

# Should You Pay Personal Expenses From Your Business Account?

Do you ever use your business bank account to pay personal expenses? Perhaps you've got some bills due tomorrow and to save time, you pay the mortgage or the electric bill right from the business account. Is that OK? This article will answer that question.

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 really matter whether you pay personal expenses out of the 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.

If you are a corporation, things get a little trickier. If you are a C Corporation, what you are doing is distributing the profits of the corporation on behalf of a shareholder, which will require that you issue a Form 1099-DIV at the end of the year for all such profit distributions.

If you are an S Corporation, such payments would also be considered a distribution of profit, even though S Corporations don't usually issue a Form 1099-DIV for such a transaction. In an S Corporation, the shareholder must report his/her share of the profit on his personal return anyway, whether or not the profit is distributed via cash payments or payments of personal expenses.

The biggest problem with doing this in a corporation is that you are not acting like a corporation. A corporation is a separate legal entity. And therefore, it really should not be paying the personal expenses of the shareholders. Should someone take legal action against the corporation, and this type of activity is discovered, someone could easily point to these personal payments as proof that this so-called corporation is not really a corporation, and you would then lose the benefit of limited liability. This is known as "piercing the corporate veil" and you definitely don't want to go there.

Regardless of the legal consequences, also keep in mind that you cannot treat those personal expenditures as a business expense, no matter what kind of legal entity you own. So just because you happen to write a business check to pay for groceries doesn't turn that into a deductible business expense.

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. 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 write the check from there. In a corporation, issue yourself a paycheck or a dividend check, but don't muddy the waters by treating your corporate account like it's your own personal expense account.