

Maximizing Business Expenses: What You Can and Cannot Deduct

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All savvy business owners know how valuable deductions can be to their company's bottom line. Lower income generally means a lower tax bill, so it's important for entrepreneurs to maximize their business expenses to reap the benefits on their income tax return. Most expenses incurred as a cost of operating a business are deductible, but knowing which expenses you cannot deduct is crucial to keeping you out of hot water should you ever get audited.

Let's start with understanding how business expenses are defined according to the Internal Revenue Service. To be deductible, a business expense must be both "ordinary and necessary." An ordinary expense is one that is common and accepted in your industry, while a necessary expense must be considered helpful and appropriate for your business. There might be an expense that is ordinary and necessary for a manufacturer, but it might not be ordinary and necessary for a consultant. Do a gut check – if you can imagine sitting across from an IRS auditor, could you explain how a deduction would be ordinary and necessary for your business?



What Can You Deduct?

Here are some examples of expenses businesses often deducted. Contact your tax preparer to confirm for your specific situation.

Advertising	Interest	Postage
Accounting Fees	Janitorial	Printing
Auto Expenses – based upon percentage used for business	Legal Fees	Rent
Bank Charges	Licenses	Security
Business Gifts – has limitations	Meals – subject to limitations	Supplies
Continuing Education	Office Supplies	Telephone
Employee Benefits	Outside Services – contractors require 1099's	Travel: lodging, transportation
Entertainment – subject to limitations	Parking and Tolls	Utilities
Insurance: liability, workers comp, medical	Payroll Expenses	Website Expenses

What Can't You Deduct?

The following costs are off limits as a business expense deduction on your tax return:

- **Capital Costs** – You must capitalize (or depreciate), rather than deduct, some costs. These costs are a part of your investment in your business and are called capital expenses. Costs you capitalize include business start-up expenses, business assets and improvements.



- **Personal Expenses** – Generally, you can't deduct personal, living or family expenses. However, if you have an expense for something that is used partly for business and partly for personal purposes, you can deduct the business part.
- **Fines and Penalties** – You can't deduct the fine you paid for not estimating your taxes last year or underpayment penalties.
- **Political Contributions** – You can't deduct contributions your business made to a political party or a candidate. This includes lobbying or campaign event costs.
- **Hobby Losses** – These are expenses that create a loss in an activity that is not deemed to be a business. The IRS has guidelines on whether your activity can be considered a business.
- **Club Dues** – If you belong to a country club, social club, or fitness facility, your dues are not a deductible business expense. This is true even if you take clients or customers there.
- **Life Insurance** – insurance for owners can be limited or not deductible.
- **Commuting Costs** – The IRS says that traveling from home to work is not a deductible business expense. However, you can deduct travel for business from home to meet customers or travel between business locations.
- **Business Gifts Over \$25** – You can deduct no more than \$25 for business gifts you give directly or indirectly to any one person during the tax year, regardless of the purpose.
- **Business Clothing** – Costs of buying clothes to wear to work are not deductible. The only exclusion to this is expenses for uniforms. Basically, if you can wear it outside of work, it's not deductible.

Understanding what you can and can't deduct as an expense of your business can be overwhelming. Obviously each reader needs to consult with their tax professional regarding their specific situation. Admin Books is here to help you navigate through the confusion. Give us a call for guidance or assistance.