

# Tax Information



Taxes are part of doing business. Your accountant, attorney and lender can help put your records in order and file the necessary taxes. By investing in professional help early on, you save in the long run.

## Federal Taxes

Every partnership, corporation, limited liability company, co-op, non-profit, PLLC and limited liability partnership (including S corporations) must have an employer identification number (EIN) to use as its taxpayer identification number. Sole proprietors must also have EINs if they:

1. Pay wages to one or more employees;  
or
2. Must file any pension or excise tax returns, including those for alcohol, tobacco, or firearms.

Sole proprietors who do not meet either of the criteria can simply use their social security number for taxpayer identification. To apply for an EIN, use IRS Form SS-4, Application for Employer Identification Number. This form is available from the IRS and Social Security Administration offices. Be aware that you may need a new EIN if either the form or the ownership of your business changes. When you receive your EIN, you will also receive information about additional taxes you may need to pay.

## Excise Taxes

Many types of business are required to pay excise taxes. Most common is the motor vehicle highway use tax on vehicles of more than 55,000 pounds. This tax is detailed in IRS publication 349, available at the local IRS office. There is also a retail excise tax on recreational equipment, such as bows and arrows, fishing rods, reels, lures and creels. There are taxes on such items as alcohol, firearms, ammunition and tobacco products.

Because taxes are confusing and specific to individual situations, the IRS publishes a Tax Guide for Small Businesses which explains tax filing. The IRS also offers a “Small Business Tax Workshop” that explains the tax benefits and responsibilities involved in operating a small business.

## IRS Workshop

For Small Business Tax Workshops held in Lafayette, contact:

Internal Revenue Service  
620 Morland Dr.  
Lafayette, IN 47905  
1-800- 829-1040  
[www.irs.gov](http://www.irs.gov)

For forms only, call  
1-800- 829-3676

## **State Taxes**

Your Indiana Employer Identification Number is the same as your Federal Employer Identification Number. However, you must still register as an employer with the state by filing form DB 001 with the Indiana Department of Revenue (IDOR). You must also apply for a state Retail Merchant's Certificate if you are a retailer, wholesaler, or manufacturer. IDOR also holds workshops at the Tippecanoe library during the tax season and summer. Classes are posted on the web and at the post office.

### **Indiana Department of Revenue**

100 Executive Dr., Suite B  
Lafayette, IN 47905  
(765) 448-6626  
<http://www.state.in.us/dor>

## **Corporate Income Tax**

The corporate income tax in Indiana is divided into three parts: corporate gross income tax, adjusted gross income tax and supplemental net income tax.

The Indiana Corporate Gross Income Tax is a gross receipts tax. The entire amount of a corporation's gross receipts is taxed without any exemptions or deductions. Gross income is taxed at two rates. A higher rate generally applies to service income and investment income. A lower tax rate applies to wholesale and retail sales.

These rates are being reduced periodically in an effort to phase out the Corporate Gross Income Tax. Your accountant should be abreast of any recent changes.

The Corporate Adjusted Gross Income tax is imposed on net income at a rate of 3.4 percent. A corporation should compute both Corporate Gross Income and Adjusted Gross Income Tax, and pay the higher amount.

The Supplemental Net Income Tax is computed by taking 4.5 percent of the Indiana portion of the corporation's net income, less the larger of the two gross income taxes. This is paid in addition to the higher of the two taxes discussed previously.

A business that is eligible for S corporation status is generally exempt from the Corporate Gross Income Tax, and must pay only the Adjusted Gross Income Tax and the Supplemental Net Income Tax.

## Partnerships and Sole Proprietorships

Partnerships and sole proprietorships are not taxable entities in the State of Indiana. The individuals involved simply include the business income as personal income on their individual tax returns. Partnerships must file an informational tax form, Form IT-65.

## Limited Liability Companies and Limited Liability Partnerships

Limited liability companies (LLCs) and limited liability partnerships (LLPs) are generally taxed as partnerships. However, depending on how the LLC or LLP is structured, it could be taxed as a corporation. Talk with your lawyer and accountant about taxes when setting up an LLC or LLP.

## Sales and Use Tax

Any business that will be selling a product in Indiana must apply for a Retail Merchant's Certificate. If you are a retailer, wholesaler or manufacturer, this enables you to collect Indiana sales tax from your customers. A business may apply for a Retail Merchant's Certificate at the following address:

### Indiana Department of Revenue

100 Executive Dr., Suite B  
Lafayette, IN 47905  
(765) 448-6626  
<http://www.state.in.us/dor>

Nearly all Indiana businesses fall under the Indiana sales and use tax, a 6 percent tax on retail sales. The sales and use tax applies to these five major categories of consumer transactions:

- Sale of tangible personal property
- Hotel and motel accommodations rented for less than 30 days
- Interstate telephone and telegraph charges
- Sale of electricity, water and gas
- Renting or leasing tangible personal property

Exemptions from the sales and use tax include:

- Sales for resale
- Value of trade-ins
- Sales of prescription drugs or orthopedic devices
- Sales of newspapers
- Sale of groceries



A business subject to sales and use tax must pay \$25 for a permit for each place of business. If the average monthly liability for sales and use taxes for the preceding year was \$1,000 or less the business must submit monthly sales and use tax returns and payments within 30 days after the close of each month. If the previous year's average monthly liability exceeded \$1,000, the sales and use tax returns are due within 20 days after the close of each month.

### **Property Tax**

All real property (land and improvements on land) and tangible property (boats, trailers, inventory and personal property) in Indiana are subject to property tax. Both types are taxed at a maximum rate of 33 1/3 percent of the true cash value. Tax rates vary from county to county. Register your business with your local tax assessor, and ask for further information.

### **Employment Tax Withholding**

An employer is responsible for withholding federal income tax, state income tax and Social Security Tax from an employee's gross wages. The employer must also pay an employer's Social Security Tax that matches the Social Security Tax paid by employees. Federal and state income tax withholdings are based on the number of exemptions claimed by each employee on form W-4, which should be filled out by each new employee.

The withheld federal and state income tax, withheld employee Social Security tax, and employer's Social Security Tax must be paid to the government periodically throughout the calendar year. Payment frequency depends on the amount collected. For further information on Social Security and withholding taxes, obtain Circular E, Employer's Tax Guide from the local IRS office.

### **Unemployment Tax**

A business must also pay both federal and state unemployment taxes. These taxes are imposed entirely on the employer, and are paid as a percentage of the first \$7,000 of annual wages per employee. Rates vary depending on the number of unemployment claims made by former employees.

Federal unemployment tax must be paid quarterly by completing a federal tax deposit coupon (Form 8109) and submitting it with a deposit to an authorized bank. State unemployment tax is paid quarterly by filing Form UC-1, Quarterly Contribution Report or by telephone with the Indiana Department of Workforce Development. The state is changing to electronic filing in 2001.