

# Spending Categories In Business



## What Are Spending Categories And How Can They Benefit A Business?

When it comes to business, the old saying you have to spend money to make money couldn't be more true.

Spending categories refer to the way you categorize your business expenses and they offer a number of benefits to your organization.

Because of the vast number of Industries in existence, it is impossible to list every single possible business expense.

However, the IRS provides a comprehensive list of the most common business expense categories that apply to most businesses.

Using them to streamline the process of tracking your business expenses will ensure that you can maximize your tax deductions.

Your accounting software can help you manage your business expenses over the course of the year.

With it you can track all of your business expenses by taking photos of receipts

connecting your bank and account credit card accounts.

PLANERGY integrates with QuickBooks to make the process of matching your purchase orders to transactions much easier.

## What is an Expense?

Over the course of running a business, you will incur various types of expenses. An expense refers to a type of expenditure that flows through an income statement and is deducted from revenue before arriving at net income.

As a result of the accrual principle in accounting, expenses are recognized when they are incurred rather than when they are paid for.

## Types of Expenses

Businesses have operating expenses versus non-operating and fixed versus variable expenses.

Examples of operating costs include:

- Cost of Goods Sold (COGS)
- Selling, General, and Administrative (SG&A)
- Salaries, Benefits, and Wages
- Rent and insurance
- Marketing, Advertising, and Promotion
- Depreciation and amortization

Examples of non-operating costs include:

- Impairment charges
- Taxes
- Interest

Examples of fixed expenses include:

- Rent
- Salaries, benefits, and wages. Sometimes these are fixed and sometimes they are variable.

Examples of variable expenses include:

- Transaction fees
- Commissions
- Marketing and advertising. Like salaries, benefits, and wages sometimes these are fixed and sometimes they are variable

*Set up your business expense categories based on the kinds of things you regularly spend money on in the business. This will make it much easier to account for everything when it's time to file your taxes.*

## **What is a Business Expense Category?**

A business expense category also known as a spending category is an organized way to group your expenses together for tax reporting purposes.

It's critical to know what type of expenses are included or not included in a category to apply the appropriate rules when it comes to deducting them on your tax return.

Rather than providing a master list that includes everything a business can deduct, the IRS defines a business expense as anything that incurs a cost of carrying on business or a trade.

Under the IRS, the only other requirement is that your business expenses are necessary and ordinary.

An ordinary expense is one that is common and accepted in your business.

A necessary expense is one that is both appropriate and helpful for your business or trade.

## **Common Spending Categories**

Though the types of expenses you can deduct from taxes vary from country to country, this list comes from the United States Internal Revenue Service.

Those outside the U.S. should consult with an accountant or their local tax agency

to learn more.

- **Employee Wages:** You can deduct gross wages, salary, commission bonuses, and any other compensation paid to employees. This also applies to payments made to children or your spouse as long as they are on the payroll.
- **Employee Benefits:** Any payments you make on behalf of your employees to cover any kind of benefit programs such as health insurance, life insurance, cafeteria plans, child care assistance, adoption assistance, gym memberships, and so on are tax-deductible.
- **Employee Education Expenses:** Any payments made to employees for tuition reimbursement, books, or other materials related to education are deductible
- **Rent and Lease Payments:** Any payments made to rent office space, equipment, a warehouse for inventory and supplies, or vehicle lease payments are tax deductible. However, if you have Equity or on the property you are not able to deduct the payments.
- **Taxes on Leased Business Property:** If you pay taxes to a lessor on a leased office space, equipment, or vehicles that are used for business purposes, this is a deductible business expense.
- **Business Interest on Debt for Business:** Any interest payments you make on all loans, lines of credit, or other liabilities you have incurred over the course of your business are tax-deductible. Interest on income tax debt and loans with respect to life insurance as well as interest on personal credit cards and personal loans are not considered deductible business expenses.
- **Bad Business Debts:** Any amount that you have been able to collect payment from a customer is considered to be a bad debt and becomes a deductible business expense.
- **Advertising and Marketing Costs:** Any expenses you incur to promote your business is deductible. This includes websites and your fees paid to email marketing companies and your web host. It also includes business cards flyers and social media advertising budget
- **Vehicle Expenses:** If you use a vehicle for your business, you can deduct the portion that you use your vehicle for business. You cannot deduct personal usage. You use the standard mileage rate or you can deduct various vehicle related expenses such as repairs, parking fees, tolls car

washes, oil changes, and gas.

- **Business Startup and Organizational Costs:** Any money you spend to get your business up and running is considered a deductible expense. Within the first year, you can deduct up to \$5,000 for start-up costs and an additional \$5,000 for organizational costs. Anything over that \$5,000 can be amortized for the next 15 years.
- **Self-Employed Health Insurance:** If you are self-employed, any payments you make for medical, dental, and qualified long-term care insurance for yourself, spouse, and dependents is considered a deductible business expense.
- **Payroll Taxes:** Any taxes you pay on behalf of your employees are deductible, including Medicare and Social Security as well as both federal and state unemployment taxes.
- **Personal Property Taxes:** Personal property taxes are applied to personal property like your vehicle and home but they also apply to any business property. For your business, personal property is defined as anything that can be removed from the business without damage to it such as office furniture, equipment and machinery.
- **Insurance Premiums:** Any expense you pay on insurance premiums to protect your business against loss or theft. This includes bad business debt, liability insurance, and natural disaster insurances as well as malpractice, life insurance, car insurance for the vehicles they are using for your business, and workers Compensation Insurance.
- **Excise Taxes:** If you must pay excise taxes because you have to purchase fuel, tobacco, or alcohol for your business, you can deduct those on your tax return.
- **Meals, Travel, and Entertainment for Employees:** Allowable employee expenses will vary by company
- **Charitable Contributions:** You can deduct up to 50% of your gross income as charitable contributions but you must adhere to certain guidelines.
- **Membership Fees and Club Dues:** If you pay dues to your local Chamber of Commerce or any other professional or trade associations you are part of, those fees are deductible expenses.
- **Tax Prep Fees:** Anything you pay an accountant or tax professional to help you handle tax preparation is considered tax-deductible
- **Legal and Professional Fees:** Do you have a legal team on retainer? Any

kind of payment you make to an attorney, financial planner, CPA, or other professional for your business is deductible.

- **Supplies and Materials:** Any supplies or materials you need to conduct your business are deductible, including cleaning supplies, office supplies, toiletries for the office restrooms, and so on.
- **Licenses and Permits:** Any payments for licenses or permits to operate within the legal confidence of your industry in your local area are deductible.
- **Utilities:** This includes payments for electricity, telephone, and other utilities for your office space, including cell phones for you and your employees. If you have a home office, you can deduct a portion of your mortgage payment and HOA fees, or rent along with renters insurance or homeowner's insurance, based on the portion of your home that's used for business.

Taking the time to set up the budget categories and assigning purchases to the spending categories gives you a better idea of how much money you're spending where and when.

This allows you to better allocate your phones and negotiate discounts to save money with the vendors where you are spending a lot of your money.

You'll also be better prepared when it comes to tax time so you can reduce your tax liability or possibly even secure a tax refund.

Ultimately, it's not much different from personal finance. You may have some different categories because you obviously wouldn't include things like your child support and alimony, laundry detergent, pet food, and Netflix in your company's monthly budget and you wouldn't have employee wages on as one of your personal budget categories.

It's still wise to have a business savings account you can treat like an emergency fund to help avoid cash flow issues.

Depending on what kind of revenue your business is bringing in, you may have more leeway to spend on deductible products and services to pay less in taxes. Making an effort to reinvest in the business will help you reach your financial goals.

# What's your goal today?

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