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The High Cost of Skimming

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For the purpose of this article, skimming will be defined as the practice of not reporting all income, or reporting expenses that do not relate to the business, on your tax return.

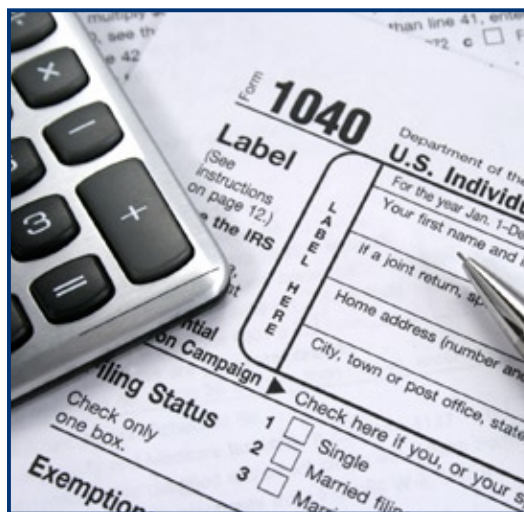
Morals, ethics, and the law aside, skimming is just bad business. Let's repeat: Morals, ethics, and the law aside, skimming is just bad business.

I know the argument and twisted thinking behind the practice. It's simple- if you don't report the income, you don't have to pay taxes on it. Conversely, if you can hide outside expenses into the business, it again lowers the taxes you pay. Well, let me tell you how that backfires in the day to day world I'm exposed to.

You know the expression "tell it to the judge"? Well, I change that a little to "tell it to the banker". If you're selling a business, the banks want to see the tax returns, and will base part of their lending decision on the bottom line. The scenario goes like this: Not enough income, not a big enough loan. Thus, not a big enough selling price for

you, the seller. Or worse, the deal is just turned down, and there is no sale.

Along the same lines, I have seen businesses go on the market because they needed capital to remain open and couldn't receive any based on their tax returns.



They were forced to sell at a huge discount, at a desperation price, because all of their options had run out.

Sometimes, I have seen this go to the ridiculous. I have seen tax returns that under report and over expense so much that the bottom line is seriously negative. Psssst... Here's the secret. You pay the same on zero income as you do on negative - \$75,000. Zero.

Ok, I know there are still some doubters, so here are the numbers. Say the business under reports for three years by \$15,000 per year, for a total of \$45,000. At a 30% tax bracket, that might be \$13,500 in taxes

not paid. At first, you can see why it's tempting. Now, let that additional \$15,000 go to the bottom line. That could make a difference of \$60,000+ in value when you go to sell the business. All of the sudden, the \$13,500 in taxes not paid doesn't look like such a good deal, does it?

One final point. I have also often found that people who skim, don't skim as much as they think they do. So perhaps the business is not doing so well, because its **not** doing so well. In the back of their mind, they think it's because of the skim. As the saying goes... they are only kidding themselves.

So one last time: Morals, ethics, and the law aside, skimming is just bad business.

Welcome



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