

Small Business - Using a Credit Card For Tax Payments

Since 1999 individuals can pay their taxes by credit card, and so can small businesses. But should they? The question applies not just to annual income tax bills but also to quarterly payroll and federal unemployment taxes too.

This may make sense if your business is seasonal or for any other reason will be better able to make the tax payment a month or two down the road than it is now. And you will be able to split it up into several payments, although obviously this leads to having to pay finance charges too.

If you want to use this option there are two companies that can process these card payments for you, either through their web sites or over the phone.

- Officialpayments.com
- Link2gov.com

Both these companies charge a 2.49% convenience fee that is added onto the credit-card bill. So that \$5,000 tax payment actually becomes about \$5,125. These fees are normally deductible as a business expense on the following year's tax return. They just have to meet the same test as any other expense – they must be ordinary and necessary.

Generally speaking small businesses should be wary of accumulating credit card debt to pay their taxes. The fees involved are relatively high.

On the other hand if it comes down to owing the government and owing the bank, choose the bank, because the IRS charges harsh penalties on late payments and returns, and it could potentially damage your business by tactics such as placing a lien on your assets if you're delinquent.