

# Essential Tax Season FAQ



Navigating tax season for your business is no walk in the park. Between managing payroll taxes, income taxes, and a sea of numbered IRS forms, business leaders need to be prepared for anything. To help, we put together clear, simple answers to your most common tax season questions.

## Are You Making These 5 Common Payroll Mistakes?

When payroll mistakes crop up, the impact can ripple across your entire company. Fortunately, the most common payroll errors are avoidable. Learn how to identify—and prevent—the most common errors.

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## WHEN ARE INDIVIDUAL INCOME TAX RETURNS DUE?

The deadline for individual income tax returns is April 15, 2025.

## WHEN ARE BUSINESS INCOME TAX RETURNS DUE?

If your company is a partnership or **S corporation**, its business income tax return must be filed (and any owed taxes paid) by March 15, or the next business day if the 15th falls on a weekend. This year, business income tax returns are due March 17, 2025. If you're the **sole proprietor** of your company or your company is a C corporation, the deadline is the same as an individual income tax return, April 15, 2025.

## WHAT IS THE DEADLINE FOR SENDING W-2S AND 1099S?

Companies must send employees and independent contractors a **completed W-2** or **1099** by January 31. 1099s must be issued to contractors who were **paid \$600 or more** for the year, or for whom the company withheld federal tax per backup withholding rules, regardless of the amount paid.

## WHAT IS THE DEADLINE FOR FILING FORM W-3, AND DOES MY COMPANY NEED TO FILE ONE?

Businesses need to file **Form W-3** by January 31 to report the total amounts paid for and withheld from employee wages or salaries in the previous year. You can think of this form as the "grand total" for all your employees' W-2s. If your company only has one employee, you don't need to complete this form, since the single W-2 already reflects the total.

## DO COMPANIES HAVE TO SEND W-4 FORMS TO THE IRS?

No, **Form W-4** doesn't need to be sent to the IRS. All employees need to fill out a W-4 when they are hired, so you can collect the necessary information to withhold federal taxes from their paychecks. That said, you should always save employees' completed W-4 forms, for both the **company's internal financial records** and in case the IRS requests to see particular W-4 forms.

## WHAT TYPES OF TAXES ARE BUSINESSES LIABLE FOR?

Several types of taxes can apply to a company. You should be prepared for the following types of **business taxes**:

- **Income tax:** Similar to how an individual is taxed on their personal income, a company must pay a tax on any income it generates.
- **Estimated tax:** The IRS requires you to make quarterly payments of estimated taxes throughout the tax year if you expect to owe over \$1,000 in income tax by the end of the year (which most profitable businesses will). Most states also require quarterly tax payments.

- **Employment tax:** Employers are responsible for withholding income taxes from their employee payroll, paying for their portion of employees' Social Security and Medicare taxes, and paying their contribution to federal and state unemployment. These taxes are often referred to as **payroll taxes**.
- **Self-employment tax:** Are you the owner of your business? If so, you're probably self-employed, and you need to make sure you're contributing to your own Social Security and Medicare taxes, as well as your income tax. Like your business income tax, be sure to make quarterly estimated payments on your self-employment tax throughout the year.
- **Excise tax:** Depending on your industry, your company may need to pay additional taxes on products it manufactures or services it provides. You can learn more about types of excise taxes on the **IRS website**.

## HOW DO YOU REPORT AND PAY FEDERAL EMPLOYMENT TAXES?

**Report and pay federal employment taxes** with **Form 941**, the quarterly tax return for employers. Companies need to file this form every quarter. Form 941 reports all the taxes withheld from employees' paychecks, including income taxes, Social Security, and Medicare. Businesses pay their portion of **FICA** (Social Security and Medicare taxes) at the same time they file their quarterly 941.

To report unemployment tax, file **Form 940**, the federal unemployment tax return for employers, annually. Since employees don't **pay towards federal unemployment**, this tax return is separate from the quarterly employment tax return.

You can pay federal business taxes using a few different methods. IRS payment systems include **Direct Pay**, **EFTPS**, or a **business tax account**. You can also use a financial institution to make an ACH payment or wire transfer, or hire a third party (like an accountant or payroll service) to manage the payments for you.

## WHAT'S THE DIFFERENCE BETWEEN AN EMPLOYEE AND AN INDEPENDENT CONTRACTOR?

Understanding the difference between **employees** and **independent contractors** is crucial, as **misclassifying employees** can have serious consequences with both the IRS and the Department of Labor.

From a tax perspective, the biggest difference is that an employer must pay half of an employee's Social Security and Medicare contributions and is responsible for withholding income taxes from employees' payroll and depositing the money with the IRS. Meanwhile, independent contractors are self-employed and solely responsible for depositing tax payments, including all of their Social Security and Medicare contributions.

This doesn't mean an employer can just call an employee a freelancer and get out of paying employment taxes (although some **employers have tried**). The IRS uses **common-law standards** for defining what an employee is—in other words, no matter how you label the worker, if you still treat them like an employee, the law sees them as one.

To determine the nature of employment, the IRS applies the following standards:

- **Behavior:** How much control does the company have over how the individual does their work?
- **Finances:** Does the company manage all the operational aspects and costs of the individual's work?
- **Relationship:** What's the nature of the contract? Is the individual's work an ongoing essential part of the company's business?

For example, a graphic designer is likely an **employee** if they meet the following criteria:

- ✓ They are supervised by an internal creative director.
- ✓ They use the tools chosen and paid for by the company.
- ✓ They contribute to many marketing campaigns and have no end date in their contract.

But a graphic designer is likely an **independent contractor** if they meet the following criteria:

- ✓ They are supervised by an internal creative director.
- ✓ They use the tools chosen and paid for by the company.
- ✓ They contribute to many marketing campaigns and have no end date in their contract.

### WHAT'S THE DIFFERENCE BETWEEN FORM W-2, FORM 1099-NEC, AND FORM 1099-MISC?

All three of these forms are used to report an individual's income on their annual tax return. If a business pays someone in exchange for their services, the business will need to issue them one of these forms by January 31 of the following year. Each form is for a different type of income source.

- **Form W-2:** This form is for employees, and reports how much they were paid, as well as how much money was withheld from their paycheck for Social Security, Medicare, and federal income tax.
- **Form 1099-NEC:** This form is for independent contractors (NEC stands for nonemployee

compensation). It's similar to a W-2, but since this form isn't for an employee, it won't include withheld taxes.

- **Form 1099-MISC:** This form reports sources of income that aren't from employment or freelance work. As the name suggests, this form is for any miscellaneous payments. Issue this form to individuals to whom you have paid fees such as rent, royalties, or awards.

### WHAT'S CORPORATE TAXABLE INCOME?

Corporate taxable income is the amount of money generated by a corporation that is used to calculate income tax. Corporate taxable income is calculated by subtracting business expenses from total revenue. Therefore, the more business expenses a company claims on a tax return, the lower its income tax.

### WHAT'S THE CURRENT CORPORATE INCOME TAX RATE?

The current corporate income tax rate, established by the **Tax Cuts and Jobs Act of 2017**, is a flat rate of 21%.

### WHAT COUNTS AS A DEDUCTION?

**Business income tax deductions**, also called expenses or write-offs, are a way to lower a company's corporate taxable income and thus reduce its tax liability. A deduction should be a reasonable expense that's necessary to run a business, and most legitimate expenses will qualify.

When you claim a deduction, it's important that you follow all IRS requirements and retain records of the expense. Here are a few examples of business deductions:

- Employee salaries and benefits
- Rent for office space
- Travel expenses
- Business meals

### WHAT'S THE DIFFERENCE BETWEEN A CREDIT AND A DEDUCTION?

While a business tax deduction subtracts expenses from the company's revenue to calculate taxable income, a **tax credit** offers a reduction in tax liability. Business tax credits incentivize behaviors the government deems beneficial to the public, such as credits for environmentally sustainable business practices or providing childcare to employees. You can learn more about business credits and deductions on the **IRS website**.

## WHAT ARE THE DIFFERENT BUSINESS CLASSIFICATIONS FOR TAXES, AND HOW DO YOU CHANGE YOUR BUSINESS CLASSIFICATION?

To file business taxes, you need to know what type of entity your business is. A company's classification will determine what types of tax returns the company needs to file. Most businesses fall under one of the following:

- **Sole proprietorship:** A single owner of a small business.
- **Partnership:** Two or more individuals sharing a business.
- **C Corporation:** A business considered an entity separate from any individuals.
- **S Corporation:** A corporation where all income goes to the shareholders.

The biggest distinction for tax purposes is between a business taxed as part of the individual owner's income (sole proprietorships and partnerships) and a business taxed as its own revenue-generating entity (corporations).

While the IRS will classify a business by default based on IRS definitions, you can elect for a different classification with **Form 8832**. To become an S Corporation, your company will need to file **Form 2553**.

## WHAT ABOUT LIMITED LIABILITY COMPANIES (LLCS)?

Limited liability companies (LLCs) are defined by state laws, not the federal government. Since the IRS doesn't have an official classification for an LLC, LLCs will have default classifications based on which federal tax classification fits the company best. Like other companies, LLCs can elect a specific entity type using **Form 8832**.

## HOW LONG DO YOU NEED TO KEEP TAX RECORDS?

The **IRS recommends** keeping employment tax records for at least four years. Ideally, most businesses should retain all their tax and **financial records** indefinitely, both for making informed strategy decisions and providing documentation in the event of an audit or investigation. You can simplify managing tax records by using **one, secure internal database** for employee records and payroll data. 🌱

# How to Switch Payroll Providers in 7 Simple Steps

Don't let stress about switching chain you to frustrating processes!  
Follow these steps to break free.

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