

DEMYSTIFYING SMALL BUSINESS TAXES

Online Sellers' Guide to Filing 2014 Taxes

by Jennifer Dunn

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This publication is designed to provide general information regarding the subject matter covered. It is not intended to serve as legal, tax, or other financial advice related to individual situations. Because each individual's legal, tax, and financial situation is different, specific advice should be tailored to the particular circumstances. For this reason, you are advised to consult with your own attorney, CPA, and/or other advisor regarding your specific situation.

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WHAT MAKES THE DIFFERENCE
BETWEEN A TAXADERMIST AND A
TAX COLLECTOR?
THE TAXIDERMIST ONLY
TAKES YOUR SKIN.

—MARK TWAIN

**LET'S GET
STARTED**

SO, YOU JUST STARTED SELLING ONLINE?

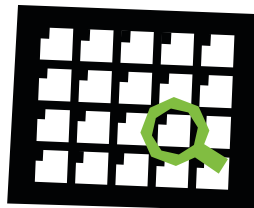
Figuring out which taxes you have to pay, when, and to who can be a huge hassle for new online sellers — whether you sell products on your own website or a marketplace like eBay, Etsy or Amazon. This guide strives to demystify taxes and make the process orderly and manageable so you can get back to what you do best – running your e-commerce business! Read on for a breakdown of the different types of taxes you can expect to pay as an online seller.

TO KEEP THINGS SIMPLE, WE’RE GOING TO ASSUME THAT YOU ARE SELF-EMPLOYED AND HAVE NOT REGISTERED YOUR BUSINESS AS A CORPORATION.



ANNUAL FEDERAL TAXES

FEDERAL TAXES DUE APRIL 15TH



Unless selling online was your very first job, then you're probably familiar with filing your personal income taxes every year on April 15. It's no different for online sellers, whose income is considered "self-employment" income. The only difference is that, along with the usual personal income tax form 1040, online sellers must also file a form called a Schedule C (Business Profit & Loss) to report self-employment income.

If you intend to make a profit, depend on the income, or have made money the last three out of five years, you have a business — not a hobby. You're considered self-employed.

If your net earnings from self employment were \$400 or more, you must file an income tax return. You can file your income tax return on Form 1040 and attach Schedule C. If you operated more than one business as a sole proprietorship, you must attach a separate Schedule C for each business. Form 1040 for the calendar year 2014 is due by April 15, 2015.

If you're self-employed, you can find all the info you need to stay on the up-and-up with the IRS here:

<http://www.irs.gov/Individuals/Self-Employed>.

YOU MAY HAVE HEARD OF A "SCHEDULE C-EZ," WHICH IS EASIER TO FILL OUT, BUT SINCE YOU ARE SELLING INVENTORY ONLINE, YOU CANNOT USE THIS SCHEDULE.

Social Security Number (SSN) or Taxpayer Identification Number (TIN): This number must appear on each of your individual income tax forms. It's a good idea to get a Taxpayer Identification Number to limit visibility of your SSN.

Individual Taxpayer Identification Number (ITIN): If you are not eligible for an SSN, the IRS will issue an ITIN.

Employer Identification Number (EIN): If you pay wages to one or more employees or file pension or excise tax returns, you must also have an EIN.

To apply for an EIN, go to www.irs.gov/businesses/small

A black and white portrait of Albert Einstein, showing his characteristic wild hair and mustache. He is looking slightly to the right with a thoughtful expression. His hands are clasped together in front of him. The background is dark and out of focus.

**THE HARDEST THING
TO UNDERSTAND
IN THE WORLD IS THE
INCOMETAX.**

—ALBERT EINSTEIN

HOW MUCH DO I OWE?

This is where good bookkeeping really matters. You need to know how much money is coming in and going out from your business so you don't overpay or underpay the taxman. If you overpay, you miss out on money that could have been working for you. If you underpay, the IRS will charge you a penalty at the end of the year. But you don't need to waste valuable hours entering numbers into a spreadsheet; there are plenty of tools that can save you time and headaches.

If you use [GoDaddy Online Bookkeeping](#), we'll calculate your estimated taxes based on the net profit from your business – that's total income minus expenses. The tax rate or percentage of profit you pay will increase as your business net profit increases and will also include an amount for self-employment taxes.

WHEN DO I HAVE TO PAY?

Although the filing date for your yearly tax return and Schedule C is April 15, you are actually required to pay these taxes quarterly. We'll cover that in a few minutes, in the section called "Quarterly Estimated Taxes." Creative name, huh?

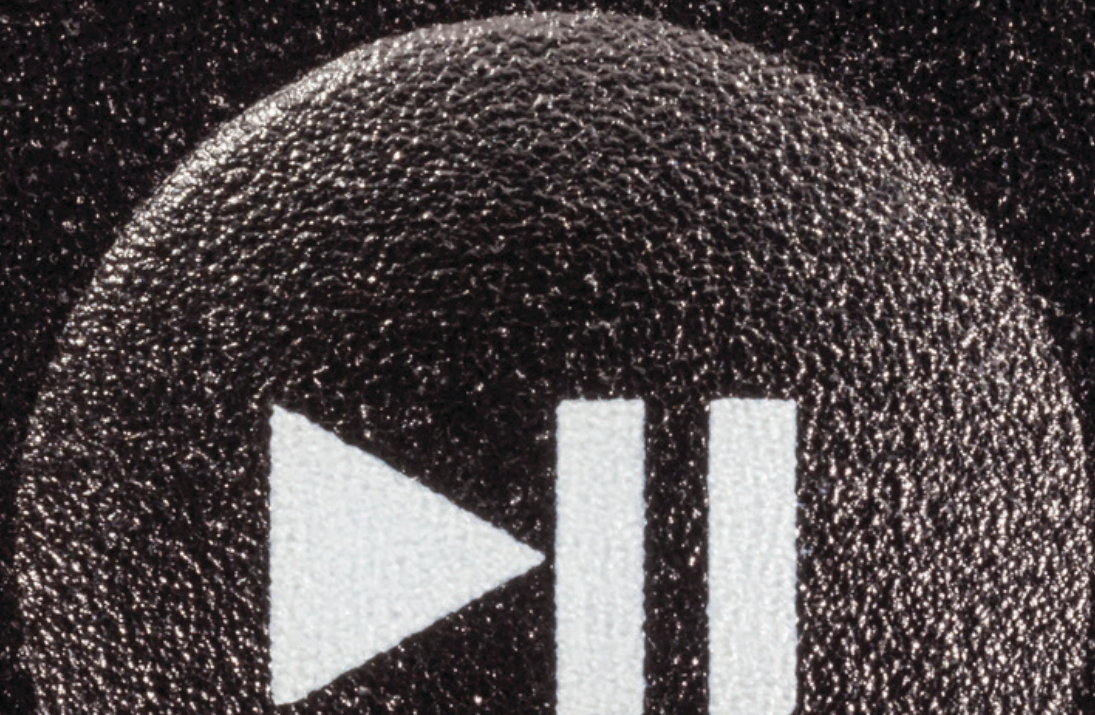
HOW DO I FILE?

To file your annual tax return, you will need to use Schedule C to report your income or loss from a business you operated or a profession you practiced as a sole proprietor. In order to report your Social Security and Medicare taxes, you must file Schedule SE (Form 1040), Self-Employment Tax (PDF). You'll use the income or loss calculated on Schedule C to figure out the amount of Social Security and Medicare taxes you should have paid during the year (more on that later).

If you use Online Bookkeeping, you'll get a user-friendly report that has the information you need to plug into the tax return software of your choice or to hand straight over to your accountant. Be sure all of your income and expenses are entered and properly categorized before you head over to the "Taxes" tab to download your Schedule C.

You should send both your tax return and your Schedule C to the same place – the IRS tax center serving your region.

MORE THAN **20 MILLION** SCHEDULE C FORMS
ARE FILED IN THE U.S. EVERY YEAR.



There's another special note for first year sellers: startup expenses! While it might not feel like it as you catalog inventory until 4 a.m., you are actually in a lucky spot when it comes to taxes. You're a startup and the government will allow you some extra leeway when it comes to tax deductions for startup costs.

I RECEIVED A FORM 1099-K. WHAT SHOULD I DO?

If you received income of more than \$20,000 from a payment processor (like PayPal, or Etsy Direct Checkout), and made over 200 sales through that specific payment processor, then you'll receive a Form 1099-K. This form simply reports all the money you made through that payment processor to you and to the IRS.

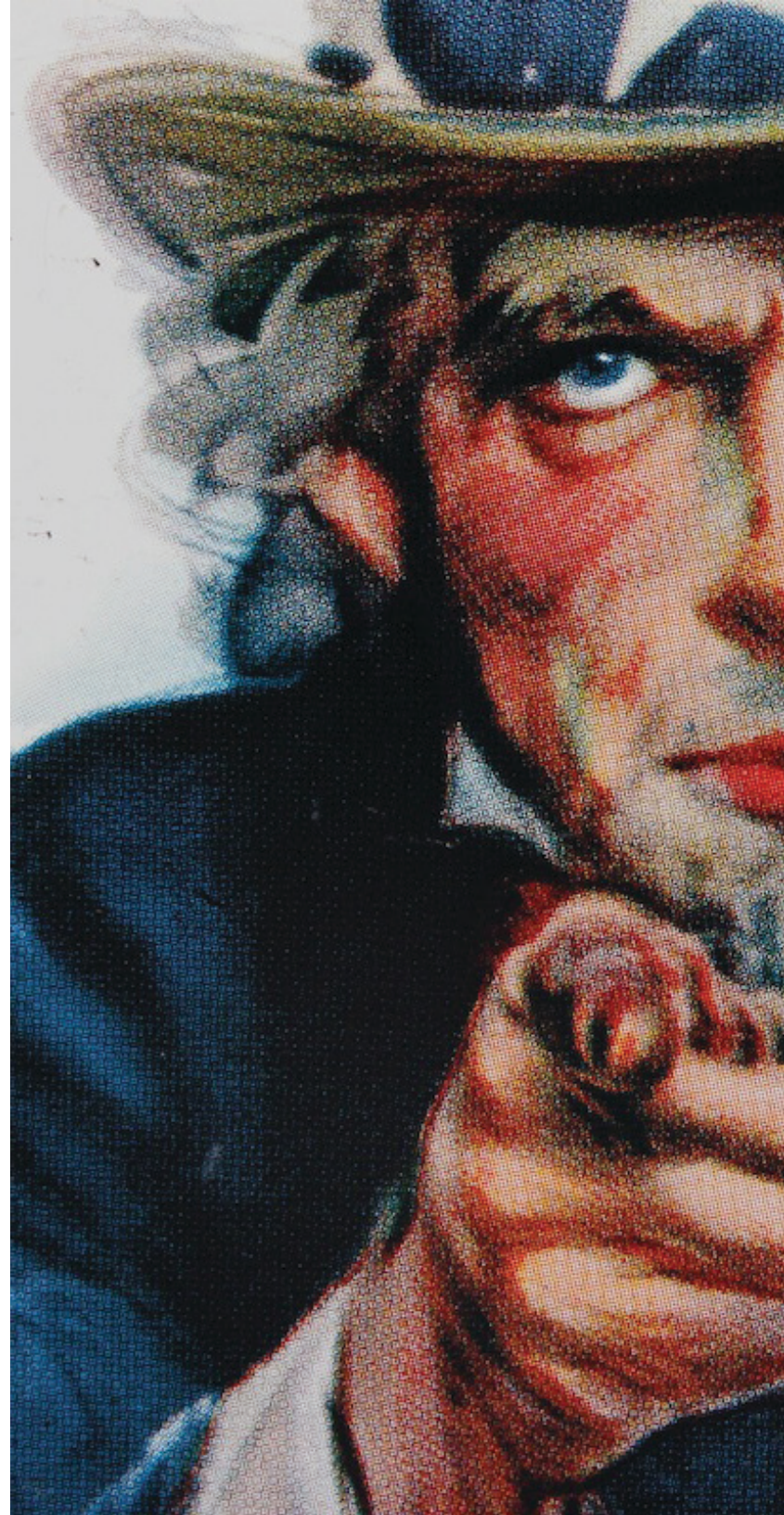
While this form is for information purposes only, be sure to verify that it's correct. And keep in mind that the total amount on this form doesn't account for refunds, returns or fees charged by your payment processor. It does include shipping income as gross income. All of these factors can make that number look a little strange when compared to your own books.

DON'T IGNORE THE 1099-K. IF YOU CLAIM THAT YOU MADE LESS IN INCOME THAN THE FORM 1099-K SPECIFIES, BE READY TO PROVE IT OR THE IRS COULD COME ASKING QUESTIONS.

Form 1099-K is just another reason it's vital that you stay on top of your bookkeeping and track every single penny of income and expenses.

ANYTHING ELSE?

Don't worry if you can't get all of your tax paperwork in order by April 15; it's almost painless to file a tax extension. Then, you have until October 15 to track down all your paperwork and file. But one caution: **Though you can wait until October 15 to file, the IRS still requires that you pay any taxes due by April 15 or you will risk a penalty, which is usually about 0.5% of the amount of taxes not paid every month.**



YOU MUST PAY YOUR TAXES OWED BY APRIL 15TH,
EVEN IF YOU FILE A TAX EXTENSION.

ESTIMATED TAXES

ESTIMATED TAXES – DUE QUARTERLY

If you're an online seller, you might be required to pay your annual tax bill in four quarterly installments, otherwise known as quarterly estimated taxes. Many people don't know about this requirement because they have never had to worry about paying quarterly estimated taxes until they became self-employed.

SELF-EMPLOYED PEOPLE HAVE TO PAY THEIR TAXES THROUGHOUT THE YEAR. SO WHILE YOUR FILING DATE IS APRIL 15, YOU ACTUALLY HAVE TO PAY TAXES EACH QUARTER.

Essentially, quarterly estimated taxes are designed so that you pay one-quarter of your annual taxes each quarter on April 15, June 15, September 15, and January 15.

Why? The United States operates on a pay-as-you-go tax system. This is why employers are required to withhold taxes from the paychecks of their W-2 employees. But if you are self-employed, nobody is withholding and

remitting those taxes to the government. This means that you are responsible for that task, and you must remit taxes to the government quarterly.

HOW DO YOU KNOW HOW WELL YOUR BUSINESS IS GOING TO DO AND HOW MUCH YOU'LL HAVE TO PAY?

Well, that's why this is an estimate. Plus, if this is your first year paying taxes as a self-employed individual, you will not be penalized as long as you pay in an amount equal to what you owed in taxes in the previous year.



Say you'll owe \$10,000 in taxes at the end of the year. You should pay \$2,500 on each of those four dates:

APRIL 15

JUNE 15

SEPTEMBER 15

JANUARY 15

SO, HOW MUCH DO I OWE?

GoDaddy Online Bookkeeping calculates how much you owe in quarterly estimated taxes each quarter. But keep in mind that we give you a conservative estimate and don't take into account any other personal deductions or taxes withheld by a W-2 position you might concurrently hold while you are also self-employed.

If you use Online Bookkeeping, check the "Taxes" tab then the "Quarterly Taxes" sub-tab. This will allow you to see how much we have estimated you owe the government. Once you have entered a payment to the IRS, your quarterly estimated taxes payment will show up in your "Money Out" tab as "Estimated and Income Tax Payments."

HOW DO I FILE?

To pay your estimated quarterly taxes, you can do one of two things:

1. You can fill out a form [1040-ES](#) and send it to the IRS address for your region.
2. You can file electronically using the [Electronic Federal Tax Payment System \(EFTPS\)](#).

You have to enroll in the [EFTPS](#) before you use it, but after you're all set up, you can use it like an automatic debit for tax payments if you wish, and can even pay taxes over the phone.

ANYTHING ELSE?

Don't fret if you've missed a quarterly estimated tax deadline. The penalty is only about three percent of the amount you owe until you catch up, as long as you pay up by April 15. That said, if you're having a profitable year and suspect your end-of-year tax bill will be larger, it's often worth it to make quarterly payments just to mitigate penalties and ensure you're able to pay the whole chunk at once.

ANNUAL STATE TAXES

ANNUAL STATE TAXES

As you know, if you've ever moved to a new state, all states are different when it comes to taxes. Most states that have a personal income tax will require you to include your Schedule C business income with your individual state return. If your state does not have an individual income tax, you might still need to check with your state's taxing authority to find out if you owe any business taxes.

FORTY-FIVE STATES COLLECT STATEWIDE SALES TAXES AND 38 STATES COLLECT LOCAL SALES TAXES.



STATE SALES TAXES

SALES TAX – DUE MONTHLY OR QUARTERLY

We've covered the taxes you pay on your income from self-employment, but if you're a product seller you have a whole other set of taxes to worry about — sales tax.

Forty-five states and the District of Columbia all have sales tax laws on the books. As an online seller, you are most likely required to charge a percentage of sales tax on every sale you make.

FORTY-FIVE STATES COLLECT STATEWIDE SALES TAXES AND 38 STATES COLLECT LOCAL SALES TAXES.

Though laws are changing rapidly, for now, U.S. e-commerce sellers only have to charge sales tax to buyers in states where they have “nexus.” Nexus is legalese for “a physical presence” such as a store, office, or employee. Many first-year online sellers will only have a physical presence within their own state.

If you live and have a physical presence in a state that doesn't require the collection of sales tax, you're in luck and can skip this section! Otherwise, if you live in say, Florida, and sell to someone else who also lives in Florida, you are required to charge the buyer sales tax for that item.

State sales tax is generally anywhere from 5 percent to 7 percent on the price of the item purchased. If you sell to someone who lives in another state, and do not have a nexus in that state, you likely do not have to collect sales tax on that sale.

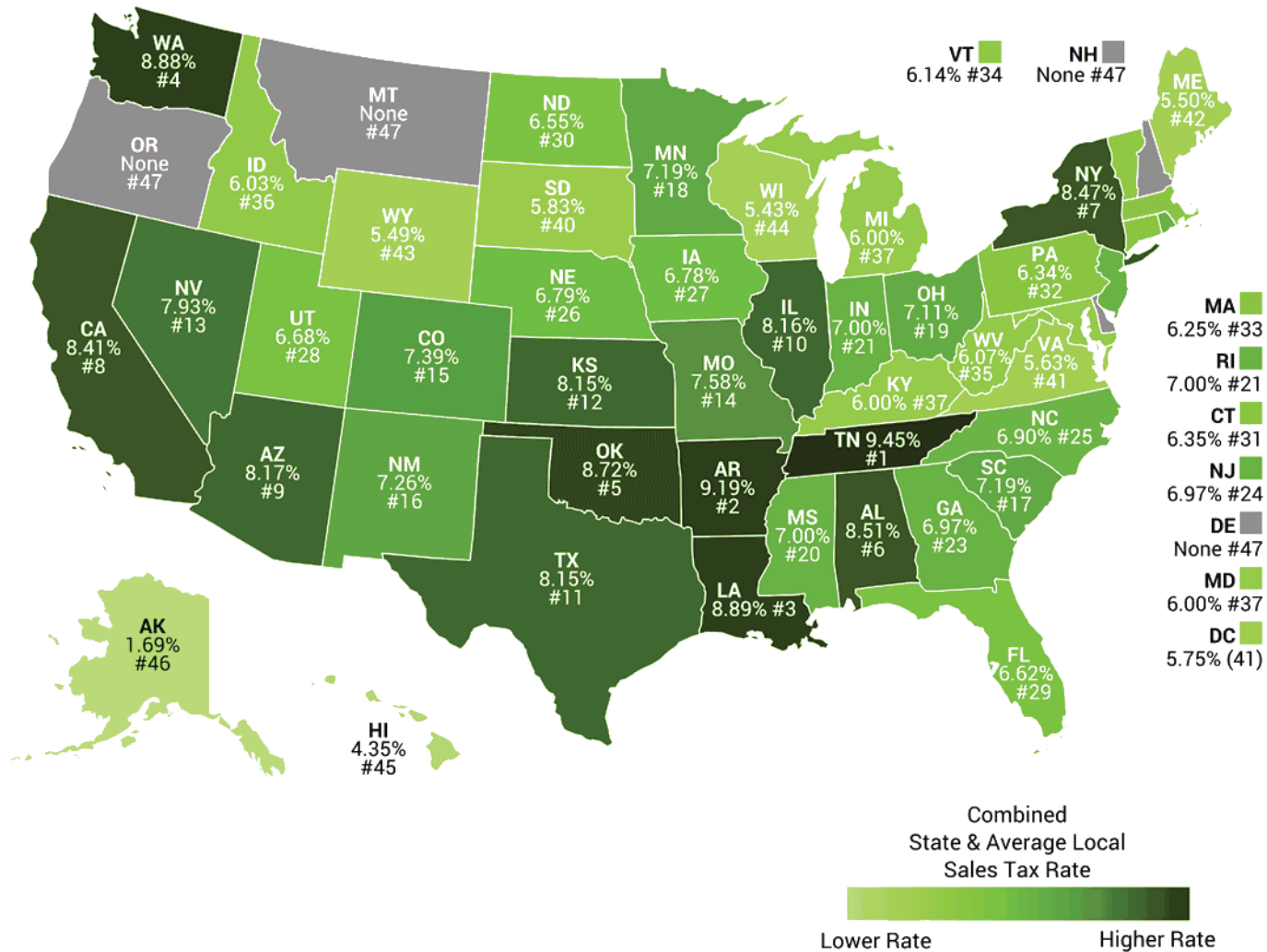
TENNESSEE CURRENTLY HAS THE HIGHEST AVERAGE COMBINED STATE-LOCAL TAX RATE AT 9.45 PERCENT.

WAIT, THERE'S MORE

Unfortunately, in some cases, you can't just look up your state's sales tax rate and be done with sales tax. Local areas also charge sales tax, generally 1 percent to 2 percent on top of state sales tax. Some states have an origin-based sales tax, meaning you can charge taxes based on state + local rates at the product's origin (i.e. your location.) Other states have a destination-based sales tax, meaning you must charge sales tax based on the buyer's location.

To find the sales tax(es) for the state(s) in which you do business, visit sale-tax.com or consult your local government tax offices for the latest official city, county, and state tax rates.

COMBINED STATE & AVERAGE LOCAL SALES TAX RATES IN 2014



FULFILLMENT BY AMAZON SELLERS (FBA)

Your sales tax is a little different from the scenario mentioned above. Because you warehouse your goods in Amazon fulfillment centers, you technically have nexus in any state where you've stored goods in an Amazon fulfillment center throughout the year.

If you live in New Mexico but your goods have been stored in warehouses in Arizona and Nevada, then you are required to collect sales tax in all three states. And this rule doesn't just apply to sales tax collected on FBA goods. If you sell in those states on any platform throughout the year, you are required to collect sales tax due to the nexus you've established by storing your goods in Amazon fulfillment centers.



KEEP TRACK OF YOUR TOTAL
COLLECTED SALES TAX SO YOU DON'T
OVERPAY OR UNDERPAY THE STATE!

HOW MUCH DO I OWE?

As a merchant, you're essentially just collecting sales tax on your sale and then holding it until you pass it on to the government. Because of this, it's extremely important to track how much sales tax you have collected so that you don't overpay the state and lose money, or underpay and receive a penalty.

GoDaddy Online Bookkeeping helps e-commerce sellers automatically track sales tax if you import your information from eBay, Etsy or PayPal. You can also enter sales tax collected manually using the "Sales Tax Collected" category.

HOW DO I FILE?

Depending on the laws of your state, you will likely remit sales tax either monthly, quarterly or annually. When it comes time to pay up, Online Bookkeeping users can simply go to the "Taxes" tab to see the amount they owe. Afterward, the sales tax paid will show up in the "Money Out" tab with the category "Sales Tax Submitted."

To pay, remit all the sales tax you have collected within your payment period to your state's taxing authority. Visit the same authority to find out when you should pay and if you are required to hold a permit to collect sales tax.

TAXES ARE HERE TO STAY



Taxes are a fact of life. But they don't have to be an impossible burden if you follow the one golden rule of business accounting – always keep track of your expenses. Whether you sell thrift store finds on eBay, books on Amazon, hand-crafted jewelry on Etsy, or a special one-of-a-kind product on your own website, use an accounting application to make sure you're tracking all of your expenses. Why? Because expenses equal tax deductions at the end of the year!

GODADDY ONLINE BOOKKEEPING CAN HELP

GoDaddy Online Bookkeeping can make tax time easier — no accounting know-how needed. You can say “adios” to spreadsheets, data entry and piles of receipts when you use GoDaddy Online Bookkeeping:

- Automated sales and expense tracking. You can import data from eBay, Etsy, Amazon, PayPal, banks and credit cards
- Easily track profit and loss.
- Pre-populated Schedule C, estimated and sales tax due
- Create, send and track customized invoices.

Please visit <https://www.godaddy.com/accounting/accounting-software.aspx> to learn more.

A portrait of Benjamin Franklin, an older man with long, wavy, light-colored hair, looking slightly to the left. He is wearing a dark coat over a white cravat. The background is dark and textured.

**IN THIS WORLD NOTHING CAN BE SAID TO BE CERTAIN,
EXCEPT DEATH AND TAXES**

— BENJAMIN FRANKLIN

REFERENCE

ADDITIONAL RESOURCES

Internal Revenue Service

<http://www.irs.gov>

Small Business Taxes

The Virtual Workshop (IRS video):

<http://www.irsvideos.gov/SmallBusinessTaxpayer/virtualworkshop>

Tax Help

<http://taxhelp.org/>

Tax Policy Center

<http://www.taxpolicycenter.org/>

U.S. Small Business Administration

<https://www.sba.gov/category/navigation-structure/starting-managing-business/starting-business/establishing-business/taxes>

H&R Block's Tax Estimator

<http://www.hrblock.com/get-answers/tax-calculators.html>

Turbo Tax Blog

<http://blog.turbotax.intuit.com/>

Turbo Tax Guides & Videos

<https://turbotax.intuit.com/tax-tools/all-articles-and-videos/>

Nolo

<http://www.nolo.com/legal-encyclopedia/tax-deductions>

The FBA Sales Tax Guide

<http://www.fbasalestax.com/>

THE END

It's Go Time™

