

BUSINESS EXPENSES

BUSINESS ADVISORY ACTIONABLE PRINCIPLES



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IRS VIEW OF BUSINESS EXPENSES

IRS definition

- » Costs of carrying on a trade or business
- » Usually deductible if there is a profit motive
- » An expense that is Ordinary and Necessary for carrying on a trade or business

Should be paid or recognized in the current year

Capital expenses

- » Costs that are part of your investment in the business
 - » Business startup costs
 - » Business assets
 - » Improvements
- » Considered assets – expensed over time



BUSINESS EXPENSES DEFINED

Ordinary and necessary defined

- » Ordinary – Common and accepted in your industry
- » Necessary – Helpful and appropriate for your trade or business
- » An expense does not need to be indispensable to be considered necessary

Personal, living or family expenses do not qualify

- » If expense for item is both business and personal the business use can be allocated



- If the business spends money on something, will it add to CURRENT or FUTURE PROFITABILITY of the business?
- If the answer is “YES”, you could be on your way to a deductible expense



TYPICAL BUSINESS EXPENSES



- | | |
|-----------------------------|--------------------------------|
| ▪ Advertising and Promotion | ▪ Legal and Professional Fees |
| ▪ Auto Expense | ▪ Meals – No Entertainment |
| ▪ Bank Fees | ▪ Office Supplies/Expenses |
| ▪ Customer Costs | ▪ Professional Fees |
| ▪ Customer Gifts | ▪ Postage & Delivery |
| ▪ Commissions & Fees | ▪ Rent/Lease Payments |
| ▪ Dues & Publications | ▪ Startup/organizational costs |
| ▪ Education & Development | ▪ Software |
| ▪ Employee Benefits | ▪ Taxes |
| ▪ Equipment Purchases | ▪ Telecommunications |
| ▪ Furniture and fixtures | ▪ Travel Expenses |
| ▪ Insurance | ▪ Utilities Expense |
| ▪ Interest | ▪ Wages/Salaries |



NON-DEDUCTIBLE BUSINESS EXPENSES

- Clothing unless it's protective equipment, or a uniform that would not be worn during non-working hours
- Country club, social club, or athletic club dues
- Commuting expenses, to and from home and main location
- Fines and penalties incurred for violations of law i.e., traffic tickets
- Gift to employees and business contacts valued at more than \$25
- Life insurance premiums, if the business, or the business owner, is a direct or indirect beneficiary
- Lobbying expenses and political contributions
- Tax penalty payments
- Personal expenses



RECORDKEEPING



Elements of support for business expenses

- » Identify the payee
- » The amount paid
- » Proof of payment
- » The date incurred
- » Description of the item or services showing business use

Documentation accepted by the IRS

- » Canceled Checks or other documents reflecting proof of Payment
- » Receipts
- » Account statements
- » Credit card receipts and statements
- » Invoices



- A combination of supporting documents may be needed to substantiate all elements of the expense.



FAQS

» How Much Can I Deduct?

- » Generally, you can deduct the full amount of a business expense if it meets the criteria of ordinary and necessary and it is not a capital expense.

» When Can I Deduct an Expense?

- » When you can deduct an expense depends on your accounting method, cash or accrual.
- » Under the cash method you deduct the expense when paid or charged to a credit card.
- » Under the accrual method you match the expense to the period in which applies.

» What can cause the IRS to disallow a business expense?

- » The two biggest reasons why you might lose a business expense deduction are:
 - » Poor tax records
 - » Expense should have been capitalized

» Can you write off business expenses without profit?

- » Yes, a business can deduct ordinary and necessary expenses without a profit as long as it is operating with a motive to make a profit.

