TAXES IN USA

BUSINESSES

In accordance with the Internal Revenue Service Code the form of business you operate determines what taxes you must pay and how you pay them. It is important to clarify that State tax laws and regulations are also applicable and they depend on the State the company operates.

The following are the three general types of Federal Business Taxes:

1.-Income Tax

2.-Sales Tax

3.-Employment Taxes

4.- Taxes to Foreign Companies

1.-Income Tax

All businesses except partnerships must file an annual income tax return. Partnerships file an information return. The form you use depends on how your business is organized.

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. An employee usually has income tax withheld from his or her pay. If you do not pay your tax through withholding, or do not pay enough tax that way, you might have to pay estimated tax. If you are not required to make estimated tax payments, you may pay any tax due when you file your return

1.1.-Estimated tax

Sole proprietors, partners, and S corporation shareholders **-** You generally have to make estimated tax payments if you expect to owe tax of $1,000 or more when you file your return.

Corporations **-** You generally have to make estimated tax payments for your corporation if you expect it to owe tax of $500 or more when you file its return.

2.-Sales Tax

2.1.- Who must register?

Businesses wishing to engage in taxable activities are required to register with the Department of Revenue of the State where they will operate to collect and/or report tax.

You may be required to register to collect, accrue, and remit the taxes or fees listed below if you are engaged in any of the activities listed below:

- Sales, leases, or licenses to use certain property or goods (tangible personal property).
- Sales and rentals/admissions, amusement machine receipts, or vending machine receipts for all taxable items.
- Repair or alteration of tangible personal property.
- Leases or licenses to use commercial real property (includes management companies).
- Rental of transient (six months or less) living or sleeping accommodations (includes management companies).

- A local tourist development tax (bed tax) may also apply. Contact the taxing authority in the county where the property is located.
- Sales or rental of self-propelled or power-driven farm equipment.
- Sales of electric power or energy.
- Sales of prepaid telephone calling cards.
- Sales of commercial pest control services, nonresidential building cleaning services, commercial/residential burglary and security services, or detective services.

2.2.-Rates

They vary from one state to another, as well as from one county to another. For example, in Florida there is a general rate of six percent (6%). Additionally, a discretionary sales surtax is imposed by many Florida counties (Miami-Dade charges 1%).

2.3-Returns & Payments

They vary from one state to another. Depending on the kind of business you must file monthly, quarterly or annual returns.

2.4.-Filing

The returns can be filed and paid by mail or electronically through a free and secure Internet.

3.-Employment Taxes

When you have employees, you as the employer have certain employment tax responsibilities that you must pay and forms you must file. Employment taxes include the following:

- Social security taxes (6.2%)
- Medicare taxes (1.45%)
- Federal income tax withholding
- Federal unemployment (FUTA) tax (0.8%)
- State unemployment (SUTA) tax – Rates vary from one state to another

4.- Taxes to Foreign Companies

Generally, a foreign corporation must file a U.S. tax return if it is engaged in a trade or business in the United States, whether or not it had income from that trade or business. It must also file if it had income, gains, or losses treated as if they were effectively connected with a U.S. trade or business, and if it had income from any U.S. source (even if its income is tax exempt under an income tax treaty or code section).

4.1.-United States Income Tax Treaties - A to Z

The United States has tax treaties with a number of foreign countries. Under these treaties, residents (not necessarily citizens) of foreign countries are taxed at a reduced rate, or are exempt from U.S. taxes on certain items of income they receive from sources within the United States. These reduced rates and exemptions vary among countries and specific items of income. Under these same treaties, residents or citizens of the United States are taxed at a reduced rate, or are exempt from foreign taxes, on certain items of income they receive from sources within foreign countries. Most income tax treaties contain what is known as a "saving clause" which prevents a citizen or resident of the United States from using the provisions of a tax treaty in order to avoid taxation of U.S. source income.

If the treaty does not cover a particular kind of income, or if there is no treaty between your country and the United States, you must pay tax on the income in the same way and at the same rates shown in the instructions for the applicable U.S. tax return.

Please consult current treaties at

www.irs.gov

INDIVIDUALS

The following are some general types of Federal Taxes for Individuals:

1.-Income Tax
2.- Taxes for U.S. Citizens and Residents Living Outside the United States
3.-Estimated Taxes
4.- Self-employment Tax
5.- Taxes to Foreign Persons

1.-Income Tax

If you are a U.S. citizen or resident, whether you must file a return depends on three factors:

- Your gross income,
- Your filing status, and
- Your age.

To find out whether you must file, see Table 1. Even if no table shows that you must file, you may need to file to get money back.

Gross income: This includes all income you receive in the form of money, goods, property, and services that is not exempt from tax. It also includes income from sources outside the United States (even if you can exclude all or part of it).

Table 1. 2010 Filing Requirements for Most Taxpayers

IF your filing status is …	AND at the end of 2010 you were …	THEN file a return if your gross income was at least …
Single	Under 65 65 or older	$ 9,350 $ 10,750
Married filing jointly	Under 65 (both spouses) 65 or older (one spouse) 65 or older (both spouse)	$ 18,700 $ 19,800 $ 20,900
Married filing separated	Any age	$ 3,650
Head of Household	Under 65 65 or older	$ 12,050 $ 13,450
Qualifying widow(er) with dependent child	Under 65 65 or older	$ 15,050 $ 16,150

Surviving Spouses, Executors, Administrators, and Legal Representatives

You must file a final return for a decedent (a person who died) if both of the following are true.

- You are the surviving spouse, executor, administrator, or legal representative.

- The decedent met the filing requirements at the date of death.

2.- Taxes for U.S. Citizens and Residents Living Outside the United States

If you are a U.S. citizen or resident living outside the United States, you must file a return if you meet the filing requirements.

Foreign earned income is income you receive for services you perform in a foreign country during a period when your tax home is in a foreign country and during which time you meet either the bona fide residence test or the physical presence test. It does not matter whether earned income is paid by a U.S. employer or a foreign employer.

To claim the foreign earned income exclusion, the foreign housing exclusion, or the foreign housing deduction, you must meet all three of the following requirements.

1. Your tax home must be in a foreign country.
2. You must have foreign earned income.
3. You must be either:
    a. A U.S. citizen who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year,
    b. A U.S. resident alien who is a citizen or national of a country with which the United States has an income tax treaty in effect and who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year, or
    c. A U.S. citizen or a U.S. resident alien who is physically present in a foreign country or countries for at least 330 full days during any period of 12 consecutive months.

Bona Fide Residence Test

You meet the bona fide residence test if you are a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year. You can use the bona fide residence test to qualify for the exclusions and the deduction only if you are either:

- A U.S. citizen, or
- A U.S. resident alien who is a citizen or national of a country with which the United States has an income tax treaty in effect.

Physical Presence Test

You meet the physical presence test if you are physically present in a foreign country or countries 330 full days during a period of 12 consecutive months. The 330 days do not have to be consecutive. Any U.S. citizen or resident alien can use the physical presence test to qualify for the exclusions and the deduction.

The physical presence test is based only on how long you stay in a foreign country or countries. This test does not depend on the kind of residence you establish, your intentions about returning, or the nature and purpose of your stay abroad.

3.-Estimated Taxes

If you had a tax liability for 2007, you may have to pay estimated tax for 2008.

Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment, interest, dividends, alimony, rent, gains from the sale of assets, prizes and awards. You also may have to pay estimated tax if the amount of income tax being withheld from your salary, pension, or other income is not enough.

Estimated tax is used to pay both income tax and self-employment tax, as well as other taxes and amounts reported on your tax return. If you do not pay enough through withholding or estimated tax payments, you may be charged a penalty. If you do not pay enough by the due date of each payment period you may be charged a penalty even if you are due a refund when you file your tax return.

You must pay estimated tax for 2008 if both of the following apply.

1. You expect to owe at least $1000 in tax for 2008 after subtracting your withholding and credits.
2. You expect your withholding and credits to be less than the smaller of;
    - 90% of the tax to be shown on your 2008 tax return, or
    - 100% of the taxes shown on your 2007 tax return. Your 2007 tax return must cover all 12 months.

4.-Self-Employment Tax

Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves. Your payments of SE tax contribute to your coverage under the social security system. Social security coverage provides you with retirement benefits, disability benefits, survivor benefits, and hospital insurance (Medicare) benefits.

Generally, you must pay SE tax and file Schedule SE (Form 1040) if either of the following applies.

- If your net earnings from self-employment were $400 or more.
- If you work for a church or a qualified church-controlled organization (other than as a minister or member of a religious order) that elected an exemption from social security and Medicare taxes, you are subject to SE tax if you receive $108.28 or more in wages from the church or organization.

5.- Taxes to Foreign Persons

Most types of U.S. source income paid to a foreign person are subject to a withholding tax of 30%, although a reduced rate or exemption may apply if stipulated in the applicable tax treaty.

5.1.-General Rule

In general, a person that makes a payment of U.S. source income to a foreign person must withhold the proper amount of tax, report the payment on Form 1042-S and file a Form 1042 by March 15 of the year following the payment(s).

5.2.-Withholding Agent

The person making the payment is considered to be the withholding agent. You are a withholding agent if you are a U.S. or foreign person that has control of any item of income of a foreign person that is subject to withholding.

A withholding agent may be an:

- Individual
- Corporation
- Partnership
- Trust
- Association
- Nominee (under section 1446 of the Code) or
- Any other entity, including any foreign intermediary, foreign partnership, or U.S. branch of certain foreign banks and insurance companies.

5.3.-Income Subject to Withholding

A payment to a foreign person is subject to withholding if it is from sources within the United States, and it is either:

- Fixed or determinable annual or periodical income, such as:
    - Compensation for personal services
    - Dividends
    - Interest
    - Pensions and Annuities
    - Alimony
    - Real property income (such as rents).
    - Royalties
    - Taxable scholarships and fellowship grants
- Certain gains from the disposition of timber, coal, and iron ore or from the sale or exchange of intangible property (such as patents or copyrights)