

Business Expenses Deduction List



Business Expenses Deduction List

How To Get Optimal Savings At Tax Time

Are you self-employed? Does tax time leave you feeling like a bear with a sore tooth? Do you feel like you're missing out on savings you *could* be using to help your business grow?

There's a good chance you're right.

From depreciation to insurance premiums, understanding which business expenses can be deducted—and, perhaps more importantly, those that can't—is essential to meeting your tax obligations and avoiding a costly run-in with the Internal Revenue Service (IRS). Working from a business expenses deduction list can help you capture easy-to-overlook small business tax deductions without crossing the line.

Why Using a Business Expenses Deduction List is Important

Whether they're doing business as head of a small company or taking on the business world as entrepreneurs, freelancers, or sole proprietors operating a limited liability corporation (LLC), small business owners sometimes struggle to secure optimal tax savings when filling out their tax returns.

Small business owners accumulate quite a few expenses while doing business, and often pay more taxes compared to those employed by others due to the self-employment tax, which includes Medicare and social security taxes. However, the IRS offers substantial opportunities to deduct a wide range of business expenses, often “dollar for dollar,” i.e. subtracting one dollar of taxable business income for every deductible dollar spent.

Because the IRS limits these write-offs to those business costs they deem “ordinary and necessary, it’s important for self-employed individuals to have a complete understanding of which expenses meet this requirement, and how they can claim the write-offs at tax time.

So what constitutes “ordinary and necessary”? The IRS says ordinary and necessary expenses are:

- Commonly incurred by other self-employed taxpayers working in a given industry. (Ordinary.)
- Required to do business. (Necessary.)

Common examples include office supplies and computer gear for a writer, or grass seed, herbicide, and gardening tools for a landscaper. Writers trying to claim a gold-plated collectible pen or landscapers who want to claim a flock of grass-trimming pygmy goats will likely run into trouble claiming them as a business expense on their income taxes. Generally speaking, if it’s a business expense that would likely be incurred by *anyone* working in your profession, the IRS will most likely (but not always) consider it deductible.

NOTE: *As with all financial and legal matters, always consult a professional when preparing your tax return and claiming deductible business expenses.*

The IRS offers small business owners substantial opportunities to deduct a wide range of business expenses, often “dollar for dollar,” i.e. subtracting one dollar of taxable business income for every deductible dollar spent.

Filing Your Taxes as a Small Business

Self-employed workers such as independent contractors, freelancers file their taxes using three forms (and, depending on their specific circumstances, perhaps

more):

- A 1099 tax form issued by the IRS. The 1099 is used to report all income generated outside of employment.
- A Schedule C (or Schedule C-EZ), which is used to record itemized business deductions.
- A 1040 (or 1040 EZ), which is the master tax return prepared with information from the 1099 and Schedule C.

The Most Common Small Business Tax Deductions

Regardless of industry, the most common and fully deductible business expenses claimed include:

- Accounting service fees
- Advertising, marketing, and product promotion costs
- Bank fees and interest paid on business loans
- Commissions and sales expenses
- Consultation service fees
- Continuing education expenses (including professional development)
- Contractor fees and labor costs
- Credit and collection fees
- Depreciation
- Delivery fees
- Dues, subscriptions, etc.
- Employee benefit programs
- Equipment rentals
- Factory (production) expenses
- Insurance costs (business insurance, health insurance, life insurance, etc.)
- Internet service, telephony, and hosting costs
- Laundry
- Licensing fees
- Maintenance and repairs
- Moving costs
- Office supplies, expenses, and equipment
- Pensions, retirement plans, and profit-sharing plans

- Postage
- Printing and copying costs (e.g., business cards, professional stationery, etc.)
- Professional fees and legal fees
- Rent
- Salaries, wages, etc.
- Security costs
- Software and software licenses
- Supplies, small tools, and equipment (general)
- Trade discounts/functional discounts
- Travel expenses
- Utilities (e.g., water, gas, electricity, etc.)

It's important to remember that while these are listed as "fully deductible," the IRS has specific rules for deductions and, depending on the size and type of your business, you may need to process your business expenses in different ways.

A self-employed freelancer doing business out of their home, for example, would likely deduct home office expenses and their personal health insurance premiums (including those for their spouse and dependents, unless they qualify for health insurance under their spouse's plan) from their taxable income.

A larger small business with a dedicated location would have different (but similar) deductible business expenses such as commercial rent and utilities. Additionally, businesses can deduct credit card fees.

Other deductions may have a time limit attached. Furniture purchased exclusively for business use is 100% deductible during the year of purchase, for example. Business startup costs within the same tax year as the business is started (i.e., the first year of doing business) have their own requirements, including amortization, in order to be deductible, and some costs (including research costs) are not eligible as tax write-offs.

Also, corporations can claim charitable contributions made to qualifying organizations on the corporate tax return, whereas sole proprietors doing business as individuals would claim them on their personal tax return. And while dues and subscriptions for professional organizations and publications are deductible from taxable income, those for social clubs and entertainment

publications are not.

Ultimately, it's important to consult both a tax professional and the appropriate IRS publication(s) in order to ensure your deductions are indeed business-related.

Other Partially or Fully Deductible Business Expenses

While it would be nice if all the costs of doing business were tax deductible, that's sadly not the case. Let's take a closer look at some of the business expenses with more stringent requirements.

Home Office Expenses

If you're doing business inside your home and have a dedicated area for doing so, the IRS allows you to deduct business-related home office expenses, which include:

- Rent/Mortgage
- Insurance
- Maintenance and repairs made to areas used for business purposes
- Utilities
- Depreciation (if you own your home rather than rent)
- Property Taxes

Because your home is used for both personal and business activities, you need to itemize the amounts incurred by doing business rather than simply deducting the entire amount.

You have two methods for itemizing your home office deductions:

1. **The simplified deduction method** lets you claim \$5 for each square foot of your home devoted to business. This method is limited to 300 square feet of home office space, so it may not be ideal if your home office area takes up more space.
2. **The actual overall costs method** allows you to deduct a set percentage of your home's total maintenance costs. The percentage is equal to the

amount of your home used for business activities.

The “right” method depends on your personal situation. A 20 x 15 bedroom converted into a home office generates \$1,500 under the simplified method. However, if you’ve taken over the basement, which measures 400 square feet in a house with a total square footage of 2,000 square feet, and your total annual home maintenance costs total \$40,000, then you’d be much better off with the actual expenses method, since 400 square feet is 20% of your home’s total area and 20% of \$40,000 is \$8,000.

Transportation Costs

Whereas *business travel expenses*, i.e., costs incurred during a business trip to another city or location are fully deductible, *transportation costs*—those costs incurred in the course of doing business daily—are different. The IRS allows you to deduct part of your transportation and vehicle costs, based on miles traveled during the tax year.

As with home office costs, you must separate personal and business activities. If doing business means moving around a lot, you’ll be well served by keeping a travel log for handy reference and calculation.

Let’s say you run a home-based computer repair business and need to travel 40 miles each way on a service call. On the way back, you decide to swing by a nearby town (seven miles) to pick up some groceries.

You can write off the 80 miles traveled as a business expense, but the 14 you traveled for your grocery errand are not deductible.

Another similarity between transportation and home office costs is the options offered by the IRS in claiming your mileage-based deductions.

1. **The standard mileage rate method** lets you claim 57.5 cents (as of 2020) for each mile traveled during the tax year.
2. **The actual overall costs method** allows you to deduct 50% of your actual car expenses for the tax year. This requires tracking and calculating vehicle depreciation, fuel, maintenance, insurance, registration fees, and auto loan interest.

Again, as with home office expenses, the “right” choice is the one that best fits your data management capabilities and goals for tax savings.

Gifts and Promotional Items

Generosity of spirit can help you build good relationships with your customers and vendors alike. Because they provide a little grease to keep the wheels of business turning, you can deduct part of their costs from your taxes. Business gifts given directly or indirectly to a particular individual are eligible for a deduction of up to \$25.

Giveaways and promos are considered marketing and product promotion costs, rather than gifts, by the Internal Revenue Service. Pens, stress balls, fidget spinners, and other giveaways are fully deductible up to \$4 each, provided your business name is permanently engraved upon them and you regularly distribute them for promotional purposes.

Entertainment Expenses and Meals

While it used to be possible to deduct a full 50% of entertainment costs directly related to business activities, changes to the tax code in 2018 (particularly, the Tax Cuts and Jobs Act, or TCJA) eliminated this write-off.

However, you can still deduct 50% of the cost of business meals provided you take your clients out to dinner individually, a member of your business is present at the meal and conducting business in some fashion, and the meal itself isn't excessively lavish.

A Note on Tax Credits: In addition to deductions, you may want to investigate the range of tax credits offered by the IRS to businesses. They can directly reduce your tax burden as well, provided you meet the criteria.

Investing in Purchasing Software Helps You Track Your Business Expenses

Capturing those juicy tax deductions is a lot easier when you have a clear and complete view of all your company's financial activity for the tax year. Choosing a comprehensive and user-friendly procure-to-pay software solution like PLANERGY

gives you the data management, automation, and analysis tools you need to track and manage your spend data for accurate and easy to prepare tax returns and other financial documents.

By centralizing your data collection and management, you'll have all your financial data at your fingertips and be able to generate a wide range of custom reports related to business expenses for easy review and analysis. Plus, thanks to process automation and artificial intelligence, you'll eliminate rogue spend and human error that can negatively impact your bottom line when it's time to prepare your financial records.

Better still, software expenses can often be partially or fully deducted, so be sure to speak with your certified public accountant (CPA) or other tax professional to see if your investment qualifies.

Check All the Boxes on Your Business Expenses Deduction List

They may be unavoidable, but they don't have to be unpleasant. Make sure you're paying your fair share without losing out on savings by ensuring you deduct all the relevant business expenses on your tax return. You'll keep the IRS happy, save money, and ensure your small business is ready to continue growing at tax time and beyond.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our "Solutions" page to see the areas of your business we can help improve to see if we're a good fit for each other.

- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

2. Download our guide “Preparing Your AP Department For The Future”

Download a free copy of our guide to future proofing your accounts payable department. You’ll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

download a free copy of our guide

3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

Related Posts