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Small Firms Reach for Plastic to Pay IRS

By ARDEN DALE

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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 Ms. 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 embracing credit cards, and paying taxes is the latest phase. It is 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% over the year to February, 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, 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 Mr. Astrachan. "That people don't like to pay taxes, and they don't prepare for paying taxes."

Small-business owners and the self-employed generally pay quarterly estimated taxes on April 15, June 15, Sept. 15 and Jan. 15 -- or 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%, Mr. 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," she said. "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 Ms. Detweiler.