

The Tax Connection: Small Businesses and Tax Time

I'm sure you've heard the daunting statistics that only 1 out of every 5 businesses makes it to their 5th year. But do you know why this is true?

While I can only speculate, I have heard one of the biggest reasons for business bankruptcy is taxes.

The problem is a cyclic one. The owner starts making money hand over fist, and of course, spends it just as quickly. Money comes in and goes right back out. Sure, putting money back into your business is necessary, but you must manage your spending wisely.

Remember, the U.S. government takes about one-quarter to one-third of our income. Plant that firmly in your mind! As a self-employed individual living in the U.S., it will probably be closer to one-third. So it might be best to just set aside one-third of your income for the tax man. If it turns out it's a little less, then you'll have some extra cash.

In other countries, this number may actually go up to as much as one-half to two-thirds of your total income. Isn't that why we all love socialist economies?

All joking aside, the point is, if you spend everything you have, you will not be able to pay your taxes come tax time. Obviously, you don't want to get yourself in the position where you owe \$10,000 or more (especially if you already spent your profits) all at once.

The best way to avoid this frightening situation is to spread your tax payments out. Monthly is best, but quarterly is a great start. A good accountant will be able to help you estimate what to pay based on what you're earning. That way, your taxes are spread out evenly throughout the year.

So remember to factor your taxes into your overall financial situation before it's too late!

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About the Author

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