Six Common and Costly Mistakes Small Businesses Make

Making tax mistakes can be costly especially for small business. Below are six common mistakes to avoid preventing the IRS from knocking at your door:

1. **Doing It Yourself** - Unless you are a CPA or experienced bookkeeper it is worth the extra expense of hiring someone who knows what they are doing. Save yourself the stress, time and headache (not to mention the potential of what it would cost you if you did make a mistake) of trying to figure it out on your own. Professional bookkeepers have the knowledge and experience to do it rights the first time and will, in the long run, save valuable time and money.
2. **Mixing Personal and Business Expenses** - Open a separate bank account for the business. Many small business owners operate out of their personal bank accounts making purchases that are used for both business and personal purposes. This practice gets unwanted attention from the IRS, who is particularly interested in ensuring that only business-related expenses get deducted for tax purposes. Having a separate business account makes it easier to keep the detailed records necessary for your business purchases.
3. **Not Reporting Barter Transactions** - Providing goods or services in exchange for other goods or services is a common practice among neighbors, friends, and family and in most cases are not taxable transactions. For example you help your elderly neighbor mow his lawn and in exchange he takes care of your dog while you go on vacation. This is not a taxable transaction. However, if you own a lawn maintenance business it likely is a taxable transaction and must be treated as taxable business income because the barter performed is related to your business. In the case of lawn mowing in exchange for dog sitting, the taxes are valued at the cost of what is being received (dog sitting services) and added to the revenue figures on your tax return.
4. **Getting Behind on Payroll or Sales Tax Remittances** - Using monies collected from payroll and sales tax to temporarily support operations may seem like a tempting solution when cash-strapped. However, this can lead to filing returns late which will lead to penalty, interest, and late charges in extreme circumstances, not remitting collected taxes can lead to criminal charges. It is best to avoid the temptation all together by depositing payroll and sales tax payments in a separate bank account and pay them on time!
5. **Failing to Send 1099's** - If you paid an individual or partnership over $600, the IRS requires the 1099-Misc. form be included. A copy must be sent to the IRS as well. Services, rents, awards, prizes, and certain other payments fall under this category, however corporations generally do not. Check the IRS publication for 1099-Misc. forms for details on what payments are and are

not included. Payees must fill out a W-9 form, which is required to be kept on file. This form provides the payee's social security or taxpayer identification number. Payees must be provided their 1099 by January 31st and the IRS needs their copy by February 28th of the subsequent year. Penalties for not filing on time can be stiff and range from $30.00 to $250.00 for each 1099 you are required to send.

6. **Losing Track of Receipts** - You can't deduct what you can't prove, so stuffing receipts into your wallet or pants pocket, never to be seen again, is a costly practice. Turn in receipts on a regular basis to your bookkeeper to be entered into your bookkeeping software and filed away properly.

Overwhelming? Yes it can be, but paying attention to your business's tax situation can save the grief of an audit and a significant amount of money. If you are unsure about how to handle any of the tips discussed here contact your professional bookkeeper or CPA to get a handle on it right away.

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