

## Start Now to Make Tax Time Less Taxing!

By Kristin Morrison, San Rafael, California

Have you made your latest quarterly IRS payment yet?

I don't usually bare my own personal tax information to the general pet sitting public but the more I've been talking to pet sitters recently the more I am aware that pet sitters really need to be informed about taxes which makes me willing to reveal my own tax mistakes and solutions. It's my hope that if you are one of those pet sitters who avoids the subject of taxes (even to the point of wanting to stop reading this article right now!) that you will continue reading and learn from my own tax experience.

When I first started my pet sitting business many years ago I had another job that was my main source of income while I started pet sitting. That job helped me get on my feet until I could do the pet sitting business full-time. For the first couple of years I didn't make a lot in my pet sitting business so I didn't have to pay a lot (if anything) in taxes.

The year after I began running my business full-time I was in for a rude awakening! I hadn't paid any estimated taxes and so on April 15 I ended up owing the government over \$8,000 for the prior year's taxes. Ouch.

Since I didn't have any money in savings I ended up doing a payment plan with the IRS which resulted in the original \$8,000 tax bill ballooning to over \$16,000 over the course of the few years that it took to pay it off. Let me share a little known fact about the IRS: when you do a payment plan through the IRS (which sounds lovely, doesn't it?) you get charged huge amounts of compound interest and penalties even if you are now paying your late taxes in a timely manner with a payment plan.

Having this \$16,000 tax debt felt like my business was sinking fast—if my business was a boat then the IRS tax debt was an ever-growing hole in the boat. Just as quickly as I was scooping water out of the boat, twice as much water was coming in (that's compound interest for you).

Through the process of incurring my tax debt in my business I learned 5 important things that I'd like to share with you:

- 1. Get a good accountant.** Preferably someone that works with small businesses and who will be able to point out all of the intricate deductions and expenses that a small business owner can take. Having a good accountant will cost you more money but will save you thousands of dollars each year.

How to find a good accountant? Ask other business owners or friends for a referral. Or look in the phone book and 'interview' accountants over the phone. Don't be afraid to ask for references that you can call if you are picking this person out randomly from the phone book.

I encourage you to find an accountant that is not just a numbers person but also a "people person". It's best to find someone you can really converse with about your pet sitting business and who will give you tips for saving money and running a more effective business. Remember: most accountants deal with small businesses daily. They are often a wealth of information about how best to run your business. You want to find someone with whom you can relate and with whom you feel can guide you in maintaining a prosperous and solvent business in addition to completing your tax forms.

When you find the right accountant set up an appointment as soon as possible! Commit to a date by which you will interview accountants and get going on it. April 1<sup>st</sup> is when a lot of pet sitters suddenly remember that tax time is coming and it is NOT a good time to start interviewing.

**2. Starting today, save as much money as you can and put it away in a designated savings account so that you will at least have something you can send to the IRS by April 15, 2009.**

I hear from some pet sitters that they are not making enough to for daily expenses so how can they pay taxes? Look, if you had a car repair bill or an emergency dental procedure that needed to happen you'd find the money, right? Any timely payment to the IRS is better than nothing. Make a firm commitment to yourself that 15-20% of all income earned from clients between now and April 15 goes into a tax savings account (you can open a free checking account at a lot of banks).

If you are better at saving money in the short term then you'll find it easier to figure out how much each quarter's tax payments need to be in order to be current with the IRS. My tax payments end up being roughly \$3,000 a quarter so I save \$1,000 month toward taxes each month in order to send a timely payment each quarter.

If you find yourself spending your tax money then I would encourage you to send it monthly! Simply make copies of your payment coupons to the IRS and send a third of your quarterly payment each month. Putting an envelope addressed to the IRS with your monthly bills will help you remember to send your payment on time and to budget for it each month.

**3. Be diligent about writing down every business expense and record it in a computer program like Quicken or Quickbooks.** I've used both software systems and Quicken seems to be easier to use for first time record-keepers. If you need someone to train you simply put an ad on Craigslist.org to find someone to train you on Quickbooks or Quicken.

**4. Record daily business expenses as you make a business purchase or write a check.** I keep a small notebook in my purse and *every* amount I spend on the business (staff checks, office supplies, etc) gets written in this book immediately after I've written the check. At the end of the month I enter all my expenses in Quicken and tally it up at the end of the year for easy tax preparation. Tax time can be stressful enough; having my expense records already itemized at the end of each calendar year makes taxes much easier.

**5. If you owe an amount you cannot pay to the IRS do everything you can to avoid a payment plan with the IRS.** Remember what I said above: my tax payment of \$8,000 ballooned to a hefty \$16,000 in only a few years because I had a payment plan with the IRS. The IRS charges extremely high interest *and* late payment fees (if you are on a payment plan you are already considered a late payee so you get penalized twice with high interest!)

If you have good credit you can put the amount on a credit card and then move the tax balance to a 0% credit card for 12-18 months (depending upon the terms). There was a balance-transfer fee (2.5% of the balance I transferred) when I used the Advanta 0% interest credit card for my tax debt but it was worth it because helped me pay down the \$16,000 balance so it didn't cost me even more in interest in the long run! If it will take you longer than the 12-18 month 0% grace period to pay off the balance be sure to move to another 0% credit card a month before the introductory rate ends...otherwise you are back where you started--incurring even more debt.

No one likes dealing with taxes but good preparation this year can help you have a more sane and relaxed tax experience next year.

*Kristin Morrison is a pet sitting business owner and business coach for pet sitters. Kristin is a firm believer in working smarter (not harder) and has created a six-figure pet sitting business while working three days a week. She coaches other pet sitting business owners on the fine art of creating a successful pet sitting business while maintaining a fun and successful life. You can email Kristin at:*  
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