

Welcome



Incorporation in USA and related Taxation aspects



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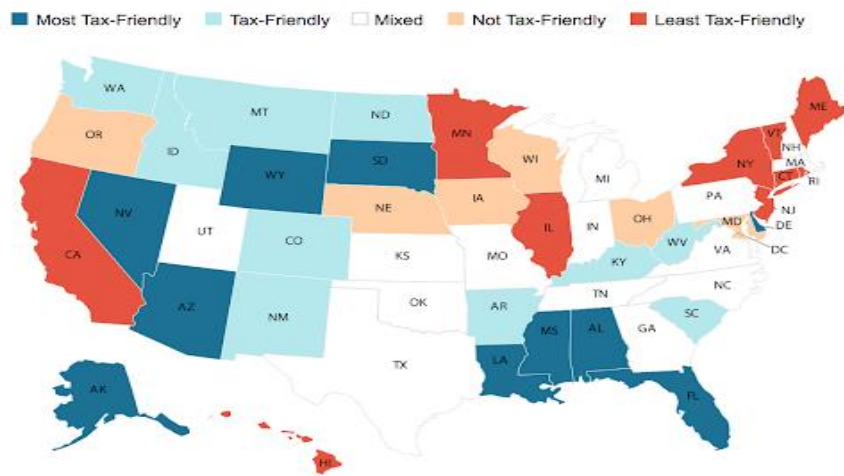


Agenda

- Tax Structure and Types of Taxes in USA
- Types of Entities in USA
- Company Incorporation Process in USA
- Taxation of Various Entities
- Tax compliances and Forms for various Entities
- Tax compliances for Foreign Residents
- Opportunities for CAs

US Tax Structure

1. Federal - IRS
2. State
3. City
4. County



Types of Taxes

1. Income Tax
2. Social Security Tax
3. Medicare Tax
4. Estate and Gift Tax
5. Sales Tax

Types of Entities –Tax Payers

- Individuals
- Proprietors
- Limited Liability Partnerships
- Limited Liability Company
- Corporations
 - Regular - C Corporation
 - Small - S Corporation
- Estate and Trusts

Income tax Rates

- **Individual Tax rates**

- **Federal** – 10%- 37% depending on Status of Tax Payers

- **Status of Individual Tax payers**

- Single

- Married Filing Jointly

- Married Filing Separately

- Head of Household

- Capital Gain – 0%, 15% and 20% of capital gain

- State Income tax – 0-15% depending on various states

Income tax Rates

- Regular Corporation

Federal – 21%

- Small Corporation

No Income tax as they are pass through entities. Share of Profit will be taxed at shareholder level

- Partnerships

No Income tax as they are pass through entities. Share of Profit will be taxed at Partner level

- Estate and Trust

Federal – 10%- 37% depending on Taxable Income

State Tax – Varies as per state

Social Security Taxes

Tax Rates

- Social security is the tax contributed by employer and employee. This tax is used to pay benefits to people who are retired and eligible to receive social security.

Social Security - 6.2% employer and 6.2% Employee

- Medicare – 1.45% Employer and 1.45% Employee

Self-Employed (Proprietors) pay self employment tax as well which is employer and employee portion of Social security

Estate and Gift Taxes

Estate Tax

- Charged at Federal and State level
- Estate tax is tax levied on transfer of property at death
- To be paid by Estate and not beneficiary

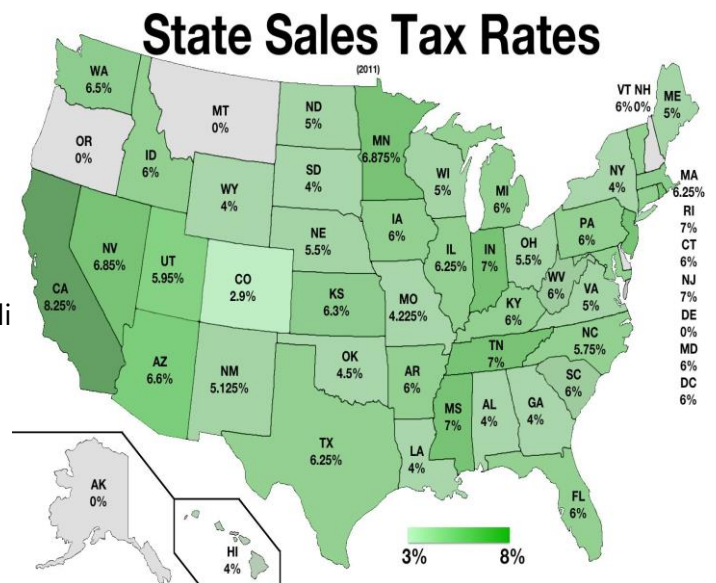
Gift Tax

- Gift Tax is levied on Donor of the property
- Charged at Federal and some state levels

Sales Tax

Sales Tax

- Tax on Sale of Goods or Services
- Governed by each Individual State
- Tax rates varies from 3% to 9%
- To be filed monthly or quarterly dependi on the sales tax payable or turnover



Income taxed for which Jurisdiction

- US Citizens and Residents are taxed on Global Income
- Foreign Tax Credit can be claimed based on the Income tax treaties with various foreign countries
- Non Resident are taxed only Income accrued in USA
- Income tax is charged on Federal and State both except for the following states where state income tax is exempt
 1. Texas
 2. Florida
 3. Nevada
 4. Wyoming
 5. South Dakota
 6. Alaska
 7. Washington

Incorporation Process

- Selecting Right type of Entity
- Finding a registered agent or authorised representative for state
- Incorporating a Company
- Obtaining a FEIN
- Opening up a Bank Account
- Starting the operations
- Monthly/Quarterly compliances
- Annual Compliances with Federal and State Authorities

Comparison between various entities

Description	Proprietorship	LLC/LLP	S Corporation	C Corporation
Limited Liability for Owners	No	Yes	Yes	Yes
Minimum Number	1	1	1	1
Maximum Number	1	No Limit	100	No Limit
Can be owned by Non US Citizens	No	Yes	No	Yes
Can own or owned by other Business entities	No	Yes	Yes	Yes
Can have more than one class of Stocks or ownership interest	No	Yes	No	Yes
Income is taxed separately from owners	No	No	No	Yes
Tax on Entity is paid by Owners/Members at Individual level	Yes	Yes	Yes	No
Owners can deduct losses on their personal tax return	Yes	Yes	Yes	No
Income tax deadline	15 th April	15 th March	15 th March	15 th April
Automatic Extension available	Yes	Yes	Yes	Yes
Issue of shares to employees	No	No	Yes upto to 100	Yes

Taxation for Various Entities

Entity Type	Income Tax Compliance
Individuals	Annual Income tax return to be filed to report all the Income
Partnerships and LLCs	Pass Through Entity – Only Information return. Plus annual report for each state where business has been registered need to be filed
Small Corporation	Pass through Entity – Only Information return. Shareholders file the income of Small corporation in their Individual return Plus annual report for each state where business has been registered need to be filed
Corporations	Taxed at 21%. Regular Income tax return to be filed Plus annual report for each state where business has been registered need to be filed
Estate and Trust	Annual Income tax return to be filed by Estate

Forms for Various tax payers

Entity Type	Income Forms	Due Date
Individuals	1040, 1040NR, 1040EZ plus respective state tax return return	15 th April
Partnerships and LLCs	1065 plus respective state tax return	15 th March
Small Corporation	1120S plus respective state tax return	15 th March
Corporations	1120 plus respective state tax return	15 th April
Estate and Trust	1041	15 th April

Note : 6 month Automatic extension is available on filing extension request

US Taxation Aspects

SSN and FEIN

Social Security Number – It is Tax Identification number for Individuals. Alias PAN.

Every Individual and Resident should take this number

It is of XXX-XX-XXXX format

FEIN – It is Federal Employer Identification is Tax identification number for Partnerships and Corporations Alias PAN for Businesses. Every registered business has to take the Employer Identification number

It is of XX-XXXXXXX

Form 1040 for Individuals

Form 1040 – It is the annual income tax return to be filed by each Individual who is a resident or non resident deriving income from US.

Every US citizen should file the return irrespective whether income is accrued in US or outside

Individual can file return jointly with spouse or separately.

Key Parts of Form 1040

Part I – Individual information

Part II – Filing status

Part III – Dependents

Part IV – Income – Salary, Interest, Dividends, Capital Gain, Rental Income, Share of Profit from Partnerships

Part V – Deductions from Income – Retirement contributions, Educator expense

Part VI – Itemized deductions and credits – Standard deduction, Mortgage interest, Donations, Child Tax credit

Part VII – Other taxes – Self employment taxes if proprietor

Part VIII – Payments

Form 1040 for Individuals

Form	1040	Department of the Treasury—Internal Revenue Service (99)	2021	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.	
U.S. Individual Income Tax Return						
Filing Status <input type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately (MFS) <input type="checkbox"/> Head of household (HOH) <input type="checkbox"/> Qualifying widow(er) (QW) Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶						
Your first name and middle initial		Last name		Your social security number		
If joint return, spouse's first name and middle initial		Last name		Spouse's social security number		
Home address (number and street). If you have a P.O. box, see instructions.				Apt. no.	Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
City, town, or post office. If you have a foreign address, also complete spaces below.			State	ZIP code		
Foreign country name		Foreign province/state/county		Foreign postal code		
At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency? <input type="checkbox"/> Yes <input type="checkbox"/> No						
Standard Deduction Someone can claim: <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent <input type="checkbox"/> Spouse itemizes on a separate return or you were a dual-status alien						
Age/Blindness You: <input type="checkbox"/> Were born before January 2, 1957 <input type="checkbox"/> Are blind Spouse: <input type="checkbox"/> Was born before January 2, 1957 <input type="checkbox"/> Is blind						
Dependents (see instructions):						
If more than four dependents, see instructions and check here ▶ <input type="checkbox"/>	(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see instructions): Child tax credit	Credit for other dependents
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
1 Wages, salaries, tips, etc. Attach Form(s) W-2				1		

Form 1065 for partnerships

Form 1065 – It is the annual income tax return to be filed by every Limited Liability Partnerships or Limited Liability Company.

Every US Partnership business should file the tax return by 15th March every year

It is an information return as partnership does not pay tax

It issues a separate Sch K-1 to partners/members

Key Parts of Form 1065

Part I – Business Information

Part II – Income and expenses

Part III - Sch L – Balance sheet

Part IV – Sch M-1 and M-2

Part V – K-1

Form 1065 for partnerships

Form 1065 Department of the Treasury Internal Revenue Service	U.S. Return of Partnership Income For calendar year 2021, or tax year beginning _____, 2021, ending _____, 20____. ▶ Go to www.irs.gov/Form1065 for instructions and the latest information.	OMB No. 1545-0123 2021
A Principal business activity	Name of partnership _____ _____ _____	D Employer identification number _____
B Principal product or service	Type or Print Number, street, and room or suite no. If a P.O. box, see instructions. _____ _____	E Date business started _____
C Business code number	City or town, state or province, country, and ZIP or foreign postal code _____ _____	F Total assets (see instructions) \$ _____
G Check applicable boxes: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return		
H Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶ _____		
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ _____		
J Check if Schedules C and M-3 are attached ▶ <input type="checkbox"/>		
K Check if partnership: (1) <input type="checkbox"/> Aggregated activities for section 465 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 469 passive activity purposes		
Caution: Include only trade or business income and expenses on lines 1a through 22 below. See instructions for more information.		
Income	1a Gross receipts or sales	1a _____
	b Returns and allowances	1b _____
	c Balance. Subtract line 1b from line 1a	1c _____
	2 Cost of goods sold (attach Form 1125-A)	2 _____
	3 Gross profit. Subtract line 2 from line 1c	3 _____
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4 _____

Form 1120 for Corporations

Form 1120 – It is the annual income tax return to be filed by every Corporation.

Every US Corporation should file the tax return by 15th April every year except small corporation whose tax return filing deadline is 15th March every year

Key Parts of Form 1120

- Part I – Business Information
- Part II – Income and expenses
- Part III - Sch L – Balance sheet
- Part IV – Sch M-1 and M-2
- Part V – Sch K
- Part VI – Tax payment

Form 1120 for Corporations

Form 1120 Department of the Treasury Internal Revenue Service	U.S. Corporation Income Tax Return For calendar year 2021 or tax year beginning _____, 2021, ending _____, 20____ ▶ Go to www.irs.gov/Form1120 for instructions and the latest information.	OMB No. 1545-0123 <div style="font-size: 2em; font-weight: bold; border: 1px solid black; padding: 2px; display: inline-block;">2021</div>
A Check if: 1a Consolidated return (attach Form 851) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input type="checkbox"/>		
TYPE OR PRINT	Name _____ Number, street, and room or suite no. If a P.O. box, see instructions. _____ City or town, state or province, country, and ZIP or foreign postal code _____	B Employer identification number _____ C Date incorporated _____ D Total assets (see instructions) \$ _____
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change		
Income	1a Gross receipts or sales 1a b Returns and allowances 1b c Balance. Subtract line 1b from line 1a 1c 2 Cost of goods sold (attach Form 1125-A) 2 3 Gross profit. Subtract line 2 from line 1c 3 4 Dividends and inclusions (Schedule C, line 23) 4 5 Interest 5 6 Gross rents 6 7 Gross royalties 7 8 Capital gain net income (attach Schedule D (Form 1120)) 8 9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) 9 10 Other income (see instructions—attach statement) 10 11 Total income. Add lines 3 through 10 ▶ 11	
Deductions	12 Compensation of officers (see instructions—attach Form 1125-E) ▶ 12 13 Salaries and wages (less employment credits) 13 14 Repairs and maintenance 14 15 Bad debts 15 16 Rents 16 17 Taxes and licenses 17 18 Interest (see instructions) 18	

Other Tax forms

W2 – Reports Salaries and Wages of an Employee

1099INT – reports interest income

1099DIV – reports Dividend Income

1099B – reports capital gain sale and purchase transactions

1099G – reports unemployment income

1099R – reports retirement income

1099MISC – reports commission, royalty or rental income

1099NEC – reports consulting income

1042-S – reports foreign person's US source income subject to tax withholding

Sch K-1 – Share of Income received by a partner/shareholder from a LLP/LLC or a S Corporation

W9- Request for US person's Social security number or Employer identification number by a person

W8-BEN – Request for a non US person statement that he/she is non-resident of US by a person required to report income or information to US tax authorities

W7- Application for ITIN

5472 – Information by a Foreign owned Incorporation

W2

22222		a Employee's social security number 123-45-6789		OMB No. 1545-0008		
b Employer identification number (EIN) 11-2233444			1 Wages, tips, other compensation \$47,000.00		2 Federal income tax withheld \$4,700.00	
c Employer's name, address, and ZIP code Big Employer 123 Easy Street Washington, DC 12345			3 Social security wages \$50,000.00		4 Social security tax withheld \$3,100.00	
			5 Medicare wages and tips \$50,000.00		6 Medicare tax withheld \$725.00	
			7 Social security tips		8 Allocated tips	
d Control number			9		10 Dependent care benefits	
e Employee's first name and initial		Last name	Suff.	11 Nonqualified plans		12a
Ima B. Taxpayer 456 Main Street Philadelphia, PA 12345				13 Statutory employee Retirement plan Third-party sick day		12b
				14 Other		12c
						12d
f Employee's address and ZIP code						
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
PA	55-222222222	\$50,000.00	\$1,535.00	\$50,000.00	\$800.00	TGP

Form **W-2** Wage and Tax Statement
Copy 1—For State, City, or Local Tax Department

2020

Department of the Treasury—Internal Revenue Service

1099INT/DIV

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112 2020 Form 1099-INT		Interest Income
		1 Interest income \$	2 Early withdrawal penalty \$		
PAYER'S TIN	RECIPIENT'S TIN	3 Interest on U.S. Savings Bonds and Treas. obligations \$		Copy B For Recipient	This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$	5 Investment expenses \$		
FATCA filing requirement <input type="checkbox"/>		6 Foreign tax paid \$	7 Foreign country or U.S. possession		
		8 Tax-exempt interest \$	9 Specified private activity bond interest \$		
Account number (see instructions)		10 Market discount \$	11 Bond premium \$		
		12 Bond premium on Treasury obligations \$	13 Bond premium on tax-exempt bond \$		
14 Tax-exempt and tax credit bond CUSIP no.		15 State	16 State identification no.	17 State tax withheld \$	

Form **1099-INT**

(keep for your records)

www.irs.gov/Form1099INT

Department of the Treasury - Internal Revenue Service

1099MISC

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents \$	2 Royalties \$	3 Other income \$	4 Federal income tax withheld \$	OMB No. 1545-0115 2019 Form 1099-MISC	Miscellaneous Income
		PAYER'S TIN	RECIPIENT'S TIN	5 Fishing boat proceeds \$	6 Medical and health care payments \$		
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		7 Nonemployee compensation \$	8 Substitute payments in lieu of dividends or interest \$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds \$	This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	11	12	13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$		
15a Section 409A deferrals \$	15b Section 409A income \$	16 State tax withheld \$	17 State/Payer's state no.	18 State income \$			

Comparative summary

Description	USA	India
Year followed	1st Jan- 31st Dec	1st Apr -31st Mar
Date of filing for Individual	15th April/ 15 th March	31st July
Income Tax return form for Individual	1040	ITR-1/2/3/4
Unique Identity number	SSN (Social Security Number)	PAN (Permanent Account Number)
Form received from Employer	W2	Form 16
Form received for income other than Salary	1099	Form 16A
Tax calculation structure	Income	Income
	Less : Deductions	Less : Deductions
	Less : Tax Credits	Less : TDS/ Payments
	Less : Withholdings/ Payments	
Extension available	Yes (6 months)	31 st Mar with late fees u/s 234F
Income Tax authority	IRS	Income Tax Dept
website	https://www.irs.gov/	https://incometaxindiaefiling.gov.in/
Filing status	Prepare & file jointly	Prepare & file separately

Summary

- Selecting Right kind of Entity is essential before incorporation
- Registered Agent is required for Incorporating a company
- Foreign owned company either prefer a C Corporation or a LLC.
- Companies having plan to grow or raise funds will prefer C Corporation
- Income tax is charged at Federal and State level (except 7 states)
- Individuals can file Income tax jointly or separately
- Proprietor will file the business tax return information in their personal tax return
- Partnerships and Small corporation returns are pass through entity and the return is an information return
- Share of profit from Small corporation is taxable in Individual shareholder/partners' hands
- Corporation pays taxes at 21%
- Sales tax is a state levy and tax rates varies in state to state
- Social security is tax for paying benefits on retirement. It is taxed at 6.2% of Salary or Self employed Income (net income from proprietorship)
- US Citizens and Residents have to report foreign bank account and Investment held separately

Tax Compliance for Foreign Residents

Tax Compliance for Foreign Residents

Foreign Bank Account Reporting – FBAR form 114

The FBAR is an annual form submitted to Department of Treasury that discloses

- The bank account held by US citizen or Residents in Foreign country
- Type of Account
- Account number
- Maximum balance held during the year

This has to be reported if at any time during the year the amount in foreign bank has been more than \$10000

Due date for filing FBAR is 30th June of every year

Tax Compliance for Foreign Residents

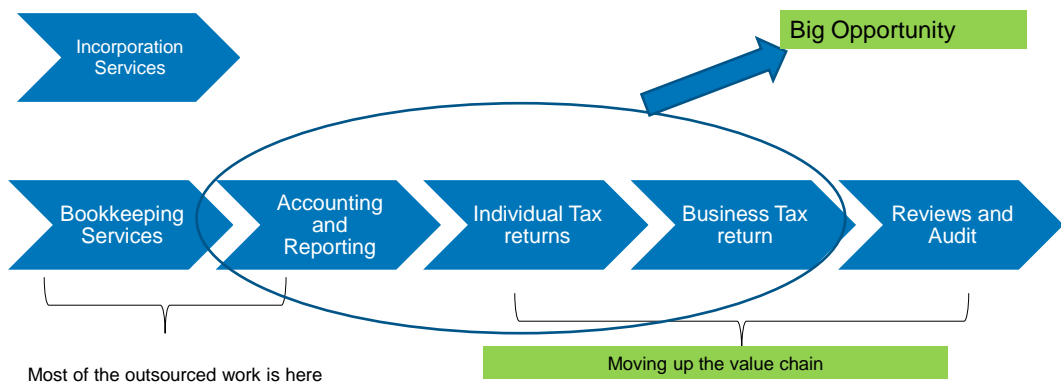
Passive Foreign Investment Compliance(PFIC) – Form 8621

This is an annual form to be submitted by US resident or Citizen who is a direct or Indirect shareholder of a foreign corporation

- Name of the Investment/Company or Fund
- Net Asset Value at the beginning of the year
- Net Asset Value at the end of the year
- Realized Gain/Loss during the year
- Unrealized Gain/Loss during the year

Due date of Filing this form is 15th April and it has to be filed along with Income tax return. This year it is 15th July 2020

Opportunities ahead in USA





Questions?

Thank you

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