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# AccountAbility

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## Don't Violate the Corporate Veil — by Diane DeClercq

Do you ever use your business bank account or credit card to pay a personal expense? Perhaps you have a personal bill due tomorrow and to save time, you pay your home mortgage or utility bill from the business account. Or, while shopping at Costco for the business you throw in one or two great deals for your home. Is this OK?

Like many tax questions, the answer is "it depends." It depends on what kind of legal entity you own.

If you are a **sole proprietor**, as far as the IRS is concerned, it doesn't matter if you pay personal expenses out of your business account. For tax purposes, even though you report your business on a separate form (Schedule C), there really is no legal difference between you and the business. However, you must make sure that only the business expense portion of that Costco receipt is claimed as a business expense on your Schedule C.

If you are a **corporation**, things get a little trickier. If you are a **C Corp.**, and use the business account for paying personal expenses, you are essentially distributing the profits of the corporation on behalf of a shareholder. This requires that you issue a Form 1099-DIV at the end of the year for all such profit distributions.

If you are an **S Corp.**, these pay-

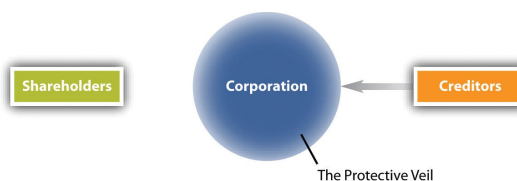
ments would also be considered a distribution of profit, even though a Form 1099-DIV is not usually issued for such a transaction. In an S Corp., the shareholder must report his/her share of the profit on his personal return, whether or not the profit is distributed via cash payments or payment of personal expenses.

The biggest problem with paying personal expenses out of a business account in a corporation is that you are not acting like a corporation. A corporation is a separate legal entity. Therefore, it really should not be paying the personal expenses of the shareholders. If legal action is taken against the corporation and these payments are discovered, one could easily point to these payments as proof that this corporation is not really a corporation. You would then lose the benefit of limited liability. This is known as "piercing the corporate veil".

business credit card to pay for the groceries does not turn that expense into a deductible business expense. It can, in fact, cause nightmares for your bookkeeper or accountant who will be trying to sort it out when reconciling or preparing tax returns.

If you own a business, why not run it like a business? Does Microsoft pay the personal expenses of Bill Gates? Keep your books clean and you will find you get far better data to help you manage your business.

In a sole proprietorship, if you need to withdraw money from the business to pay personal bills, transfer the money to your personal account first and then pay the bills from the personal account. In a corporation issue yourself a paycheck or a dividend withdrawal check. Avoid "piercing the corporate veil" and muddying the waters by treating your corporate account like it's your own personal expense account.



Regardless of the legal consequences, you cannot treat personal expenditures as a business expense, no matter what kind of legal entity you own. Just because you write a business check or use a

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