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Deductions Your Small Business Shouldn't Miss

Keep an eye out for these often-overlooked ways to cut your tax bill. It's very simple: the more tax deductions your business can legitimately take, the lower its taxable profit will be. And in that puts more money in your pocket at the end of the year.

When you're toting up your business's expenses at the end of the year, don't overlook these two dozen common business deductions and tax savings techniques.

1. **Vehicle Expenses**: Operating a car or truck is expensive. The good news is that if you use your car for business, or your business owns its own vehicle, you can deduct some of the costs of keeping it on the road. Mastering the rules of car expense deductions can be tricky, but well worth your while. There are two methods of claiming expenses: You can either keep track of and deduct all your actual business-related expenses, or use business mileage app or records to deduct costs at the standard mileage rate (54.5 cents for 2018). As a rule, if you use a newer car primarily for business, the actual expense method provides a larger deduction at tax time. If your auto is used for both business and pleasure, only the business portion produces a tax deduction. That means you must keep track of just how the  vehicle is used, and add it all up at the end of the year. Certainly, if you own just one car or truck, no IRS auditor will let you get away with claiming that 100% of its use is business related. For further guidance on this topic, see our related article at this link: [Vehicle Expense Deduction]
2. **Equipment Purchases**: Taxpayers purchasing equipment may make a "§179 election," which allows them to expense (i.e., currently deduct) otherwise depreciable business property, including computer software and qualified real property, even if you finance the purchase. This allows you to deduct the full expenditure up front, rather than slowly over several years. However, most vehicle purchases have restrictions on the amount you are able to deduct upon purchase.
3. **Expenses of Going into Business**: Once you're running a business, expenses such as advertising, utilities, office supplies and repairs can be deducted as business expenses. But not so before you open your doors for business. The costs of getting a business started are capital expenses. The first $5,000 of start-up costs may be deducted up front via an election, but the remaining must be deducted over the first five years you are in business. If you expect your business to make a profit immediately, you may be able to work around this rule by delaying paying some bills until after you're in business, or by doing a small amount of business just to get officially started. But if, like many businesses, you will suffer losses the first few years of operation, you might be better off taking the deduction over five years, so you'll have some profits to offset.

4. **Business Meals (not Entertaining)**: If you pick up the tab for meeting over a meal with present or prospective customers, you may deduct 50% of the cost if it is either "directly related" to the business, and business is discussed -- for example, a catered meeting at your office; or "associated with" the business, and the meal takes place immediately before or after a business discussion. Note, starting in 2018, the cost of treating business associates to an entertainment event are no longer deductible. On the restaurant receipt or bill, always make a note of the specific business purpose--for example, "Lunch with Kate Pryde of Marvel Manufacturing Co. to discuss widget contract."

5. **Using Your Personal Cell Phone for Business Calls**: Let's say you use around 30,000 minutes per year on your phone, for both personal and business reasons. You spend around 60 minutes a day on business calls for the average work week. That's around 15,600 minutes a year you will spend on business calls (60 minutes per day x 5 days x 52 weeks) -- over 50% of your total yearly phone minutes. Based on the figures in this scenario, you could deduct over 50% of total annual personal cell phone costs as a business expense. Recent tax law says you can estimate business usage and are not required to track every single business call you make. However, obtaining an itemized bill of a typical month can support your claim for business usage in the event of an audit. It would be smart to get a separate business number that routes to your phone, making incoming calls much easier to separate. Also, take care not to include charges for additional, personal use only phones on the plan.

6. **Self-Employed Health Insurance Premiums**: Self-employed individuals (including partners), as well as S Corporation shareholders are allowed to claim 100% of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses, and their dependents on page one, as an *above-the-line deduction* , without regard to the limitations of Schedule A itemized deductions and the general 7.5%-of-AGI floor limitation. Self Employed Health Insurance includes eligible long term health care premiums. There are some complexities to this so you should consult with us for details as well as refer to our article on the topic. Link: [Health Insurance for the Small Business Owner]

7. **Education Expenses**: You can deduct education expenses if they are related to your current business, trade or occupation, but you must follow strict rules. The expense must be to maintain or improve skills required in your present employment, be required by your employer or be a legal requirement of your job. The cost of education that qualifies you for a new job isn't deductible. You should note that "required" has been applied very leniently by the IRS such that a seminar on positive thinking was considered deductible when its purpose was to improve people skills.

8. **Legal and Professional Fees**: Fees you pay lawyers, tax professionals or consultants for services related to your business generally can be deducted in the year incurred. However, if the work clearly relates to future years, they must be deducted over the life of the benefit and if the work relates to personal or non-business investments, they are not deductible. If the fees relate to starting your business, see item 3 above regarding start-up costs. You may need to file a 1099-MISC showing the amount you paid to legal and professional advisors if you pay any of these individuals more than $600 in a calendar year.

9. **Travel**: When you travel for business, you can deduct many expenses, including the cost of plane fare, costs of operating your car, taxis, lodging, meals, shipping business materials, clothes cleaning, telephone calls, faxes and tips. What about combining business and pleasure? It's OK for domestic travel, as long as business is the primary purpose of the trip and any personal expenditures are not included. But if you take your family along, you can deduct only your expenses, just as if you had traveled alone. If you travel abroad primarily for business and include some pleasure, some costs will require an allocation between deductible and nondeductible portions.

10. **Interest:** If, like many folks, you use credit to finance some of your business purchases, the interest and carrying charges are fully tax-deductible. The same is true if you take out a personal loan and use the proceeds for your business. But be sure to keep good records showing that the money was really put into your business. Otherwise, if you're audited later, the interest expense deduction could be disallowed because it's considered a personal expense. On individual returns, the 2018 law changes reduced the cap on the combined primary and second homes loan amounts for the mortgage interest itemized deduction from $1 million to $750,000. Additionally, home equity debt is no longer tax deductible unless used to improve the home.

11. **Charitable Contributions:** If your business is a partnership, limited liability company or S corporation (a corporation that has chosen to be taxed like a partnership), your business can make a charitable contribution and pass the deduction through to you, to claim on your individual tax return. If you own a regular (C) corporation, the corporation can deduct the charitable contributions. If you've got some old computers or office furniture, giving it to a school or nonprofit organization can yield goodwill plus a tax benefit. But if the equipment has been fully depreciated (written off), you can't claim a deduction.

12. **Software:** As a general rule, software bought for business use must be depreciated over a 36-month period. But there are three important exceptions:

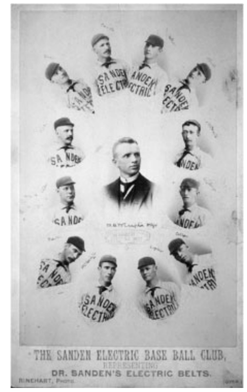
a. Software with a useful life of less than a year--and given the rapid change in technology, this could apply to a lot of programs--can be deducted as a business expense in the year you buy it.
b. When software comes with a computer, and its cost is not separately stated, it's treated as part of the hardware and is depreciated over five years.
c. You can write off software, including bundled software as part of a computer system, in the first year under a special depreciation provision.
d. If you subscribe to software used in your business it is deducted when paid or incurred unless the fee if for more than a year.
e. If you self-develop the software, you have the opportunity to either write it off as costs are incurred and paid or amortize it over three or five years.

13. **Taxes:** Taxes incurred in operating your business are generally deductible. How and when they are deducted depends on the type of tax.

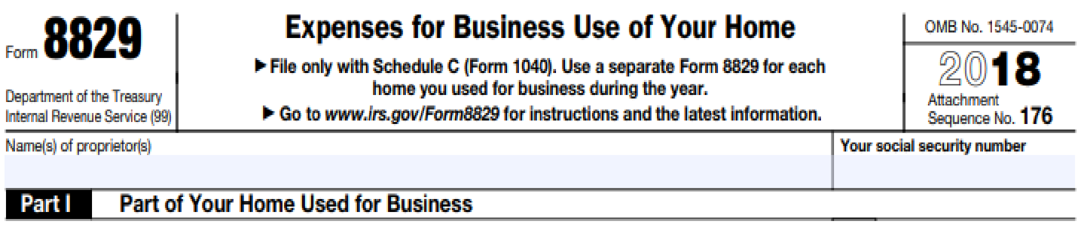
a. Sales tax on items you buy for your business's day-to-day operations is deductible as part of the cost of the items; it's not deducted separately. But tax on a big business asset, such as a car, must be added to the car's cost basis; it isn't all deductible in the year the car was bought. · Excise and fuel taxes are separately deductible expenses. If your business pays employment taxes, the employer's share is deductible as a business expense. Self-employment tax is paid by individuals, not their businesses, and so isn't a business expense.
b. Federal income tax paid on business income is never deductible. State income tax can be deducted on your personal return as an itemized deduction, not as a business expense.
c. Real estate tax on property used for business is deductible, along with any special local assessments for repairs or maintenance. If the assessment is for an improvement--for example, to build a sidewalk--it isn't immediately deductible; instead, it is deducted over a period of years.

14. **Contract Labor or Commissions:** Many small businesses use freelancers or independent contractors to meet their labor needs. The cost of such contract labor is deductible. Be sure to issue Form 1099-MISC to any such contractor receiving $600 or more from you in the year (if payment is made to the contractor via credit card or PayPal, it’s up to the processor to issue them Form 1099-K, but you may want to send your own 1099-MISC for personal protection).

15. **Advertising and Promotion**: The cost of ordinary advertising of your goods or services--business cards, print advertisements, banner ads, search engine optimization and so on--is deductible as a current expense. Promotional costs that create business goodwill--for example, sponsoring a peewee football team--are also deductible as long as there is a clear connection between the sponsorship and your business. For example, using the company name as part of the team name, such as the "Sanden Electric Base Ball Club" or listing the business name in the program is evidence of the promotion effort.



16. **Home Office Deduction**: For self-employed individuals, expenses attributable to using the home office as a business office are deductible if the home office is used regularly and exclusively in connection with a trade or business. If a taxpayer uses part of the home as a business office, determining the amount of any deduction available can be tricky but an IRS-provided safe harbor could be used to minimize audit risk. The home office deduction is not available for corporate or partnership tax returns. For further information, see our article on this topic at this link: [Qualifying for the Home Office Deduction]


Form 8829
Department of the Treasury
Internal Revenue Service (99)
Expenses for Business Use of Your Home
▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year.
▶ Go to www.irs.gov/Form8829 for instructions and the latest information.
OMB No. 1545-0074
2018
Attachment Sequence No. 176
Name(s) of proprietor(s)
Your social security number
Part I Part of Your Home Used for Business

17. **Inventories Subnormal Goods:** A business should check for subnormal goods in inventory. Subnormal goods are goods that are unsalable at normal prices or unusable in the normal way due to damage, imperfections, shop wear, changes of style, odd or broken lots, or other similar causes, including second-hand goods taken in exchange. If a business has subnormal inventory as of the end of a year, the taxpayer can take a deduction for any write-downs associated with that inventory provided they offer it for sale within 30 days of the inventory date. The inventory does not have to be sold within the 30-day timeframe.

18. **S Corporation Election:** For an otherwise eligible C corporation, consider whether an S corporation election would make sense. A detailed tax analysis needs to be prepared, which should include a comparative discounted after-tax, cash-flow analysis of C corporate status versus S status. The analysis would focus on the marginal and effective tax rates on corporate income under various scenarios as a C corporation and S corporation.

19. **Qualified Business Income Deduction**: Individual taxpayers with qualified business income (QBI) from a pass-through entity (partnership or S corporation) or a sole proprietorship may be entitled to a deduction equal to the lesser of 20% of the QBI or 20% of taxable income. However, if you are a taxpayer with a status of married filing jointly with income exceeding $315,000 or with any other filing status with income in excess of $157,500, some limitations may apply. If your taxable income exceeds these thresholds it is possible by means of detailed planning to restore much or all of this special small business deduction. Please alert us to your need if this is the case.

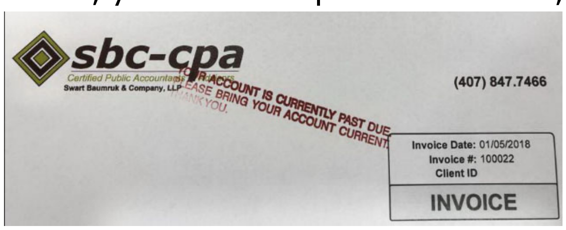
20. **SEP-IRAs, 401(k) Plans, and Roth Conversions:** Generally, these plans are applicable to self-employed individuals. The SEP-IRAs and 401(k) plan are deferral opportunities. The taxpayer maximizes contributions to these plans — $25,000 in 2019 for self-employed 401(k) if age 50 or older, and even more for the SEP-IRAs depending on self-employment income. The Roth conversion makes sense if the current year tax rate is lower (a conversion accelerates income) than the marginal rate when the principal is withdrawn.

21. **Health Reimbursement Arrangements:** Certain small employers that want to assist their employees in obtaining health insurance may choose to set up a qualified small employer health reimbursement arrangement. The QSEHRA, unlike other health reimbursement arrangements, is a tax-favored arrangement that is not considered a group health plan and does not expose the employer to excise taxes for not satisfying Affordable Care Act insurance market requirements. It's available to employers that have fewer than 50 full-time equivalent employees, do not offer any health plan, and meet other requirements.

22. **Tax deferrals using the cash basis of accounting** is possible for most small businesses. To accomplish this a business delays billings near the end of the year until the last business day and accelerates payments of invoices prior to the start of the following year to reduce current year receipts and increase current year deductions, thereby reducing cash-basis profit and the associated income tax liability. However, it is important to note that although delaying customer billings is fine, the IRS does not permit the holding of checks received and delaying the deposit until the subsequent year. If your business reports taxes on the accrual basis, starting in 2018 the IRS made it easier to switch to the cash basis, increasing the gross receipts threshold

from $10 million to $25 million; if switching from accrual to cash basis might benefit you, please give us a call.

23. **Bad Debts:** Conversely, if you use the accrual method, you can accelerate deductions into the current year by analyzing your business accounts receivable and writing off those receivables that are totally or partially worthless. By identifying specific bad debts, you should be entitled to a deduction. You may be able to complete this process after year-end if the write-off is reflected in the current year-end financial records. For non-business bad debts (such as uncollectible loans), the debts must be wholly worthless to be deductible, and will probably only be deductible as a capital loss. ALSO Bad Debts-If someone stiffs your business, the bad debt may or may not be deductible--it depends on the kind of product your business sells and the "basis" of accounting used in the business. If your business sells goods, you can deduct the cost of goods that you sell but aren't paid for. If, however, your business provides services, no deduction is allowed for time



you devoted to a client or customer who doesn't pay. The rationale behind this rule is that it would be too easy for businesses to inflate bills and claim large deductions for bad debts.

24. **Personal Assets Converted to Business Use:** If you have contributed personal assets, such as a computer, the fair market value of these assets qualify as a business deduction, subject to depreciation limitations, beginning with the date of conversion. Or In many cases when a person starts a business, he uses personal assets to get the business going. A great example of this would be using a computer bought with personal funds for business use. The fair market value of these converted assets can be a business deduction starting with the date of conversion.

25. **Petty cash expenses:** Petty cash is used to purchase the small items you pay cash for, like bagels for the office meeting or parking and tolls. Capturing these small expenses can add up to big tax savings. If you have a retail business, you may keep cash in a drawer to make change. If you have a non-retail business, you may have cash on hand to pay for small purchases. If you keep cash in the office, keep track of what you spend it on. In either case, the only way you can take tax deductions for these small expenditures is to keep good records of them. Create a log book and make sure everyone notes the time, date, amount, and what you bought. At the end of each month, add these small transactions to your accounting system. You'll be surprised at how quickly they add up!

More Easily Overlooked Business Expenses

Here are some additional routine deductions that many business owners miss. Keep your eye out for them.

- bank service charges
- business association dues
- business gifts ($25 deduction limit for each)
- business-related magazines and books
- casualty and theft losses
- clothing (specialty, not business attire that you can wear outside of work, such as non-uniforms or non-safety apparel)

- coffee and beverage service
- commissions
- consultant fees
- credit bureau fees
- credit card merchant fees
- educational material directly related to business skills, including books & audio material

- insurances (not life or disability)
- Internet hosting and services
- licenses and regulatory fees
- moving (business office, but no longer personal residence for business reasons)
- office supplies
- online computer services related to business
- parking and meters
- petty cash funds
- postage

- promotion and publicity
- rent on business property
- seminars and trade shows
- taxes (but not U.S. income taxes, nor any penalties or fines)
- taxi and bus fare
- telephone calls away from the business
- utilities for business property
- website design and maintenance

Note: Just because you didn't get a receipt doesn't mean you can't deduct the expense, so keep track of those small items and get big tax savings.

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Contact us to assist us with any of these business tax matters. You may call us at 407-847-7466 or email us at taxes@sbc-cpa.com.

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