

Small Businesses Pay Taxes With Credit

NEW YORK -- Patricia Harris says it was bad planning that prompted her husband to pay his business taxes with a credit card. He is hardly alone.

"It is happening more to micro- and small-business owners because they don't always have the foresight to plan a year in advance," said Harris, the executive director and chief executive of The Edge Connection, a business center at the Coles College of Business at Kennesaw State University in Georgia.

Small businesses are having a love affair with credit cards, and paying tax on plastic is the latest phase. It's a worrisome trend, according to some, though credit card companies and some analysts say the practice helps owners better control cash flow. Cards loom ever larger in the world of small business, partly because the rise of credit scoring has made it harder to get bank loans.

Credit-card spending on tax payments and preparation by small businesses increased a staggering 80 percent over the past year, according to a new study by Visa USA.

Tax-related transactions averaged three times the size of other purchases on Visa business cards for the 12 months that ended February 2007, according to the report, which analyzed actual spending. It will be published quarterly, starting last week.

Paying tax on credit is a bad idea for businesses, said Joe Astrachan, director of the Cox Family Enterprise Center, also at Kennesaw State University, and editor of the Family Business Review. Interest on a credit card is likely to be higher than penalties charged by the Internal Revenue Service when business owners are late with quarterly payments.

"What it says is a few things," said Astrachan. "That people don't like to pay taxes, and they don't prepare for paying taxes. People

think that taxes will magically disappear, but they don't."

Small-business owners and the self-employed generally pay quarterly estimated taxes on April 15, June 15, Sept. 15, and Jan. 15 (Dec. 15 if the business is incorporated).

Late penalties vary depending on how much a business underpays and how late the payments are received, according to IRS spokesman Eric Smith. They are based on an interest rate used by the agency, currently 8 percent, Smith said.

Paying tax on plastic may have some advantages, however, according to Gerri Detweiler, co-founder of businesscreditsuccess.com, a Web site for business owners who are trying to establish business credit.

"In one respect, it's better to owe the credit card company than the IRS," said Detweiler. "If you owe the IRS, you can end up with a tax lien."

A lien can come with very little notice and "it's a very big negative on your credit," said Detweiler.

Detweiler said that although the 8 percent interest rate used by the IRS is relatively low, some business credit cards offer even more attractive rates. Advanta Corp. and [American Express Co.](http://AmericanExpressCo.com) are among those that offer particularly good rates for small businesses, according to Curtis Arnold, founder of CardRatings.com.

The Advanta Platinum BusinessCard offers a zero percent annual percentage rate on balance transfers for 15 months, and a 7.99 percent variable APR on purchases. The American Express SimplyCash Business Card offers an introductory offer of zero percent APR on purchases for 12 months. The caveat is that the ongoing purchase APR _ while it can be as low as 8.25 percent _ can go as high as 18.24 percent, based on credit evaluation.

The average rate on business credit cards is 14.02 percent, according to CardRatings.com.

The IRS has allowed taxpayers to pay on credit for about a decade. In fact, it has partnered with credit card processors and tax preparation software developers to allow electronic payment. Businesses can use this option to make a credit card payment for past-due tax.

A number of states also accept credit cards payments for taxes owed.

"I'm not aware that states have done anything recently that would lead to a large increase in the volume of taxes paid by credit cards," said Harley Duncan, executive director of the Federation of

Tax Administrators.

Visa offers the Visa Business Credit Card and the Visa Signature Business Card, among others. It positions the cards as cash-management tools for small business owners, and recommends that "as much as possible small business payments should be settled through Visa Business cards," said Raghav Lal, senior vice president of small business for Visa USA.

"We believe it provides them (owners) with fundamentally greater efficiencies than checks or cash," Lal added.

Cash flow is a huge concern for small businesses. A business with a towering stack of accounts receivable may have to wait between 90 and 120 days to get paid, said Harris, whose husband Cozell runs Cozell Harris Consulting Inc., which focuses on the topic of fatherhood.

"If it takes you that long to turn over cash in your business, what are you going to do?" said Harris. "You're going to use your credit cards."

Stop before going that route, she said. Instead, seek out a group that educates small business owners on cash flow and other topics, such as The Association for Enterprise Opportunity.

Harris said her husband would have benefited from a little bit of strategic advice on cash flow and taxes could have helped prevent having to charge it.

"Perhaps," she said, "he should have figured out at the beginning of the year how many contracts he would get."