12 Tax Issues For Business Startups

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Are you looking to get a start-up idea off the ground?

Entrepreneurs are often confronted with crucial tax issues when forming a startup.

However, if they’re attentive, founders can ensure they avoid these common tax problems.

Here are 12 common tax issues that are often overlooked:

## Choosing the Appropriate Business Entity

The creators of a startup company must decide whether they will organise their company as a limited liability company (also known as LLC) or a corporation.

According to the legal experts at [Southern Coast Lawyers,](https://www.southerncoastlawyers.com.au/) *“a limited liability company (LLC) is not a separate tax entity like a corporation; instead it is like a partnership or sole proprietorship. All of the profits and losses of the LLC ‘pass through’ the business to the LLC owners who report this information on their personal tax returns.”*

If the company decides to establish as a corporation rather than an LLC, the founders must then decide whether to have it taxed as an S Corporation or a C Corporation. The major difference between the two is that a C Corporation is taxed at the corporate level, and also at the personal income tax level when dividends are made to the shareholders.

In contrast, an S Corporation is not taxed at the corporate level, and the shareholders are only taxed at the individual level.

## Timely and Costly Tax Filings

When running a startup company, creators should separate their personal and business expenses.

If creators don’t do this, they could run into the issue of tax filings being timely and expensive. They will then have to read through every receipt with a fine-tooth comb.

However, if creators are able to [find a way to separate their business and personal expenses](http://www.itpliverpool.com.au/), they can simply make a report from their business banking and credit card accounts and give it to their accountant.

## Forgetting to Pay Payroll Taxes

Startups with payroll-related tax issues will inevitably look at paying steep fines.

Consciously not paying or filing taxes related to the payroll is a federal offence. Bookkeeping specialists, [Metro Bookkeeping](http://metrobookkeeping.com.au/), explain that, *“this can be avoided with proper financial management and record keeping. Startups can avoid this common tax problem by paying their state and federal payroll taxes in a timely manner. Paying within three days of issuing payroll checks can help avoid major problems down the line.”*

## Registering for GST

Companies are required to register for GST (Goods and Services Tax) if their business has an annual turnover of seventy-five thousand ($75,000) dollars or more.

They must register for GST within twenty-one (21) days of meeting this circumstance.

If startups who have the appropriate amount of annual turnover don’t register for GST, founders can face imprisonment.

## Deductions for Home Office Expenses

Many small companies attempt to deduct home office, phone and internet expenses for tax purposes.

However, businesses may only do this if their home office, phone and internet expenses they are trying to claim, are used solely for business purposes.

Officials of the [Australian Taxation Office](https://www.ato.gov.au/) (ATO) state;

*“if your home is your principal workplace with a dedicated work area, you can claim running expenses, work-related phone and internet expenses, decline in value of a computer (work-related portion), decline in value of office equipment and occupancy expenses. If your home is not your principal workplace but has a dedicated work area, you can claim all of the same expenses as if your home was your principal workplace, except occupancy expenses. Furthermore, if you work at home but have no dedicated work area, you can only claim work-related phone and internet expenses, decline in value of a computer (work-related portion) and decline in value of office equipment. You cannot claim running or occupancy expenses.”*

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## Beware of Land Tax

Many startup companies don’t recognise that they will have to pay land tax if their business owns a property. This can raise their own operating costs for their startup. The amount of land tax depends as land tax is calculated on the total value of all your taxable land above the land tax threshold.

## Decide Between Employees or Independent Contractors

It is critical for tax purposes that a business correctly decides whether individuals providing services to their startup are employees or independent contractors.

If a startup company has significant control over a worker, the worker should be classified as an employee, not an independent contractor. Penalties and charges may apply to businesses who don’t correctly classify a worker.

The financial experts at [Max Funding](https://www.maxfunding.com.au/) suggest the following insightful solution, “*Once you’ve established whether to incorporate employees or contractors, start putting people first. Take care of employees and contractors and give them the benefits they deserve. This is the only way to have a long term and secure employment relationship.”*

## Correctly Documenting All Income and Deductible Expenses

Every startup company should employ a recordkeeping system that accurately documents all income and deductible expenses. Companies should keep records including financial records such as receipts and invoices for goods and services they buy and sell and bank statements, legal records such as business registration documents, employee records such as staff rosters, attendance and pay records and policy and procedure records such as workplace health and safety plans, to avoid tax evasion.

The value of this is reinforced by finance specialists, [Empowered Finance](https://empoweredfinance.com.au/), who say that *“properly documenting all relevant expenses is the most effective way to ensure no excess debt is incurred. When debt can impact future financial opportunities, we recommend making correct documentation a priority.”*

## Understand Qualified Small Business Stock

Qualified Small Business Stock is a tax benefit whose purpose is to encourage long term investment in small businesses.

Richard Harrison, of All Business, explains *“for the stock of a startup to be qualified as QSBS (or Qualified Small Business Stock), the stock must be issued by a C Corporation, and will only qualify if the C Corporation is a ‘qualified small business’ at the time of issuance. This requires that the corporation have less than 50 million dollars of gross assets before and after the stock issuance.”*

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## Not Hiring Experienced Tax Professionals

Doing taxes can be confusing. Especially for startup businesses who don’t know where to begin.

Startups can run into tax issues if they don’t hire an experienced tax professional. Hiring an accountant or other tax professional as soon as possible is the best way for a startup to get a handle on their finances and taxes.

[Professional taxation experts](http://www.itpliverpool.com.au/) can help you avoid losses and maximise your returns as you work towards your start-up goals.

## The 409A Rule

Section 409A only applies to all companies offering nonqualified deferred compensation plans to employees. A violation of the 409A rules typically results in the immediate taxation of your deferrals plus a 20% penalty.

## Not Getting It Right the First Time Round

Startups often make the mistake of not doing enough research and choosing the wrong structure for their company. As a result, they have to redo everything which takes time, money and energy.

To avoid this tax issue, startups should do their research and/or invest in expert advice.

## Author Bio:

Benjamin Bailey is a freelance writer. He is a university student based in Sydney. A Computer Science and Technology, Benjamin is also fond of fishing. When not on his desk, he is often seen outdoors going fishing with friends and colleagues.