



Using Tax Deductions To Minimize Your Business Taxes

One of the largest hurdles faced by business owners is staying on top of the numerous obligations to federal and state tax agencies. The Internal Revenue Service offers business owners a fair number of business tax deductions - if you know where to find them! The experts at McConnell Jones Lanier & Murphy LLP have compiled this list of the top ten business tax deductions to help you navigate through the maze of write-offs.

Top Ten Tax Deductions for Your Business

1 Start-up Cost Deductions

You can deduct up to \$5,000 in start-up and \$5,000 in organizational costs for the first year of business. Expenses that are not deducted can be amortized over a 180-month period, which begins when you open your business. You can write off or amortize market research, advertising, employee training, business-related travel, legal advising and other costs.

2 Education Deductions

The IRS has strict guidelines for deducting educational expenses, so be sure to read Publication 970, "Business Deductions for Work-Related Education," thoroughly. Generally, employers can deduct employee educational expenses if the courses maintain or improve job-related skills, or if employees need the education to continue in their current jobs. If you are self-employed, you can also write off some educational expenses. Transportation to and from the classes may be deductible. You can't write off any educational expenses that train you in a new field, however.

3 Vehicle Deductions

Auto deductions are clearly delineated under IRS rules and tend to be among the more scrutinized items, so meticulous record-keeping is critical. You can deduct vehicle expenses either by the mile or for actual expenses such as gasoline and maintenance. If you use your personal vehicle on the job, keep careful records about where you went and the nature of your business. You also can write off a newly purchased vehicle (even if it's bought second-hand) in one deduction or through depreciation, which lets you write off parts of business equipment costs over several years. The IRS stipulates that personal auto use cannot be written off as a business-related expense, so be sure to follow the guidelines in Publication 463.

4 Equipment Deductions

Small businesses can take a single deduction of up to \$250,000 for equipment purchased in 2008. The deduction falls under Section 179 of the tax code and is reduced if those equipment purchases exceeded \$800,000. The equipment doesn't have to be new, as long as it's newly purchased and will be used at least half of the time for your business. Equipment includes computers, machines, furniture, cars and a host of other necessities. Movable equipment generally counts; property does not. Businesses that choose not to take the immediate deduction can write off portions of their equipment purchases over several years through depreciation.

5 Entertainment Deductions

The IRS doesn't mind your mixing business with pleasure – within reason. You can deduct up to 50 percent of entertainment expenses for unreimbursed business meetings. The entertainment must be within a "clear business setting" (such as at a conference) or should immediately precede or follow a business meeting. If you are self-employed, the 50 percent deduction limit does not apply.

6 Travel Deductions

Unreimbursed travel expenses are tax-deductible. The IRS recommends keeping a log of your expenses and receipts. Transportation, (such as airfare) lodging and even dry cleaning can be deducted, and half of any business meals. You also can deduct expenses for business associates traveling with you. You can't write off expenses for family members or friends if they accompany you, unless they are employees and are professionally involved in the business end of the trip, but it is fine to deduct your part of the trip if it is for business.

Top Ten Tax Deductions for Your Business (cont.)

7 Software Deductions

Software normally must be written off over three years because it will serve your business for more than one year. Section 179, however, allows small businesses to fully deduct off-the-shelf software the year it is purchased, as long as it is used the same year.

8 Charitable Deductions

Partnerships, S corporations and limited liability companies all require that their members file the company's taxes on their personal forms, including charitable donations. Donations are "passed through" members, like the organization's income. C corporations are entitled to corporate deductions. Individuals can deduct between 30 percent and 50 percent of their adjusted gross income to qualifying 501(c)(3) charities and foundations. Corporations can deduct up to 10 percent of their taxable income. If you want to contribute \$250 or more and receive a deduction, you must have a letter from the organization verifying your donation. If your business makes a non-cash donation, such as giving a car or a computer, figure out how much you can deduct. The deduction will decrease if you've already received a tax break for the donated property or if it has lost significant value. Check both Publication 551 and the Section 179 deduction.

9 Advertising Deductions

Advertising and promotions directly related to your business are deductible as miscellaneous expenses. See Publication 535 to write off advertising and other costs.

10 Legal and Professional Fee Deductions

Accountant and attorney fees are deductible as business expenses, but you cannot deduct professional fees for purchasing business assets such as equipment. Those charges are included as costs of the purchase. Sole proprietors can write off fees from tax professionals on Schedule C or Schedule C-EZ. For sole proprietors, any additional expenses can be deducted on Schedule A of your 1040.



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