

Understanding Your Tax Obligations as a Business Owner

A practical guide to payroll taxes, sales taxes, income taxes, and more — what you owe, wh...

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One of the biggest surprises new business owners face is the complexity of tax obligations. It's not just federal income tax. You may owe payroll taxes, sales taxes, property taxes, state income taxes, franchise taxes, and more—each with different filing deadlines, payment schedules, and penalties for mistakes.

This guide walks through the major tax categories, explains what each one is, when it's due, and what happens if you get it wrong. The goal isn't to make you a tax expert—that's what your accountant is for—but to help you understand what you're responsible for and when to take action.

Payroll Taxes: The "Trust Fund" Obligations

If you have employees, payroll taxes are your biggest tax responsibility. And they're called "trust fund" taxes for a reason: the money you withhold from employee paychecks doesn't belong to you. You're holding it in trust for the IRS and state revenue departments.

What You Withhold from Employees

When someone joins your company, they fill out a W-4 form. This tells you how much federal income tax to withhold from each paycheck. The amount varies based on their filing status, dependents, and other income. Your payroll system will calculate this automatically.

But withholding isn't optional—it's required. You must collect and hold that money separately until you deposit it with the IRS.

Social Security and Medicare

In addition to income tax withholding, you withhold two federal employment taxes from every employee paycheck:

- **Social Security:** 6.2% of the employee's gross pay, up to \$176,100 in 2025. (The wage base increases annually.)

- **Medicare:** 1.45% of all gross pay, with no upper limit. Employees earning over \$200,000 pay an additional 0.9% on earnings above that threshold.

You also match these amounts as the employer. So for an employee earning \$50,000 per year, you withhold \$3,100 in Social Security and \$725 in Medicare. You also contribute \$3,100 in Social Security and \$725 in Medicare as the employer—a total of \$7,650 in employment taxes on that single employee.

Deposit Schedule: The Critical Rule

This is where payroll taxes trip up many business owners. You don't pay these taxes once a year. The IRS requires deposits on a specific schedule, usually monthly or semi-weekly, depending on your payroll size.

The basic rule is straightforward:

- Deposits must be made within specific timeframes after your payroll dates.
- If you pay employees Wednesday through Friday, you must deposit by the following Wednesday.
- If you pay Saturday through Tuesday, you must deposit by the following Friday.

You deposit electronically through EFTPS (Electronic Federal Tax Payment System). It's not difficult, but it requires discipline. Missing even one deposit triggers a penalty—usually 15% of the unpaid amount.

Quarterly Reporting: Form 941

Every quarter, you file Form 941 with the IRS, reconciling all the payroll taxes you withheld and paid. This is where discrepancies get caught. Your quarterly payroll reconciliation should always match your tax deposits.

Year-End Obligations

By January 31 of the following year, you must provide W-2 forms to every employee, showing their gross pay, withholdings, and taxes paid. You also file copies with the IRS and Social Security Administration.

FUTA (Federal Unemployment Tax Act) is also due at the end of the month following quarter-end. This is a separate tax (0.6% on the first \$7,000 of each employee's wages), and it's an employer-only obligation.

Sales Taxes: State-by-State Complexity

Sales tax rules are among the most complicated and variable across states. The basic principle is simple: you collect sales tax from customers and remit it to the state. But the details are messy.

In-State Sales

If you sell tangible goods in a state where you have "nexus" (physical presence, employees, or significant sales), you must collect and remit sales tax. The state tax rate varies, and some states exempt certain products (groceries, medicine, etc.).

There are also exemptions for certain customer types. A nonprofit organization or a reseller with a valid resale certificate doesn't pay sales tax. But here's the catch: you must collect and maintain exemption documentation from the customer. Don't assume they'll send it to you later. Get it upfront, verify it, and keep it in your records. If you remit tax you should have exempted, the burden is on you to fix it.

Out-of-State Sales: The Wayfair Decision

For decades, out-of-state businesses could avoid collecting sales tax on remote sales. That changed in 2018 with the Supreme Court's decision in *South Dakota v. Wayfair*.

The Wayfair ruling established that states can require sales tax collection from out-of-state sellers, even without physical presence. Today, most states require collection if you exceed a sales threshold—typically \$100,000 in annual sales to buyers in that state. A few states have set higher thresholds (up to \$500,000), and some states also consider the number of transactions, not just the dollar amount.

This is complex. Different states have different thresholds, different definitions of what counts as sales, and different rules for B2B transactions. If you sell across state lines, you likely need to register in multiple states. Many businesses use services like Avalara to manage this complexity automatically.

Federal Income Taxes: Entity Structure Matters

How you structure your business—sole proprietorship, partnership, LLC, S Corp, or C Corp—determines how you file federal income taxes.

Sole Proprietorship

If you're a sole proprietor, your business income flows through to your personal return via Schedule C. You pay income tax at your personal rate, plus self-employment tax (covering both employee and employer Social Security and Medicare).

Partnerships and LLCs

Partnerships and many LLCs are "pass-through" entities. The business files Form 1065, but the income passes through to the partners' personal returns via K-1 schedules. Each partner pays their pro-rata share of income tax and self-employment tax.

S Corporations

S Corps file Form 1120-S and issue K-1s to shareholders, similar to partnerships. The key advantage is that you can reduce self-employment tax by splitting income between W-2 wages (which are subject to employment tax) and distributions (which are not). But this requires actually paying yourself a reasonable W-2 salary.

C Corporations

C Corps file Form 1120 and pay corporate income tax at a flat 21% federal rate. The corporation pays tax, and shareholders pay tax again on dividends. This "double taxation" is generally a disadvantage, except in specific circumstances.

The right structure depends on your business type, profitability, and growth plans. Consult your accountant.

State Income Taxes

If you operate in a state with income tax (most do), you owe state income tax on business income. Rates and rules vary significantly. Some states have relatively low rates and broad exemptions; others are more aggressive.

If you work in multiple states, you may owe income tax in more than one. You'll generally file a resident return in your home state and non-resident returns in other states where you earned significant income. You're allowed a credit for taxes paid to other states to avoid double taxation, but the mechanics vary by state.

If your business is in one state but you live in another, clarify which state gets primary jurisdiction. This is especially important for LLCs and S Corps, where entity-level taxation can differ from individual taxation.

Property Taxes and Business Asset Taxes

Many states impose annual property taxes not just on real estate, but on business personal property—equipment, machinery, inventory, and furniture. Some states require you to file a property tax declaration listing all taxable assets.

The assessment and filing process varies by state and county. If your business is asset-heavy (manufacturing, retail, equipment rental), budget for these taxes. In some states, the property tax on business assets can be significant.

Franchise Taxes and "Right to Do Business" Taxes

Some states impose annual franchise or "right to do business" taxes on corporations and LLCs. These aren't income taxes; they're flat fees or taxes based on revenue or assets, and they apply just for the privilege of operating in the state.

Texas is a prominent example. The Texas Franchise Tax applies to most businesses with more than \$1.23 million in revenue. It's roughly 0.375% of total revenue, with some exemptions. The tax is due by May 15. If you don't file, you owe a penalty even if you owe zero tax. I've seen penalties of \$500+ for simply missing the filing deadline on a business that actually owes nothing.

If you operate in multiple states, check each one for franchise tax obligations. They often get overlooked because they're separate from income tax.

The Bottom Line

As a business owner, you're responsible for collecting, calculating, and remitting taxes across multiple categories—payroll, sales, income, property, and more. Each has its own filing deadline, payment schedule, and penalties for non-compliance.

Here's what I recommend:

- **Hire a good accountant.** The cost of professional guidance is far less than the cost of making mistakes or missing deadlines. A good accountant knows your state and local tax obligations and keeps you on track.
- **Separate payroll from everything else.** If you have employees, payroll taxes are non-negotiable. Use a reputable payroll processor (ADP, Guidepoint, Paychex) that handles withholding and deposits automatically. The risk of mistakes is too high to do it manually.
- **Understand your sales tax exposure.** If you sell across state lines, understand your nexus and registration requirements. Consider using a service like Avalara if you operate in more than two states.
- **Know your entity structure.** Understand how your business structure (sole prop, LLC, S Corp, C Corp) affects your tax filing and obligations. This isn't a one-time decision; it's worth revisiting annually with your accountant as your business grows.
- **Calendar your deadlines.** Payroll deposits, quarterly filings, annual returns, and franchise tax deadlines all have specific dates. A missed deadline is costly, even if the underlying tax is small.

Put these on your calendar and build them into your accounting routine.

- **Keep good records.** Maintain clear, contemporaneous records of income, expenses, payroll, sales, and tax payments. Good records make tax preparation easier and protect you in an audit.

Tax obligations are one of the unglamorous but absolutely critical aspects of running a business. They're also one of the areas where a little planning and discipline save thousands of dollars and countless headaches. Don't ignore them, and don't do them alone.

If you're unsure whether your tax strategy is keeping up with your growth, that's worth a conversation.

This article is for general informational purposes and does not constitute legal, tax, or financial advice. Consult with qualified professionals before making decisions based on this content.

If you'd rather know than guess about your financials, let's have a conversation. A conversation costs nothing. Clarity might be worth everything.

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