Important Terminology related to Entrepreneurship

* + 1040-personal tax return-where ALL your income from ALL sources flows to arrive at your tax liability
  + Schedule C-form filed with your personal tax return to report your business income and expenses if you file as a sole proprietor, dba, or single member LLC
  + 1120S-S Corporation Tax Return-separate tax return from your 1040 where your S corporation income and expenses are reported. It does NOT pay income tax.
  + 1065-Partneship tax return-separate tax return from your 1040 where partnership income and expenses are reported. It does NOT pay income tax
  + K-1 – pass through form generated from your 1120S or 1065 to report your ownership portion of profit or loss from the 1120S or 1065
  + LLC-Limited Liability Company
  + Member-owner of an LLC
  + Sales tax-taxes that you collect from your clients/customers when you sell them certain products/services. It is a state tax, not a Federal/IRS tax. The business owner is just a mediator-it is an expense of the customer/client and you are responsible for collecting it on their behalf and then handing it over to the state.
  + Federal tax-the tax you pay to the IRS that is based on your tax bracket (the amount that is in box 2 of your W2)
  + Self-employment tax (aka FICA tax)=Social Security tax + Medicare tax
  + 941 tax-this is the federal income tax + employER social security taxes + employER Medicare taxes + EmployEE social security taxes + EmployEE Medicare taxes that you send to the IRS every month on behalf of your employees. Note that as an employER you have to match the social security and Medicare taxes of your employees, which is why you see this included in the calculation.
  + Estimated taxes aka quarterly taxes-the amount you should pay to the IRS 4 times a year. They are only estimates, not an exact number since it’s based on a projection of your taxable income for the year.
  + Tax liability-total tax calculation on your 1040 tax return. It is your federal tax + your self-employment taxes
  + Balance due-amount you owe when your tax liability is more than the taxes you paid in during the year
  + Refund-amount you over paid when your tax liability is less than the taxes you paid in during the year
  + Assets-what your business owns
  + Liabilities-what your business owes to others (banks etc.)
  + Owners’ Equity-what is “left” after deducting liabilities from your assets