



# The Big Fat Book of Tax Deductions for Small Businesses

Keep more of your hard earned money

# Hello!

Two things I know about you

1. You're Busy
2. You want to save on your small business taxes.

The great things about taxes (no, really!) is that taking steps to save money come tax time will ensure your business's financial health all year long.

Good News!

As a small business owner, you have many options for lowering your taxable income. That's because the government allows business owners to deduct most of the expenses that they incur from doing business.

Is it worth it?

Great record keeping helps you do two things:

1. Avoid penalties
2. Pay less in tax each year

That means you'll have more money to invest back in your business or save for your retirement or even take a vacation. So Yes, it's worth it to manage your financial health.



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YOUR BUSINESS. TALK TO US TODAY!**

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# How Tax Deductions Affect Your Small Business Taxes

A tax deduction is an expense that you can deduct from your taxable income. You take the amount of the expenses and subtract that from your taxable income. Essentially, tax write-offs allow you to pay a smaller tax bill. You just must make sure that your expenses are fitting the IRS criterial of a tax deduction.

Below is a list of the standard deductions mostly used by sole proprietors, and s-corps or companies organized as partnerships and limited liability companies (LLCs). Most of these are for your business but as solopreneurs you should be aware of some more personal deductions that business owners can take as well.

## A Few Things to Keep in Mind

As a business owner, you have a huge amount of control over your business expenses....that means if you have a plan for your business in the up coming few years you can control your tax deductions. But you need to know a few things:

### **Pick an Entity Type that works for you**

Most companies start out as a sole proprietorship, an LLC or a Partnership. You may need to determine



**HOT TIP**

I would love to tell you that this is an exhaustive list but really that's just not possible as tax codes and your business are personal and can vary from business to business depending on entity type and what your industry is.

If you have questions, go ahead and schedule a free consultation with us and we can review your books to see if we can find deductions for you.

when it's appropriate to change over to a corporation as it may save you some money in the future.

Whether you have an existing business or you're just starting out, you have some choices about your entity type but you should contact an attorney to weigh some pros and cons of each one depending on the industry and type of your business.

## **Tax Law is Complicated**

Major legislation, court cases, IRS rulings, and even natural disaster can all affect your taxes and they are constantly changing.

Many changes can benefit you as the business owner-but only if you know about them and you have time to respond. Waiting for a once-yearly meeting with your CPA may not leave you enough time to learn about and manage these changes.

For example, in 2005, after hurricanes Katrina, Rita, and Wilma struck the U.S. the government created several short-term tax savings opportunities for those affected.

Make sure you check in with your tax specialist throughout the year so understand how these may affect you and your business.

## **There's a Difference Between a Tax Credit and a Tax Deduction**

Tax credit will reduce the amount of tax that you owe, giving you a dollar for dollar reduction of your tax liability. Let's say you're eligible to receive a tax credit for hiring a military veteran of \$1,000. This will lower your tax bill by \$1,000. So, if you owe \$10,000 you would only pay \$9,000. Now let's say you actually get a refund of 500.00 if you add a tax credit instead you'll receive \$1,500.00

Tax deductions reduce how much of your income is subject to taxes to begin with. Let's say you make 100,000 but you have expenses of \$10,000 your taxable income would be \$90,000. To reduce your tax, you need to keep track of your deductions (the most hated part of being a small business owner).

# What You Need in Place to Take Your Deductions

## 1. An Accounting System

I know this part sucks, but you need to have a system in place to track your income and expenses. There are many, many, many accounting solutions out there and the best ones will give you concrete information to make smart decisions. The second part of this step is to have a great system all year and not just at tax time.

## 2. Receipts and other proof of Expenses

There are many new technologies that make keeping your receipts and your bookkeeping in tune. Check out Expensify or Receipt bank just to name a few. And let's face it, shoeboxes are out of style.

## 3. Some Expenses require specific records

Let's say you want to take the mileage deduction, when you use your personal car or truck. You will have to have a mileage diary or logbook and fill out expense reports so that you can take the deduction. That includes your employees.



| **Hot Tip**

### Checkout some Tax Credits

You might qualify for some tax credits....

Hired a Veteran? Did new research it to processes or procedures? You may be entitled to tax credits which can lower your tax obligations.

**I'm proud to pay taxes in the United States; the only thing is, I could be just as proud for half the money** **Arthur Godfrey**

# Expenses You Can Write Off for Your Small Business

## Capitalized Expenses



### | Hot Tip

#### **Bonus Depreciation**

Though bonus depreciation is great it may be more tax advantageous to use regular depreciation that can be amortized over a certain number of months and years.

#### **Depreciation**

Need to buy a new computer, office equipment, even a vehicle. Then you'll want to look at bonus depreciation where you can write off 100% of the purchase cost. The Tax Cuts and Jobs Act, enacted at the end of 2018, increases first-year bonus depreciation to 100%. It goes into effect for any long-term assets placed in service after September 27, 2017. The 100% bonus depreciation amount remains in effect from September 27, 2017 until January 1, 2023. If you want to know how you can use this for a vehicle check out last year's [Last Minute Tax Savings on Cars](#).

#### **Cost of Goods and Services**

If you produce a product or even if you purchase them, those expenses will reduce your income, so your income is lower. Just remember that these expenses can NOT be deducted as a regular business expense at the same time. If you've itemized them under cost of goods sold you can't take them as a business expense. If you're not sure what is considered a cost of goods sold you can check out our article on [What the Heck is Cost of Goods Sold](#).

## Start Up and Organizational Costs



### | Hot Tip

#### **Check Your Costs**

Costs over \$50,000 are subject to certain limitations and at this point you should contact a professional

If you started your business in 2019 and beyond, and spend up to \$5,000, you can deduct the full amount in the first year without having to capitalize the expense. If you spent more than \$5,000, you can deduct a percentage over 15 years. Just make sure you know how much for each year.

# Self-Employment Expenses to Deduct for 2021

## Health Insurance Premiums

To give you a break the US allows you to deduct your health insurance premiums paid for yourself, your spouse and your dependents under the age of 27 on your personal income tax.

If you own an S-Corp, make sure you own more than 2%. Or you can have this as a business expense and have your business pay for it without it coming out of your personal income.



### | Hot Tip

#### Retirement Plans Help You Plan Your Future

Small business owners are responsible for their retirement so make sure your nest egg is getting bigger by putting some money away.

## Retirement Plans

Reduce your tax obligations by contributing to tax deferred retirement plans like SEP IRA, SIMPLE IRAs and 401(k)s. Checkout the IRS site on how much you can contribute and the limits.

## Self-Employment Taxes

You still must pay a lot in social security, Medicare taxes that you pay throughout the year however, you may deduct 50% of it off your taxes.



# Standard Small Business Expenses to Deduct

## Advertising

You already know that providing amazing goods and services isn't enough to make your business succeed. You also need to advertise so your potential customers can find you. Advertising and marketing dollars can add up fast, but fortunately, they are all tax-deductible. You can deduct everything that you use to advertise and market from business cards, to google ads.



### | Hot Tip

#### Good Records reduce costs

Checkout our article on invoicing to make sure you have the policies in place to ensure your invoicing correctly and can right off the bad debt.

## Bad Debt

Sometimes clients just don't pay (this sucks but it is what it is). You can deduct them. You'll just need to make sure that your bookkeeping system reflects them and you have the paperwork showing that this money is uncollectable.

## Bank Fees

Pesky little 12-dollar charges and ATM fees suck to pay but they are tax deductible.

## Car and Truck Expenses

Let's face it the biggest deductions you can make right away in your business is your car. Make sure your keeping track of your expenses with a good mileage tracking program like MileIQ. If you don't want an automated way you can keep a log in your car and fill it out as you go. Make sure that you include all the expenses for the trip including:

- Parking
- Tolls

For LLC and Sole Prop you'll take the standard IRS mileage rate of .56 for 2021 on every mile driven for business.

S-Corp

S corps can make this a little bit more fun by filling out expense reports and reimbursement you and your employees for mileage. Just make sure you have the reports and have filled out an expense report. You'll want to create an Accountable Plan for this expense.

### **Carryovers from Previous Years.**

Some small business tax deductions carry over from year to year. For instance, if you had a capital loss in a previous year, you may be able to take it in the current year. Specifics often change from year to year, to make sure you're up to date on the latest IRS regulations.

### **Charitable Donations**

Yes, your small business can donate to charity and take a deduction for it. It can donate supplies, money, or

property to a recognized charity, but pay attention to the rules before you go crazy giving stuff away. Donations of your time

don't count, and you can't wipe

out your business income with donations. Also, check with the IRS before you make a charitable deduction to make sure the organization you want to support qualifies for the deduction.

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*If you think you are too small to be effective, you have never been to bed with a mosquito. Betty Reese*

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### **Cleaning and Janitorial Expenses**

Do you have a janitorial service come in and clean your offices? Well that's tax deductible too. If you use a cleaning service for your home and they clean your office a portion of that charge is tax deductible too.

### **Conventions and Trade Shows**

Conventions, trade shows that networking group and any associations you belong to are all deductions for your taxes. Make sure that you keep good records and can prove that the events are related to your business.

### **Disaster and Theft Losses**

If your business is unfortunate enough to suffer theft or to be the victim of a natural disaster during the year, you may be able to turn any losses that your insurance company didn't reimburse into a small business tax deduction.

## **Education**

As a lifelong learner, I take pride in my education whether it's a seminar on the latest blockchain technology or new tax changes for the year. Thankfully, you can claim these as education expenses and deduct them from your taxes.

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*You must pay taxes. But there's no law that says you gotta leave a tip. Morgan Stanley*

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## **Furniture and Equipment.**

Did you buy new chairs for your eat-in bakery or new juicing blenders for your juice bar this year? You have a choice regarding how you take your small business tax deduction for furniture and equipment. You can either deduct the entire cost for the tax year in which it was purchased, or you can depreciate the purchases over a seven-year period. The IRS has specific regulations that govern your choices here, so make sure you're following the rules and make the right choice between depreciation and full deduction.

## **Insurance**

Every business should have business insurance which is tax deductible. So, whether you have business, malpractice, business continuation or errors and omissions you can deduct it.

## **Intangibles**

Getting a trademark or need to pay for franchise fees guess what? They're tax deductible.

## **Interest**

This one is often overlooked but you can deduct the interest on a business loan. Make sure you categorize the money as principle and the interest as interest and your good to go. It doesn't count if you take out a home loan only business loans count.

## Home Office

If you do a lot of work at home, it may be time to take that deduction. I know there is a huge myth about red flags and the IRS but if you keep your paperwork in order an audit will not be an issue. Let's take what we can get from the government.

There are two methods for taking the home office deduction the simplified option and the regular method. With the simplified option you cannot exceed 300 square foot of space and it must be exclusively used on a regular basis. (so, you do a lot of administrative type work at home then this would be a great example. This works even if you have a separate corporate or business office.

You can check out the simplified option vs. the regular method on the IRS website. You can deduct or expense the following items using the same percentage as the office space

- Mortgage
- Real Estate Taxes
- Utilities
- Internet
- Phone

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*The difference between death and taxes is death doesn't get worse every time Congress meets. – Will Rogers*

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## Home Renovations and Insurance.

Did you take a deduction for a home office already? If so, business expenses related to any renovations to that part of your home are also deductible, and so is the percentage of your homeowner's insurance that covers that part of your home. Remember, all small business deductions related to home offices only apply if you use part of your home exclusively for business.

## Legal, Accounting and Professional Fees

Yes, if you can deduct my services. Any consultant or professional that you hire to help you make money or deal within your business are deductible. So if you need a lawyer, an accountant, or a business consultant you can add them to this list.

## Machinery and Equipment Rental

Sometimes renting equipment for your coffee shop or concession stand is beneficial to your bottom line, since you can deduct these business expenses in the year they occur with no depreciation.

## Maintenance, Repairs and Renovations

Move into a new space as you expanded this year? Or maybe just routine maintenance on your existing space well those are tax deductible too. If your using the home deduction you can and have renovated your office space, you can deduct those too.

## Meals and Entertainment

Yes, you can take small business deductions for schmoozing your clients, if you do indeed discuss business with them, and if the entertainment occurs in a business setting and for business purposes. In some cases, you can't deduct the full amount of your entertainment expenses, but every bit helps.

Here are some tips to guide when and what you can deduct:

- Exceptions include lavish and extravagant meals.
- At least one employee must be present at the meal or outing.
- The food and beverages must be provided to a current or potential business customer, client, consultant or similar business contact.
- Food and beverages provided during or at an entertainment activity may only be deducted as long as they are purchased separately from the entertainment or the cost of the food and beverages is stated separately from the cost of the entertainment on one or more bills, invoices, or receipts.

You may deduct 100% of the costs of:

- Company cafeterias and executive dining rooms.
- Recreational and social activities held for employees.
- Meals provided as compensation or part of the company culture.



### | Hot Tip

#### **Deduct 100% on Employee Activities**

Throwing a Christmas Party or a Picnic for your employees? You can deduct 100% of the costs involved. Just make sure you categorize them separately from the client meals you attend.

## **Mortgage Interest.**

If your business owns its own building, even if it's just a hot dog stand, you can deduct all your mortgage interest.

## **Non-Cash Gifts and Rewards**

You can claim up to \$25.00 for business gifts that you give to each client or potential customer. So if your giving out Christmas gift cards your good to go. You can spend as much as you want but only deduct the \$25.00.

## **Office Supplies, Tools and Services**

Even if you aren't taking the home office deduction all of your business supplies and office expenses are tax deductible

as long as they are used within the year they're purchased. Make sure you file your receipts with a great app like

Expensify. If shipping samples are a part

of your business you can also deduct the postage, delivery and shipping costs (this is assuming you haven't taken it in Cost of Goods Sold).

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*The hardest thing in the world to understand is the income tax – Albert Einstein*

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## **Qualified Business Income**

Remember to claim the 20% deduction on qualified business income. This rule was a part of the TCJA and you can find out more on what qualifies here.

## **Rent and Property Leases**

Rent a space in the mall go ahead and deduct those expenses. You can also deduct the expenses related to leasing a vehicle and equipment at 100%.

## **Salaries and Wages**

If you're a sole proprietor or your company is an LLC, you may not be able to deduct draws and income that you take from your business. You can, however, deduct a bunch of other stuff. Below is a partial list.

Employers may deduct:

- Employer-paid taxes (payroll taxes) including:
- Employer contributions paid for social security and Medicare (FICA) taxes
- Employer contributions for federal (FUTA) and state (SUTA) unemployment taxes.
- Salaries and wages
- Bonuses, commissions and awards

- Benefit programs — life insurance, education reimbursements, etc.
- Meals and lodging provided as part of the workplace
- Per diems and allowances
- Fringe benefits
- Contract labor — if the contractor (freelancer or service provider) was paid \$600+ during the year. (Documented by Form 1099-MISC.) Checkout our article on paying contractors here
- Employer credit for paid family and medical leave



## | Hot Tip

### **This is in no way comprehensive**

I tried to get everything but there are a lot of benefit programs that you can provide your employees that are tax deductible so don't forget to head on over to the IRS webpage if you need more information

## **Software**

You may have a lot of subscription software like QuickBooks, Xero, or Microsoft office to name a few you can now deduct the full cost each year.

## **Taxes**

I know it sounds a bit weird but there are some taxes that you can deduct.

- Employer-paid payroll taxes.
- Sales tax on day to day items
- Excise and fuel taxes
- State income taxes
- Real estate taxes on business properties

## **Travel**

You already know you can deduct the cost of a tradeshow or conventions, but you can also deduct the travel to and from them too. Make sure you keep all your receipts and fill out your expense reports for airfare, hotels, meals on the road. If you drive to the convention you can take the standard mileage rate. Don't forget to tip your Uber driver and deduct that too. Paying for parking at the convention center and hey if you live in Dallas you know you'll be paying tolls make sure these get deducted as well.

## **Telephone**

If your using your cell phone you may be able to deduct a portion of your bill as a business expense or add a new line just for your business and deduct 50% of your telephone bill

## **Tools**

The IRS distinguishes between tools and equipment. While you may have to capitalize on equipment rather than deducting it in one year, you can deduct tools that aren't expensive or that have a life of only a year or less. And for the IRS, "tools" doesn't just refer to hammers or screwdrivers; your spatulas and cookie sheets are tools as well.

## **Unpaid Goods**

If your business produces goods rather than providing a service, you can deduct the cost of any goods that you haven't been paid for yet.

## **Utilities**

Don't miss the small business tax deductions for your electricity, mobile phone, and other utilities. If you use the home office deduction, your landline must be dedicated to your business to be deductible.

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*Few of us ever test our powers of deduction, except when filling out an income tax form – Laurence J. Peter*

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# Manage Your Small Business Tax Deductions

If you want to maximize your deductions and avoid last-minute mistakes, you must put a system in place right away.

## **Determine Your Accounting Method**

You'll need to determine which one is best for you the cash or accrual method.

Cash Method – Manage your cash when it comes in and goes out.

Accrual – Manage revenues and expenses when the transaction takes place. So if you invoice a customer you recognize the invoice before they've actual paid for the service

## **Use a Good Accounting Software**

Nowadays accounting software has come a long way and can manage your transactions in real time. Though it still needs to be categorized correctly to get the maximum taxable deductions and credits.

A solid technology stack will help you get by automating receipts, transactions, projects and even more. Let us know if your interested in how we go from total chaos to total control.

# Putting it All Together

Once your business takes off, you'll have to pay your estimated taxes if the business income taxes are more than \$1,000. Check out how to pay your estimated tax me every time.

Taxes are complicated. Prior to your owning your business you paid your taxes through payroll deductions and then filed at the end of the year. Now you'll have to pay several times a year plus other scheduled payment like payroll taxes and sales taxes.

Keeping good records is a must and keeping compliant with all the tax codes can be a daunting task. Make sure you hire a professional that can help you plan to take the maximum amount so you're not missing out on valuable tax saving strategies that can help you keep more in your pocket.



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# Learn About Accountable CFO

We want to help you achieve your success. To do this we'll use all our knowledge, tricks and secrets and use it to see your business flourish.

- Just starting a business and need some help getting your finances in order?
- Need help on pricing your products and services?
- Need to get your finances straightened out so you can apply for financing?
- Growing so fast you're not sure how to scale and still pay yourself?

It's important to be aware of ways to save and avoid paying more in taxes than you must. At Accountable CFO we strive everyday to give our clients not only advice in taxes and savings but how to

At Accountable CFO, LLC we're guided by a shared belief that it's always worth looking for a better way. That financial surprises are rarely welcomed. That relationships matter. And that for a small business to scale in an environment of relentless competition and constant change, having a strong financial foundation can be the difference between success and failure.

As a firm dedicated exclusively to support small businesses, our customized financial services are designed to help you grow, reach your goals, and plan for the future.

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