

BUSINESS DEDUCTIONS

Ordinary and Necessary

Expenses may be deducted if they are ordinary and necessary.

- Ordinary- another company in the same line of business would likely have a similar expense.
- Necessary- the expense is needed in order for the business to operate.

Note: A business might have unique expenses not listed below. However, if the expenses are ordinary, reasonable, and a business necessity, they are generally deductible.

Common Business Deductions:

Car and Truck Expenses

- Standard Mileage Rate: (58.5¢ per mile from 1/1/22-6/30/22 and 62.5 from 7/1/22-12/31/22) this includes miles driven on business errands such as going to the bank, picking up office supplies, and going to the post office.
- OR-
- Business Use Percentage: The actual auto expenses incurred (gas, insurance, repairs, lease payments or finance charges, depreciation, etc.).

Insurance

- Insurance: Liability, malpractice, business overhead, worker's compensation, and other business-related insurance

Property, Plant, & Equipment

- Rent of equipment, storage space, and office space
- Equipment (including computers)
- Small tools and equipment
- Furniture and décor for the business office or home office
- Maintenance and repairs on equipment, office, or store space
- Depreciation on business furniture, equipment, and vehicles
- Depreciation on assets converted to business use from personal use.

Travel

- Travel for business, including costs to go to seminars and conferences.
- 100% deductible travel costs include hotels, airfare, taxis, car rentals, tips, etc.
- Temporary 100% deduction provides exception to the 50% limit on the amount that businesses can deduct for food and/or beverages provided by restaurants.

Note: Document travel meals separately in case it is more beneficial to use the per diem rate for meals rather than actual expenses.

Meals & Entertainment

- Meals including office meals for employees are 100% deductible.
- Company picnics, celebratory meals, and business-related holiday events for employees are deductible.
- Entertainment including but not limited to sporting event tickets & club memberships are **not** deductible.

Professional Fees

- Accounting, consultation, and bookkeeping fees (including costs for preparing the business portion of tax returns)
- Legal and professional fees

Home Office

Space in a house that is used regularly & exclusively to do the work for a business.

- Standard rate per square foot: Cannot exceed 300 square feet
-OR-
- Business Use Percentage: All related expenses (i.e. insurance, real estate tax, mortgage interest, rent, maintenance, etc.)

Note: Repairs in the office are "direct" expenses and fully deductible. The business percentage is based on the size of the office relative to the home's total square footage.

Payroll

- Wages, commissions, and salaries paid to employees
- Employee pensions and benefit programs
- Fringe benefits for employees
- Payroll taxes paid on behalf of employees but not the taxes withheld from employee's paychecks.

Office Expenses

- Computer supplies and repairs
- Dues, subscriptions, and fees
- Internet and email expenses used for business
- Office supplies
- Postage, delivery, and freight costs
- Printing, copying, and fax charges

Continuing Education

- Education, including seminars and conferences that increase knowledge and skills. However, a business deduction for the cost of education that prepares an individual for a new line of work or career is not deductible.

Gifts

- Gifts to business clients (up to \$25 per person per year is deductible)

Advertising

- Advertising and promotion, including contributions that result in publicity for the business

Financial Institution Fees

- Bank service charges and fees
- Credit card annual fees for cards used in the business. If a card is used partly for business and partly for personal expenses, pro-rate the fee accordingly.
- Interest on business credit cards and loans. As with credit card fees, interest on a card used for both personal and business expenses must be pro-rated. Documentation is required to prove the allocation.

Other

- Licenses and fees
- Magazines and books needed for the business. General circulation publications, including the local newspaper, are usually not deductible.
- Parking and tolls
- Subcontractors and consultants
- Taxes: Business and personal property tax on assets.
- Telephone expense
- Uniforms: unique, or special work clothing (i.e. steel-toed boots)
- Utilities

Note: All deductions must be substantiated with written records. Payments should be made by check, credit or debit card, or electronic funds transfer. Special record keeping requirements apply for travel, meals and entertainment expenses, gifts, and auto expenses.