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Filing income taxes is often a big struggle for small businesses

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NEW YORK — Income tax filing season is often a trying time for small-business owners, but the Internal Revenue Code is usually not the culprit — tax professionals say it's procrastination and poor record-keeping that causes most of the problems.

The owners who are frantic at tax time are often ones with very small companies and few or no employees, so they do everything themselves. They may have the best of intentions, but they just don't get around to inputting income and expense data into the accounting programs in their PCs because they're so busy working with customers or coming up with new products or services. Or, they never bother to learn tax and accounting basics that are critical for keeping their companies healthy.

There can be painful consequences when owners don't maintain good records and don't have a rudimentary knowledge of tax law. At the very least, they can miss out on important deductions or tax credits, and end up paying the government more than they need to. Much worse is the very real possibility that their neglect leaves them without cash on hand to pay their tax bills.

Computer programs make it easier for an owner to keep a good set of books, but they do require some vigilance.

"They have the electronic thing, but they don't use it enough. They don't keep it up to date," said Stephen Fishman, an attorney in San Francisco who writes books about small business and tax law. "You have to input the financial information, it won't do it itself."

For the time-pressed or disorganized owner, the solution is to get some help.

"Just outsource the bookkeeping function," said Jeffrey Berdahl, a certified public accountant with Berdahl & Co. in Center Valley, Pa. "There are a lot of competent bookkeepers out there that you can trust."

Many business owners will shy away from the expense of hiring a bookkeeper or bookkeeping service, although as Berdahl pointed out, it's much cheaper than hiring an accountant. And, if a company's books are in chaos or the owner finds there isn't enough cash to pay the government, the business could be losing more money than it would cost to get some outside help.

Berdahl also suggested an owner hire an outside firm to customize a standard accounting program so it's more suited to a particular small business. The cost shouldn't be exorbitant, probably several hundred dollars.

Owners also need to have some knowledge of tax law — not necessarily as much as a CPA knows, but enough so they don't end up with very big and very unpleasant surprises.

"Just understanding how the tax law works is a big issue for a lot of people," said Joseph Maloney, a certified public accountant with Maloney Reed Scarpitti & Co. LLP in Erie, Pa.

He noted, for example, that many owners are surprised to learn that although they haven't yet been paid for work done or products delivered, they still owe taxes on the income they've earned. In other words, they're being taxed on their receivables, and if they haven't set aside money for that liability, they could be scrambling for cash to pay the government.

Another example from Fishman: "If you're self-employed and you pay estimated tax, if you haven't paid enough you could have a substantial tax bill April 15."

Disorganization and poorly kept books are frequently accompanied by poor cash flow and in turn, not enough money for that tax bill. That's a particularly unnerving proposition given the difficult lending environment right now.