

TAX YEAR 2019 BUSINESS DEDUCTION ADVISOR

Expenses are deductible if they are ordinary, necessary and reasonable:

- *Ordinary* means that a similar business would likely have a similar expense
- *Necessary* means the expense was needed in order to operate the business
- *Reasonable* means the amount expended is appropriate to the business

In general, business expenses are deductible if they are reasonable costs that would not have been incurred if the business did not exist. A list of common deductible business expenses follows. Each type of business has expenses unique to it that are not on this list. If they are ordinary, reasonable, and necessary for your business, they are deductible.

- Advertising and promotion, including contributions that result in publicity for the business
- Accounting, consultation, and bookkeeping fees (including costs for preparing the business portion of your tax return)
- Bank service charges and fees, including credit card processing fees if the business accepts credit cards.
- Car and truck expenses. You can use either the mileage rate method (58 ¢ per mile for 2018) or the business-use percentage of the actual auto expenses incurred (gas, insurance repairs, lease payments or finance charges, depreciation, etc.). If the standard mileage rate is used, it is possible to also deduct finance charges or interest. Do not forget the miles driven on business errands such as going to the bank, picking up office supplies, going to the post office, etc.
- Credit card annual fees for cards used in your business are deductible. If the credit card is used partly for business and partly for personal expenses, pro-rate the fee, accordingly. We highly recommend using a credit card exclusively for business expenses for ease in record keeping and deduction calculation.
- Computer supplies and repairs
- Depreciation on business furniture, equipment and vehicles. Under Section 179 of the IRS code, up to \$1,000,000 worth of items purchased in 2019 can be depreciated in full on your tax return. Limits apply to most vehicles. Bonus depreciation of 100% is available for 2019. Allowable limits are lower for State tax returns.
- Depreciation on assets converted to business use from personal use
- Dues, subscriptions, and fees
- Education, including seminars and conferences that increase knowledge and skills for the business; however, a business deduction cannot be taken for the cost of education that prepares you for a new line of work or career.
- Employee pensions and benefit programs
- Expense reimbursements to employees
- Company picnics, business related holiday events, employee meals for the convenience of the employer are 100% deductible.
- Equipment, including computers (*See information about depreciation above*)
- Fringe Benefits for employees
- Furniture and décor for the office or home office.
- Gifts to business associates or clients (up to \$25 per person per year is deductible). Some gifts may qualify as Promotion.
- Home office expenses, if the office qualifies. To qualify for deduction, the space in your home must be used regularly and exclusively to do the administrative work for your business. If claiming the deduction, there is a choice of standard rate of \$5 per square foot of home office space (*not to exceed 300 square feet*) or the business percentage of all related expenses (i.e. insurance, real estate tax, mortgage interest, rent, maintenance, etc.). Even if you do not claim the home office deduction, you may still qualify to deduct other expenses and the purchase cost of such items as a file cabinet or desk. *Note: Repairs in the office are "direct" expenses and fully deductible. The business percentage is based on the size of the office relative to the home's total square footage.*
- Insurance. This includes liability, malpractice, business overhead, workers compensation, and other business-related insurance. It does not include health insurance for self-employed persons or owners of more than 2% of a

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Contact us if there are any questions on the above.

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Sub S Corporation (deductible on a separate part of the personal tax return, subject to restrictions)

- Interest on business credit cards and loans. As with credit card fees, interest on a card used for both personal and business expenses must be pro-rated. Documentation is required to prove the allocation.
- Internet and email expenses used for business
- Legal and professional fees
- Licenses and fees
- Magazines and books that are needed for your business. General circulation publications, including the local newspaper, are usually not deductible.
- Maintenance and repairs on equipment and office or store space
- Meals (subject to certain restrictions, see below)
- Office supplies
- Pager and answering services
- Parking and tolls (in addition to mileage if the mileage method is used)
- Payroll taxes that you pay on behalf of your employees (*But not the taxes withheld from your employee's paychecks.*)
- Postage, delivery, and freight costs
- Printing, copying, and fax charges
- Promotion (*No deduction is allowed for your time.*)
- Reimbursements
- Rent of equipment, storage space, and office space
- Small furnishings and equipment
- Small tools
- Subcontractors and consultants (Form 1099 must be issued if required)
- Taxes: Business and personal property taxes on assets
- Telephone. Long distance business calls made from home are deductible even if there is not a qualified office-in-home. Monthly service charges are deductible only if there is more than one phone line in the home and it is used exclusively for business. Cell phones are deductible to the extent of their business use.
- Travel for business, including costs to go to seminars and conferences. Deductible travel costs include hotels, airfare, taxis, car rentals, tips, and so on. These expenses are 100% deductible. Travel meals are 50% deductible. Document travel meals separately in case it is more beneficial to use the per diem rate for meals rather than actual expenses.
- Uniforms, unique, or special work clothing (i.e. steel-toed boots or coveralls)
- Utilities (not including office-in-home)
- Wages, commissions, and salaries paid to employees

Important: All deductions must be substantiated with written records. Payments for expenses should be made by check, credit or debit card, or electronic funds transfer. Special record keeping requirements apply for travel, meals, gifts and auto expenses. Please consult us for details regarding these requirements.

Special Note: The Tax Cut & Jobs Act effective 1/1/2018 prohibits the deduction of entertainment and changed the way meal deductions may be taken. Please consult us for details regarding the new rules governing these areas.

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