important to mention that you, as the employer, are liable for regular payments to the government (federal, state and local) of the various taxes that are withheld from your employees' compensation. You are subject to severe penalties for non-payment.

A business tax center is available at the IRS website (www.irs.gov/businesses/small-businesses-self-employed). The site includes resources for taxpayers who file Form 1040 or 1040-SR, Schedules C, E, F or Form 2106, as well as small businesses with assets under \$10 million.

STATE

In Indiana, your state Tax ID Number is NOT the same as your Federal Tax ID Number. Register as an employer by filing with the Indiana Department of Revenue website. If you are a retailer, you must obtain a Retail Merchant's Certificate. This is for the purpose of the collection of and/or the exemption from the Indiana Gross Retail Sales and Use Tax. This certificate may be applied for on the Indiana Department of Revenue website (www.state.in.us/dor/).

Several types of business taxes must be filed with the State of Indiana.

Corporate Income Taxes

A corporation doing business in Indiana is required to compute its income tax under the Corporation Gross Income Tax Act (CGIC) and the Corporation Adjusted Gross Income Tax Act (CAGIC). The Indiana Corporation Gross Income Tax is a gross receipts tax. This means that the entire amount of gross income of the corporation is taxed without any expense deductions. Thus, a corporation operating at a loss will still be required to pay taxes in Indiana. The tax is imposed at two rates:

1. The higher rate applies to service and investment income;
2. The lower rate applies to retail and wholesale operations.

As a general rule, this tax is imposed only on the sale of goods within Indiana and not on goods sold in other states.

For 'C Corporations', the Corporate Adjusted Gross Income Tax is imposed on the net income of the corporation, after deducting expenses. Contact the Indiana Department of Revenue for the current tax rate. The Indiana net income is the same as reported Federal net income, with a modification occurring

when the corporation has sales both inside and outside the state. In this instance, the total net income of the corporation will be apportioned among the various states in which it does business for purposes of being taxed in each of those states. A tax credit for "outside-state" sales will apply. A corporation doing business in Indiana computes both of the above taxes, and pays the higher of the two. A Supplemental Net Income Tax is paid on top of the CGIC or CAGIC. This is complicated and the services of your accountant is required. All corporations need to file quarterly estimated income tax returns, and will be subject to substantial penalties for failure to comply with this regulation.

Individual Income Tax

The Indiana Individual Adjusted Gross Income Tax (IAGIT) is the tax that is paid by Sole Proprietorships, General Partnerships, LLCs and shareholders in an 'S Corporation', and is a flat rate income tax levied at the current rate after exemptions. The adjusted gross income of individual and unincorporated businesses subject to this tax is the same as 'adjusted gross income' as defined in the Federal Internal Revenue Code. Unincorporated businesses can deduct certain expenses resulting from the cost of doing business.

Sales Tax

The Indiana Gross Retail Sales and Use Tax are imposed at a rate of seven percent and is a tax on retail sales and limited services. You must complete a separate BT-1 for each location you want registered. The tax applies to five major categories of consumer transactions:

1. Sale of tangible, personal property;
2. Hotel and motel accommodations for less than 30 days;
3. Intrastate telephone;
4. Sale of electricity, water and gas; and
5. Rental or leasing of tangible personal property.

Exemption from the Indiana Sales/Use Tax include:

1. Purchases of goods for resale;
2. Value of trade-ins; and
3. Sales of prescription drugs, or orthopedic devices.

Property Tax

Owners of real property and tangible personal property located in Indiana on the date of assessment are subject to tax. The tax rate is set by the local (county) taxing unit. Real property includes land and improvements on the land. Tangible personal property

includes boats, trailers, inventory and depreciable tangible personal property, with certain exemptions for inventory. The value of real property is assessed throughout the state every six years; personal property is assessed annually on a self-assessment basis, but subject to review and audit by the Division of Tax Review.

Unemployment Compensation

Indiana's unemployment compensation system is financed by state payroll taxes for which a standard credit is given against the payroll tax. Indiana's employer's tax rates are based on two sliding scales:

1. The first scale used to determine the tax schedule for all covered employers is calculated by the ratio of the Indiana Unemployment Security Fund balance to total wages in covered employment during the preceding calendar year; and
2. The second scale is based entirely on the individual employers experience which determines his/her rate on the tax schedule.

Workers' Compensation

This tax is mandatory for all private employers in Indiana. It is carried by private insurance agencies and premiums paid by employers are regulated by law. An employer also has the option of being self-insured, provided that the requirements of the Indiana Industrial Board are met.

For additional information about state taxes, consult the Indiana Dept. of Revenue.

NOTE: The above tax rates and other tax matters are subject to change. It is recommended that you see the IRS office, the Indiana Dept. of Revenue or your accountant for updated information.

Business Incentives and Tax Abatement

Business incentives include state tax credits and specialized local opportunities. These incentives include state tax credits to support job creation and capital investment, and to improve the standard of living for Indiana residents. Tax abatement is offered by local government in South Central Indiana to attract private investment and job creation.



Business Guide
Resource Guide for New and Existing Businesses