

# Business Taxes



# Taxes in progressive tax system

**Payroll tax:** calculation of the amounts for the employee.

**Income tax:** Reported income of the business owner (which the owner needs to pay their self-employment and income tax).

**Self-employment tax:** FICA tax which it includes the Medicare and social security tax.

**Capital gains tax:** Based on whether your business investment gain is in short or long term.

**Dividend tax:** Portion of profits that needs to be pay to the shareholders

# Five primary taxes:

**Income tax:** All business to file annual income tax returns. Except for partnerships, which file the information returns.

**Self-employment tax:** Tax of your net earning which goes toward your Medicare obligations and social security.

**Employment taxes:** For if you have employees, which is related to their social security and Medicare.

**Payroll taxes:** Involved in employment taxes.

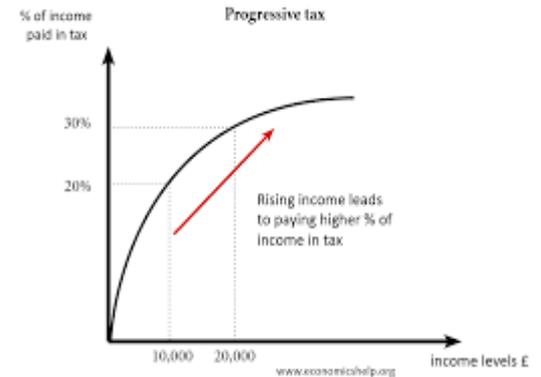
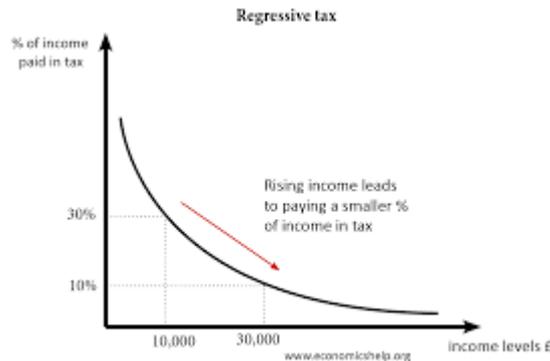
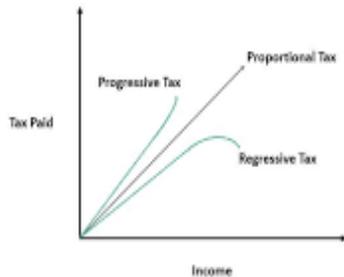
**Excise tax:** Involves in certain categories, which affect the business to produce certain products and use specific equipment. It was paid for qualifying the types of service.

**Estimated taxes:** For partnerships and shareholders, it must pay the quarterly tax payments

# Three categories of Tax in United States:

1. Regressive taxes: The low income pays higher amount of taxes compared to higher income one.
2. In the proportional taxes, its purpose was to create equality between average tax rates and the marginal tax rates.
3. Progressive taxes: Based on individual income and high-income earners pay more than the low

## Proportional Tax



# Where does all your tax money go?

Taxation could be a long-term growth which leads the public services and without the taxation it would likely reduce the future budget. Reduce of taxation would reduce the amount in economic activity. The three main categories that your tax money goes is 5% of the interest on the government debt. 70% on mandatory spending which includes: social security, Medicare, Medicaid, and veterans' benefit. 25% on the discretionary spending which includes: defense/military, education, transportation, and health. The taxation you're paying for would help a low income housing assistance and programs helps to neglected children. Money is spent to improve the public infrastructure and it one of the primary sources of revenue for the governments.



# Tax evasion

Many decide to do tax evasion which is an illegal way of under paying the amount you're supposed to be paying or just not paying the tax at all. This action can lead to charges and serve several years in jail time.

## Tax Evasion vs Tax Avoidance



# How does raising taxes impacted small businesses?

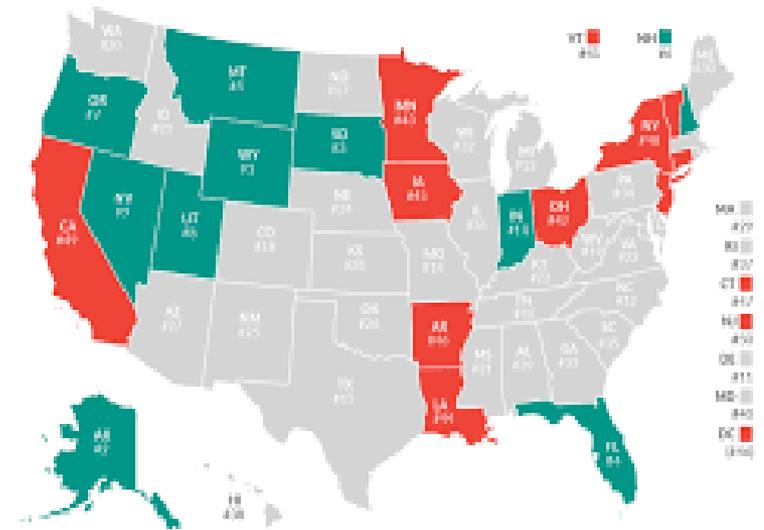
Raising taxes and adding new tax mandates makes small business harder to recover from covid-19. Adding taxes impacts their ability to invest in their business and taxes reduce their profits of earning. High taxation would make it harder for family to invest on their businesses and employees. This would only hurt family own business and harder for the family business to raise their compensation.



# Tax rate

Small businesses of all types pay an estimated average federal tax rate of 19.8%. The average for sole proprietorships is 13.3%, small partnerships 23.6%, and small corporations 26.9%. Business owner would need to pay both self-employment and income tax. They would set around 30% of income after deductions of state and federal taxes.

2019 State Business Tax Climate Index



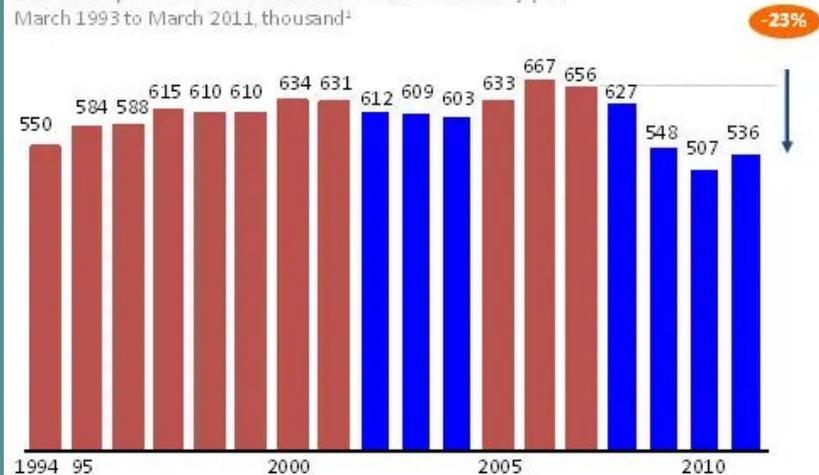
Note: A rank of 1 is best, 50 is worst. Rankings do not average in the total. States without a federal equalizer (1). D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2018 (not beginning of fiscal year 2019).  
Source: Tax Foundation

# Small Business

American recovery depends on the small business recovery. Studies have shown that more than 81% of business owners believe that small business deductions are important for their businesses.

## Very Large Decline in New Businesses in the Great Recession

Number of private-sector establishments launched every year  
March 1993 to March 2011, thousand<sup>1</sup>



<sup>1</sup> Calculated using US Bureau of Labor Statistics Business Employment Dynamics data set. The annual number indicates the number of businesses less than 1 year old that were in existence in March of that year.

SOURCE: US Bureau of Labor Statistics; McKinsey Global Institute analysis

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