



What are business deductions?

A quick guide for business owners

Business deductions are "**ordinary**" and "**necessary**" expenses needed to operate your businesses and make profit. An **ordinary expense** is common and accepted in your industry. A **necessary expense** is one that is helpful and appropriate for your business. For an expense to be considered a business deduction, it must be necessary for the business to exist or make profit.

TYPE OF DEDUCTIONS

ADVERTISING

Description: These expenses are incurred to promote a business, such as newspaper ads, flyers (including the cost of distributing them), television and radio promotions and business cards.

Examples: Newspaper Ads, Flyers (including the cost of distributing them), Television and Radio Promotions, Business Cards, Logo Design, Google Ads, Facebook Ads, Vehicle Wrap, Building a Website, Swag (Logo T-Shirts, Novelties, Pens, Koozies, Paper Pads, Flasks, etc.), Prizes for contests

COMMISSIONS AND FEES

Description: Referral fees or occasional amounts paid to individuals who are not employees or independent contractors may be deductible. This does not include commissions paid to employees, those would go under Wages and Salaries.

Examples: Sales Person or Firm, Affiliate Payments

CONTRACT LABOR

Description: Payments that are paid to independent contractors/subcontractors (non-employees) for services rendered are deductible.

Examples: Freelancers/Independent Contractors to support in areas you are not an expert, consultants, business coaches, virtual assistants

*Notes: Employees would be separate and recorded under Wages and Salaries. For contractors, remember to collect a W9 before you pay them and then send a 1099 at year-end if necessary.

EMPLOYEE BENEFIT PROGRAMS

Description: Contributions to employee benefit programs include those to education, recreation, health and welfare programs. Amounts paid by the business as employer contributions to a pension, profit-sharing, or annuity plan for employees are deductible.

Examples: Plan Design and Implementation Costs, and Employer Contributions to: Solo 401k, SEP IRA, Traditional 401, Health Reimbursement Plan, Health Savings Plan, Pension Plans

GIFTS

Description: The cost of business gifts to current or prospective customers is deductible up to a maximum of \$25 per customer per year.

Examples: Gift Cards to Stores or Restaurants, Flowers, Baskets

INSURANCE

Description: Premiums paid to protect the business against losses are deductible as an operating expense. Current or prior-year premiums may be deducted in the year paid for a cash-basis business

owner. Whether the cash or accrual method of accounting is used, advance payments may be deducted only in the year to which they apply.

Examples: Deductible Premiums Include: Fire, Theft, Flood, Merchant and Inventory, Credit, Public Liability, Workers Compensation, Business Interruption, Errors and Omissions, Disability (For Employees), Malpractice, Display Window and Product Liability, Health, Dental, Vision

INTEREST

Description: This is usually reported on a 1098 but all interest on business indebtedness for which the business owner did not receive a Form 1098 would also be included.

Examples: Mortgage, Credit Card/Finance Charges, Installment, Loan

Note: If the small business is located in the proprietor's home, the business portion of mortgage interest is not included here but is part of the business-use-of-home deduction. There are strict requirements on home offices; make sure you understand the restrictions.

LEGAL AND PROFESSIONAL SERVICES

Description: Costs for legal and professional services.

Examples: Attorney, Accountant, Tax Preparation, Architect, Branding Services

OFFICE EXPENSES

Description: Office expenses are the costs of consumable office supplies. If over a certain dollar amount you will want to capitalize and depreciate.

Examples: Pads, Pens, Pencils, Order Books, Receipt Books, Supplies for Equipment (Cash Registers, Computer, Copiers, Printers), Postage and Record Books, Related Supplies, Camera, Drone, Internet Hosting and Services, Postage, Safe, Software and Online Services, Video Equipment

RENT OR LEASE

Description: Rent or lease payments of business property are deductible in the tax year for which the rent is due.

Examples: Office, Storage, Shop, Postage Box, Equipment, Safety Deposit Box

REPAIRS AND MAINTENANCE

Description: Repairs and maintenance includes amounts necessary to maintain property in an ordinary, efficient operating condition. It is important to distinguish between repair expenses and improvement expenses because an improvement must be depreciated. A capital expenditure increases the value of the asset, the productivity of the asset, prolongs the asset's useful life, or adapts it to a different use.

Examples: Labor, Supplies, Cost of Service Contractors, Cleaning, Janitorial

SUPPLIES

Description: Any supply items necessary to the proprietor's business are tax deductible.

Examples: Gift Wrapping, Materials, Cleaning or Maintenance Supplies, Maintenance of a Watchdog or Security System, Computer or Tech Supplies

TAXES AND LICENSES

Description: Licenses or taxes that are directly attributable to the trade or business are deductible.

Examples: Occupation License, Liquor License, Chauffeur License, Building License, Regulatory Fees, Real Estate on Business Property, State or Local Gross Income Tax, Personal Property Taxes on Business Items, Sales Tax, Compensating Use Taxes, Federal Highway Use, Payroll Note: Real estate taxes paid on a personal residence with a qualified home office are deducted as business-use-of-home expenses. If sales tax is collected from the buyer, the amount must be included in gross receipts. Sales taxes paid on supplies or depreciable property are added to the cost basis of the property.

PAYROLL TAXES

Description: Employment taxes that a business must pay on behalf of its employees are deductible.

Examples: Social Security Tax of 6.2% (2021 Employee Wage Max: \$142,800), Medicare Tax of 1.45%, Federal Unemployment Tax (FUTA) ranging from 0.8% to 6.2% up to \$7,000 per Employee, State Unemployment Tax which varies by state

TRAVEL

Description: Expenses incurred while you or your employees are away from home on business may be deductible. An individual is away from home if he or she is required to be away from his or her tax home substantially longer than for an ordinary day's work and he or she needs to get sleep or rest to meet the demands of the work while away from home. The tax home is the entire city or general area in which an individual regularly works, no matter where he or she lives.

Examples: Airplane, Train, Bus, Car or Truck, Local Transportation, Bus, Taxi, Limo, Uber, Lyft, Car Rental, Baggage, Shipping of Supplies or Display Materials, Lodging, Hotel, AirBnb, Tips While Traveling, Cleaning, Laundry, Telephone, Fax, Parking, Tolls

MEALS

Description: Starting in 2018, entertainment expenses are no longer deductible, but the meals around the entertainment can be expensed assuming the amount can be separated from the entertainment cost.

Dining with Others (Business Purpose): 50% Deductible

Travel Meals: 50% Deductible

Food in the Office: 50% Deductible

Office Company Parties, Picnics, Outings, etc. (More than 50% Non-Owners): 100% Deductible

Examples: Meeting w/ Current or Potential Client, Meeting w/ Employee, Employee Meals, Hosted Meetings (Chamber, BNI, Networking, etc), Year-End Parties, Food and Drinks at Golf Outing, Team Building Recreational Events, Meal at Country Club w/ Client, Cafeteria at Office, Meals Cooked in Hotel Room

Note: In 2021 and 2022 you can deduct 100% of food and beverage expenses from restaurants.

UTILITIES

Description: The utilities deduction includes charges on business property.

Examples: Electricity, Gas, Telephone, Water, Sewer, Garbage, Telephone (including taxes), Internet

WAGES AND SALARIES

Description: To be deductible, compensation must be an ordinary and necessary expense of carrying on the business, reasonable in amount, for personal services actually rendered, and actually paid or incurred during the tax year.

Examples: Gross Salaries, Wages, Other Compensation, Children on Payroll, Spouse on Payroll

BAD DEBTS

Description: Customer accounts receivable and notes receivable that are definitely known to be worthless are business bad debts and are deductible if the income was included in gross income. Generally, only accrual method business owners have a bad debt deduction. A cash method business owner is not entitled to claim a deduction for business bad debts because the sale was never included in income.

Examples: Client Not Paying You

START-UP EXPENSES

Description: When someone begins a start-up business, he or she often incurs expenses just to get the business up and running. As part of the American Jobs Creation Act, taxpayers can deduct up to \$5,000 of start-up costs and \$5,000 of organizational expenses incurred in the first year of their small business. Start-up expenses are the costs the business owner has for setting up an active trade or business. If these costs meet the following tests, they may be recovered through a process known as amortization.

Examples: Survey of Potential Markets, Analysis of Available Facilities/Labor/Supplies/etc., Advertisements for the Opening of the Business, Salaries and Wages for Trainee-Employee and their Instructors, Travel and other necessary cost for securing prospective distributors/suppliers/customers, fees for executives and consultants and other professional services.

Note: Start-up expenses do not include deductible interest, taxes, or research and experimental costs. Expenses not deductible within the first year can be amortized over 15 years.

AUTOMOBILE

Description: A business owner who uses his or her automobile or reimburses an employee for using an automobile has two methods available for claiming car and truck expenses. The two methods are **actual expenses** or the **optional method**.

Actual Expenses - A business owner who uses the actual expense method will claim the business portion of the actual expenses paid to run the vehicle. Actual expenses include the cost of gas, oil, insurance, tires, licenses, repairs, garage rent, and cleaning. If the car is rented, the lease or rent amount can also be a tax deduction (within limitations). If the business owner owns the car, he or she may claim a depreciation tax deduction.

Optional Method (Standard Mileage Rate) - The second method is known as the optional, or standard mileage rate, method. Business owners who own or lease their cars and who don't operate a fleet of vehicles for their businesses are eligible for this method.

The standard mileage rate for 2025 is 70 cents a mile. Business owners should take this into account when calculating their income and expenses or paying the expenses of employees.

Additional Expenses - The standard mileage rate is considered to cover most of the ordinary expenses listed under the actual method. However, certain expenses may be claimed using either method. These expenses include:

- Parking fees and tolls
- The business-use percentage of finance charges paid on the purchase of the vehicle.
- The business-use percentage of personal property taxes on the vehicle.

DEPRECIATION

Description: Depreciation is the annual tax deduction allowed to recover the cost or other basis of business property with a useful life of more than one year. Generally, assets placed in service after 1986 are depreciated using the Modified Accelerated Cost Recovery System, MACRS. The term "MACRS" essentially refers to two different depreciation systems, the General Depreciation System and the Alternative Depreciation System.

The General Depreciation System is the most common and applies the depreciation rate against the asset. The Alternative Depreciation System is different in that the depreciation is deducted over longer periods of time. This system is generally used for listed property where the business use drops to below 50 percent and for situations where the General Depreciation System cannot be applied. But it doesn't apply if the standard tax deduction is claimed.

Examples: Furniture or Fixtures, Equipment

OTHER EXPENSES

Description: These are expenses not listed above

Examples: included but not limited to Dues to Trade or Professional Organizations, Subscriptions to Publications (Newspapers/Magazines), Franchise Fees, Education & Training (Continuing education to maintain licensing or improve skills, education and training for employees), Bank Service Charges - Monthly Account Fees, Annual Credit Card Fees, Service Charge for Accepting Credit Cards aka Merchant Fees, Transactions Fees (Wire/ACH/etc.), Overdraft Fee

These are all expense categories that can be deducted from your business income. **If you are currently paying for any of these expenses from your after tax or W2 income, please schedule an appointment to see how we can shift personal expenses to business expenses.**



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