

## **Business Entities Employer Identification Number**

An employer Identification Number (EIN) is required for the following entities:

1. Reporting employment taxes and excise taxes.
2. A partnership.
3. A corporation.
4. Limited Liability Company (LLC).
5. A trust or an estate.
6. An employee plan.
7. An exempt organization.

***How to apply for an EIN.*** A taxpayer (T/P) can apply for an EIN by telephone, fax, mail or internet.

***Form SS-4.*** Use Form SS-4, Application for Employer Identification Number, to apply for an EIN.

## Business Entities

### Sole Proprietorship

**Definition.** A sole proprietorship is an unincorporated business that is owned by one individual. The business is not a separate entity apart from its owner. Its liabilities are personal liabilities and the owner undertakes the risk of the business for all assets owned, whether or not used in the business.

**Reporting requirements.** Business profits or losses of a sole proprietorship are reported on Schedule C, or C-EZ of Form 1040. A sole proprietor may also be required to file other returns (such as employment or excise tax returns).

**Employer identification number (EIN).** A sole proprietorship does not need a separate EIN, unless required to file employment or excise tax returns.

**New EIN required.** A sole proprietor will need a new EIN if any of the following are true:

- ▶ Filing for bankruptcy under Chapter 7 (liquidation) or Chapter 11 (reorganization).
- ▶ Incorporating.
- ▶ A sole proprietor that takes in partners and operate as a partnership.
- ▶ Establishing a pension, profit sharing, or retirement plan.

**New EIN not required.** A sole proprietor will not need a new EIN if any of the following are true:

- ▶ Change the name of the business.
- ▶ Change location or add locations.
- ▶ Operating multiple businesses.

## Business Entities

### Partnership

**Definition.** A partnership is the relationship between two or more persons who join together to carry on a trade or business. Each partner contributes money, property, labor or skill, and expects to share in the profits and losses of the business. An unincorporated organization with two or more members is generally classified as a partnership for federal tax purposes if its members carry on a trade, business, financial operation, or venture and divide its profits. Partners in a partnership are personally liable for its debts. A qualified joint venture conducted by a husband and wife who file a joint return is not rated as a partnership for federal tax purposes. A qualified joint venture, for purposes of this provision, includes only businesses that are owned and operated by spouses as co-owners, and not in the name of a state law entity (including a general or limited liability company). A partnership must file an annual information return to report the income, deductions, gains, losses, etc., from its operations, but it does not pay income tax. Instead, it “passes through” any profits or losses to its partners. Each partner includes his or her share of the partnership's items on his or her tax return.

**Reporting requirements.** A partnership files Form 1065, U.S. Return of Partnership Income, plus other returns that apply (such as employment or excise tax returns). The partnership is required to send a copy of Schedule K-1 (Form 1065) to each partner showing each partner's share of the partnership's income, gain, loss, deductions, and credits for the tax year.

**Employer identification number (EIN).** A partnership is required to obtain an EIN.

## Business Entities Partnership

***New EIN required.*** A partnership will need a new EIN if any of the following are true:

- ▶ Incorporating.
- ▶ One partner takes over and operates as a sole proprietorship.
- ▶ The partnership is terminated and a new partnership is begun.

***New EIN not required.*** A partnership will not need a new EIN if any of the following are true:

- ▶ The partnership declares bankruptcy. However, if a liquidating trust is established for a partnership that is in bankruptcy, an EIN for that trust is required.
- ▶ The partnership name changes.
- ▶ Change location or add locations.
- ▶ The partnership terminates under IRC Section 708(b)(1)(B). A partnership shall be considered terminated if within a 12-month period there is a sale or exchange of at least 50% of the total interest in partnership capital and profits to another partner. If the purchaser and remaining partners immediately contribute the properties to a new partnership, they can retain the old partnership EIN.

## **Business Entities**

### **C Corporation**

**Definition.** A corporation is defined as a legal entity or structure created under the authority of the laws of a state consisting of a person, or group of persons, who become shareholders. The entity's existence is considered separate and distinct from that of its members. Since a corporation is an entity in its own right, it is liable for its own debts and obligations. In forming a corporation, prospective shareholders transfer money, property, or both, for the corporation's capital stock. A corporation generally takes the same deductions as a sole proprietorship to figure its taxable income. A corporation can also take special deductions. The profit of a corporation is taxed to the corporation when earned, and then is taxed to the shareholders when distributed as dividends (double taxation). However, shareholders cannot deduct any loss of the corporation.

**Reporting requirements.** C Corporations usually file a Form 1120 series return, plus other returns that apply (such as employment or excise tax returns).

**Employer identification number (EIN).** A corporation is required to obtain an EIN.