**Tax Setup for New Businesses**

**Step-by-Step Guide to EIN Application, Tax Elections, and Compliance Requirements**

**📘 Introduction: Why Tax Setup Matters**

Starting a new business is exciting—but skipping the right tax setup can cost you time, money, and peace of mind later. Whether you’re launching a solo venture or founding a growing startup, it’s essential to:

* **Apply for the correct tax ID (EIN)**
* **Make informed tax elections (like S corp status)**
* **Understand your entity’s tax obligations**
* **Stay compliant with federal, state, and local agencies**

This guide provides a step-by-step overview of how to set up your U.S. business for tax success, covering LLCs, Partnerships, S Corporations, and C Corporations.

**✅ Step 1: Apply for an Employer Identification Number (EIN)**

An **EIN** is your business’s Social Security Number for tax purposes. You’ll need it to open a business bank account, file tax returns, hire employees, and more.

**🛠️ How to Apply for an EIN (Free):**

1. **Go to the IRS EIN Assistant**:  
   https://www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online
2. **Choose Your Entity Type** (LLC, Partnership, Corporation, etc.)
3. **Provide the Responsible Party’s Info**:  
   This is usually one of the business owners (must be an individual with a U.S. SSN or ITIN).
4. **Complete the Online Form**  
   Takes ~10 minutes. You’ll receive your EIN **instantly as a PDF**.

📝 **Pro Tip:** Even if you’re a single-member LLC, you still need an EIN if you plan to hire employees or elect to be taxed as an S corp.

**✅ Step 2: Choose & File Federal Tax Elections**

Your **entity type** determines your *default* federal tax treatment. However, you can **elect a different treatment** by filing the proper IRS form.

| **Entity Type** | **Default IRS Tax Status** | **Optional Tax Election** |
| --- | --- | --- |
| Single-Member LLC | Disregarded Entity | S Corp (Form 2553) or C Corp |
| Multi-Member LLC | Partnership | S Corp or C Corp (Form 8832/2553) |
| Corporation (Inc.) | C Corporation | S Corporation (Form 2553) |

**🧾 Common Tax Election Forms:**

* **Form 2553** – Elect S Corporation status
* **Form 8832** – Elect to be taxed as a Corporation (for LLCs)

**🕒 Election Deadlines:**

* **S Corp Election**: Must file **within 75 days of formation** OR by **March 15** of the tax year to be effective for that year.
* Late elections *may be accepted* with reasonable cause.

📝 **Pro Tip:** Consult a tax advisor before filing elections. While S corp treatment may reduce self-employment tax, it comes with more IRS scrutiny and payroll requirements.

**✅ Step 3: Understand Your Tax Filing Requirements**

Each business structure has unique compliance responsibilities.

**📂 LLCs and Partnerships**

**🧾 Federal Taxation:**

| **Type** | **IRS Default** | **Common Forms** |
| --- | --- | --- |
| **Single-Member LLC** | Disregarded Entity | Schedule C (Form 1040) |
| **Multi-Member LLC** | Partnership | Form 1065 + K-1s for each partner |

If taxed as an **S corp**, file Form 1120-S.  
If taxed as a **C corp**, file Form 1120.

**💼 Key Compliance Requirements:**

* **Annual federal return** (Schedule C or 1065)
* **Self-employment taxes** for members (unless S corp)
* **State income tax** (where applicable)
* **State franchise tax** (CA, TX, NY, etc.)
* **Annual reports/filings** (varies by state)
* **Registered agent address** in state of formation

**🧠 Pro Tips:**

* Consider S corp tax election once you earn **$50K+ in net income** to potentially reduce self-employment tax.
* File partnership agreements—even if informal—to reduce IRS audits.
* Ensure all partners receive **Schedule K-1s** for personal returns.

**📂 S Corporations**

**🧾 Federal Taxation:**

* **File Form 1120-S**
* Issue **K-1s** to all shareholders
* Owner-employees must receive **reasonable compensation** (payroll)

**🕒 Election Process:**

1. **Form 2553 – S Corp Election**  
   File within 75 days of incorporation or by March 15 of the tax year.
2. **Register with State (if required)**  
   Some states (e.g., NY, NJ) require separate S corp elections.
3. **Start Payroll**  
   Must use payroll system to pay shareholder-employees (e.g., Gusto, ADP, or QuickBooks Payroll).

**💼 Ongoing Requirements:**

* **Quarterly estimated tax payments** (if applicable)
* **Payroll tax filings (Form 941/940)**
* **Annual 1120-S return + W-2s for shareholders**
* **State annual report/franchise tax**

**🧠 Pro Tips:**

* Late S elections may still be accepted. File ASAP with a written explanation.
* Use a payroll provider early to avoid IRS penalties.
* Keep clean books—S corps are audited more than sole props.

**📂 C Corporations**

**🧾 Federal Taxation:**

* File **Form 1120** (due by April 15 or 15th day of 4th month after year-end)
* Subject to **flat 21% corporate tax**
* Dividends paid to owners are **double-taxed**

**💼 Ongoing Requirements:**

* Maintain formal **corporate bylaws** and **meeting minutes**
* Issue **stock certificates and cap table tracking**
* File **annual reports** with your state
* Submit **Form 1099s** for contractors over $600
* Pay **quarterly estimated corporate tax** if owed

**🧠 Pro Tips:**

* C corps are ideal for startups planning to raise capital.
* Keep personal and corporate finances completely separate.
* Be aware of **double taxation** on distributions/dividends.

**🏛 State & Local Compliance (All Entities)**

Don’t forget your **state and local tax responsibilities**, including:

* **State business registration and annual fees**
* **State income taxes** (if applicable)
* **State payroll tax accounts** (if hiring)
* **Sales tax permits** (for physical/digital products in certain states)
* **City/county business licenses**

📝 **Resource:** Use your state’s Department of Revenue or Secretary of State site for forms, fees, and deadlines.

**📅 Sample Tax & Compliance Timeline (New LLC with S Corp Election)**

| **Timeline** | **Action Item** |
| --- | --- |
| Week 1 | Form LLC, get EIN |
| Week 2 | Open bank account, choose accounting method |
| Week 3 | File S Corp Election (Form 2553) |
| Month 1–3 | Register with state tax agencies, start payroll |
| Monthly/Quarterly | File payroll reports (Form 941, state filings) |
| Quarterly | Pay estimated taxes (Form 1040-ES or 1120-W) |
| End of Year | File W-2s, 1099s, Form 1120-S |

**🚫 Common Pitfalls to Avoid**

❌ **Mixing personal and business finances**  
❌ **Missing S corp election deadline (75 days)**  
❌ **Not setting up payroll for S corp owners**  
❌ **Forgetting state filings or franchise taxes**  
❌ **Misclassifying workers (contractor vs. employee)**

**🧩 Pro Tips for Success**

✅ Use a free tool like the IRS Small Business Tax Center  
✅ Use [SBA.gov](https://www.sba.gov) for state-specific startup guides  
✅ Hire a bookkeeper or use accounting software (e.g., QuickBooks, Wave, or Xero)  
✅ Consider an accountant for tax election analysis before March 15  
✅ Review your business structure annually as you grow

**🔗 Helpful Resources**

* 🧾 Apply for EIN Online – IRS
* 📄 Form 2553 – Electing S Corp Status
* 🧮 IRS Small Business Tax Center
* 🏢 SBA State Business License Lookup
* 📚 IRS Publication 583 – Starting a Business and Keeping Records