

COMMON TAX DEDUCTIONS

For Small Businesses

missoulabookkeeper.com

As a small business owner, there are a lot of things to juggle. Your business finances can be a big tool to help you grow and move forward but they can also be overwhelming. If done well, you can set yourself up for a less stressful tax season and an even lower tax bill. Some of the standard deductions you can utilize for your taxes are obvious, others not so much. This guide is meant to give you a good general overview of business expenses you can deduct to lower your taxable income. Taxes can be complex and confusing -- we strongly encourage small business owners to consult a tax professional to get the full benefit of their expertise.



Missoula Bookkeeper is a woman-owned, full-service bookkeeping and payroll firm based in Missoula, MT. We love helping small business owners all over the country create systems and get a handle on their finances to make informed decisions and grow their business to support the life they want. Follow us on Facebook and Instagram for more business finance tips.

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run efficiently + grow strategically

START UP COSTS



When you are first getting your business up and running there can be a lot of big (and small) expenses. This can include everything from capital investments like buildings, equipment and legal fees for contracts, intellectual property to paperclips and roly chairs. Make sure you capture all of these costs. Some will be deductible in the first year and others will be amortized over several years. Consult with your CPA for more details.

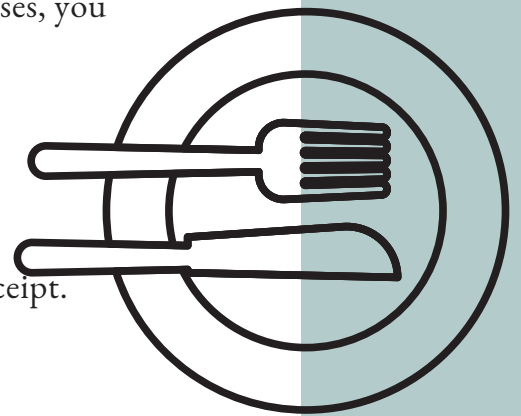


BUSINESS MEALS

Qualifying food and beverage costs are deductible. In past years 50% of qualifying meals and entertainment has been deductible. From Jan 1, 2021 to December 31, 2022, some meals are 100% deductible. To qualify for the full deductions, a meal must be business related, take place in a restaurant and the owner or employee must be present. Food from grocery stores and gas stations continue to be only a 50% deductions and the stipulation to avoid anything lavish or extraordinary still applies. For audit purposes, you need to keep the following records of the outing:

- Amount of each expense
- Date and place of the meal
- Who you dined with and their business relationship

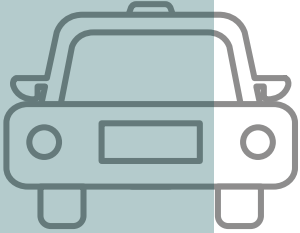
An easy way to do this is to write the person and purpose on the receipt.
Tacos AND a tax write off? Sign me up!



BUSINESS USE OF YOUR CAR

If you purchase and use a vehicle solely for business purposes, then you are allowed to deduct all of the related costs of operation. If your vehicle is used for both business and personal, you can only deduct the business-related costs. There are two ways to calculate this, both require that you track mileage for your business travel:

- Track all actual expenses for using and maintaining the vehicle. At the end of the year multiply this by the percentage of miles used for business.
- Track your business miles and multiply by the federal mileage rate for that year. The 2021 rate is \$.56/mile. For most people, this gets you a better deduction.



HOME OFFICE

Many of us shifted to working from home in 2020. Your work area needs to be used exclusively for your business activities (but you CAN work in your pajamas as much as you want, and they can't say a darn thing about it). You need to be conducting the most important business activities out of your home office, and use your home office regularly. If this is the case, you're able to deduct a standardized \$5 per square foot of your home that is used for business, up to a maximum of 300 square feet.



BUSINESS INSURANCE

You can deduct the cost of business insurance, including liability, malpractice, or insurance for your space. If you have a home office, you can deduct a percentage of renter's or homeowner's insurance as a part of your home office deduction.



BUSINESS INTEREST AND FEES

When you borrow money for business activities, you're charged interest for the use of the money you borrowed. You can deduct the interest paid on business loans and business credit cards. You can also deduct fees and bank charges for your business bank accounts.



BUSINESS LICENSES



Many municipalities and states have required licenses for businesses, independent contractors and practitioners in regulated industries (insurance, massage, mental health, construction, etc). If you are new to business be sure that you know all of the requirements and regulations for your industry so you stay in compliance.



TELEPHONE AND INTERNET EXPENSES

If these tools are integral to your business, they're deductible business expenses. If you use your phone and internet for personal and business, you can only deduct the percentage used for business.





DEPRECIATION

Depreciation allows you to deduct the cost of a big ticket business expenses over the time you use it, rather than deducting the cost of the asset in a single hit. Generally this is reserved for single expenses of more than \$2500. For these larger, longer term investments with a higher price and long useful life, you'll be required to depreciate the cost. This depreciation will be done by your CPA as part of your annual tax filing.



ADVERTISING AND PROMOTION

Advertising and promotion expenses are deductible:

Promoting your business to bring in new clients is an important expense. This can include:

- Business cards
- Website hosting and URLs
- Social Media Ads
- Trade Show fees
- Free Samples
- A Social Media or Marketing Consultant

Walking billboard? Yep! Skywriter? Sure! Logo tattoo on your forehead? Poor judgement, but okay!



EDUCATION

Educational costs are deductible when they add value to your business and increase your expertise.

Here are some examples of expenses that qualify:

- Classes to improve skills in your field
- Seminars and webinars
- Subscriptions to trade or professional publications
- Books tailored to your industry
- Workshops to increase your expertise and skills
- Transportation expenses to and from classes
- Business coaches and consultants
- Ouija board communications from a deceased expert in your field. Kidding. Just making sure you're still paying attention.



LEGAL AND PROFESSIONAL FEES

Legal and professional fees that directly relate to running your business are deductible. These include fees charged by accountants, bookkeepers, and lawyers. Tarot card readers and your favorite local baker are amazing, but they don't qualify under this rule.



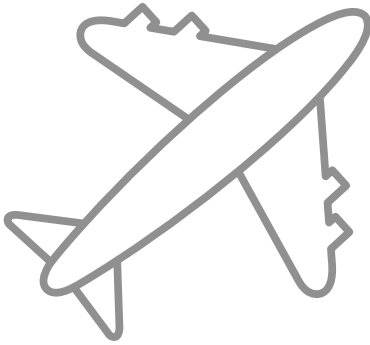
TRAVEL EXPENSES

For a trip to qualify as business travel it has to be ordinary, necessary, and away from your tax home. Your tax home is the entire city or area in which you conduct business. You also need to be traveling for longer than a day.

Deductible, IRS approved business travel expenses include:

- Travel to and from your destination by plane, train, bus or car
- Using your car while at a business location
- Parking and toll fees
- The cost of taxis, rental cars, or ride shares
- Meals and lodging
- Tips (don't eat yellow snow!)
- Shipping of baggage and sample or display materials to your destination

Remember to keep records that include the amount of each expense, as well as dates of return/departure, and the business reason for the trip.



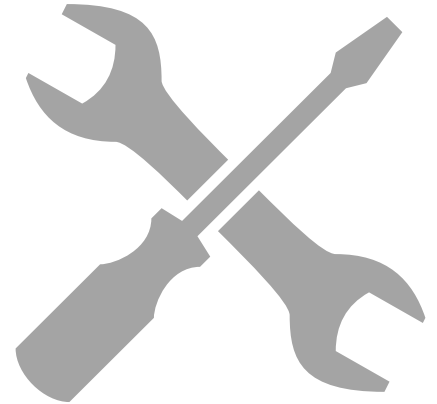
PROFESSIONAL DUES AND MEMBERSHIPS

As a business owner there may be benefits (or requirements) to become a member of local, state or national organizations. These can be specific to your industry or more general business networking and development groups. Membership costs for these organizations can be written off and can help you grow as a business owner.



RENT AND REPAIRS

If you don't work primarily from a home office, you probably have office rent you can deduct. You can also deduct the costs of rental for any business-related equipment. Office rental deductions can also include co-working offices, office shares and conference room rentals. Repairs or improvements made to your home or rental office are space-related deductions as well. This includes both cosmetic and functional improvements.



LABOR COSTS

This can include both W2 employees and contract labor. If you decide to hire W2 employees, you can take a deductions for:

- All wages
- SS & medicaid contributions
- Unemployment Insurance
- Workers Comp Insurance
- Your cost for most benefits offered including health insurance, employee retirement match, employee appreciation, bonuses and training, employee reimbursements for internet, meals, etc



For 1099 contractors, all of the payments made to the contractor can be deducted as well. This can include both contractors you use for client work and contractors that support your own business growth. Don't forget to issue them a 1099 at the end of the year!

Personal Deductions to Watch For

CHILD AND DEPENDENT CARE

The cost of care for a child or dependent person is a personal deduction. This includes your children (12 years old or younger), or a spouse or other qualifying individual who is physically or mentally incapable of self-care. Expenses can include day care, but also babysitters/nannies for work commitments, day camps and summer camps.



CHARITABLE DONATIONS

Starting in 2020 everyone gets up to \$300 in personal tax deduction for Charitable Donations whether they itemize their personal expenses or not. Donations must be made to qualified organizations. Posting bail for your cousin is NICE, but not “charitable”, so keep that in mind.



PERSONAL RETIREMENT CONTRIBUTIONS

Contributing to certain retirement accounts can reduce your personal taxable income for the year. Your Beanie Baby collection does NOT count as a retirement plan, btw.



MEDICAL CARE EXPENSES

You can deduct medical costs such as doctor’s fees, prescription drugs, and inpatient or home care. As a self-employed individual, if you pay for your own health insurance you can deduct all of your health, dental, and long-term care insurance premiums. However, if you are eligible to participate in a plan through your spouse’s employer, then you can’t deduct a plan that you opt to pay for.



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