

# Don't Short-Change Your Business

Tax time is upon us, but there is still time to shave your company's IRS bill. Commonly overlooked tax deductions could add up to some nice tax savings.

Story by S. Kay Bell

**T**AX ANXIETY IS AT ITS PEAK IN APRIL. Taxpayers worry not only about meeting the April 15 deadline, but also about making mistakes. If you're a small business person, add another worry to that list: missing out on some valuable tax deductions.

"The majority of the missed items, especially for first-year companies, is usually expenses paid out of the owner's pocket that aren't recorded as business expenses," said Austin CPA Cheryl Seale. "Typically, office supplies, meals and travel, computer equipment, business use of personal cell phone and automobile."

Here's a quick look at some common business expenses that small business owners, self-employed workers and independent contractors can write off. Once you add them all up, they may come to an amount large enough to make a nice dent in your IRS bill.

## Fund Your Retirement

In today's economy, it's difficult to think long term. You're likely trying to simply keep your

business going and not thinking about when you will retire from it. But if you can spare some cash, it could help feather your retirement nest egg and reduce your current tax liability.

Retirement account contributions are one of the few tax breaks you still control after the end of the tax year. Just like individual taxpayers, you have until April 15<sup>th</sup> to contribute to your small business or self-employed retirement account. In fact, if you get an extension to file your business taxes, you have until that deadline six months down the road, Oct. 15<sup>th</sup>, to make your retirement plan contribution. Just remember, that while an extension will give you more time to come up with retirement funds, you still have to pay any taxes due by April 15<sup>th</sup>.

## Deduct Your Home Office

Many entrepreneurs start out by working from their homes. Many others continue to take advantage of a home office even after the business is thriving. And many ignore the home office tax deduction because they fear it's an automatic audit

red flag. Not so. But you do need to make sure you follow IRS rules.

A home office can be a room or even just a part of a room that you use exclusively and regularly for business purposes. If that's the case, you can deduct the business portion of your mortgage interest or rent, real estate taxes, utilities, insurance and repairs and maintenance.

You might even be able to get more of a tax benefit out of your home office if you also claim depreciation for the space. However, Seale doesn't recommend her clients do that. "If you sell your house, then you're going to have recapture issues associated with it," she said. This means you have to pay back some of your previously claimed home office tax breaks.

## Supplies and General Office Expenses

Even if you don't claim your home workspace as a home office, you can still deduct the supplies and equipment you use. You know the basics: printer paper, notepads, pens and



pencils, tape and staples. But don't overlook other business related supplies, such as your business card printing expenses, professional magazines and publications and membership dues for professional organizations. Even greeting cards that you send to clients and prospects count as tax-deductible expenses.

Do you have a business banking account? You should. Not only is it the professional thing to do, but it helps you keep track of your business expenses that you pay for with the account's checks or debit card. Be sure to add up any fees associated with this account, including credit card fees and ATM charges, and deduct them at tax time.

You can also deduct the cost of your internet access. However, if in your home office you use the connection for both business and personal purposes, you can only deduct the amount used for business. Keep close track of your business time online in case the IRS ever questions your claim.

Don't forget about the computer hooked up to that deductible internet connection. Businesses often depreciate equipment to spread the tax savings over several years, but Section 179 of the tax code says when such purchases are of a relatively small amount in a tax year, you can choose instead to immediately write off that amount. Beginning with the 2008 tax year, the amount of eligible Section 179 expenses has increased to \$250,000.

## Improve Your Business Skills

Education that improves your knowledge and skills in your current business is deductible. The key here is that the seminars and classes be for training in your current field. Courses for an unrelated trade are not deductible.

## Add Up Auto Expenses

Business-related travel is deductible, including associated tolls and parking costs. The easiest option is to record your business miles and use the IRS's standard mileage deduction amount to figure your claim.

For 2008 tax filing, that means two calculations, since the IRS increased the deduction on July 1st of last year in response to high gas prices. For business miles driven between Jan. 1<sup>st</sup>, 2008, and June 30<sup>th</sup>, 2008, you get a 50.5-cents-per-mile rate. Vehicular travel during the last six months of last year will net you a deduction of 58.5 cents per mile. For 2009 tax planning purposes, the rate is 55 cents per mile.

And one word of warning: You cannot deduct parking ticket or moving violation costs.

## Prepare Yourself

While it's not usually anyone's favorite reading material, you should spend a little time looking at the Schedule C tax form if you're a sole proprietor. This is where you report your business profit or loss, and it has 21 line items for business expenses. Similar information can be gleaned from the tax forms for partnerships, LLCs and S-corps. This form review will give you an idea of the types of tax deductions you should consider.

Also keep in mind the general tax rule when it comes to business expenses. A legitimate deduction must be, says the IRS, an expenditure for an item or service that is "ordinary and necessary" in your trade or business to be deductible. An ordinary expense is one that is common and accepted in your field. A necessary expense is one that is helpful and appropriate to your line of work.

Many entrepreneurs ignore what they consider small expenses that are both ordinary and necessary to get the job done. But as you can see, a little can go a long way when you're talking taxes. So pay attention to what you spend on your business.

"You're going to have to pay the expense anyway, so you might as well get the tax benefit for it," said Seale.

*S. Kay Bell's book, The Truth About Paying Future Taxes, is now in bookstores. Bell offers readers 52 truths about how they can find tax savings in our complex tax code. ★*

Form **1040** Department of the Treasury—Internal Revenue Service  
**U.S. Individual Income Tax Return** (99) IRS

For the year Jan. 1–Dec. 31, 2006, or other tax year beginning \_\_\_\_\_, 2006, ending \_\_\_\_\_

Your first name and initial \_\_\_\_\_ Last name \_\_\_\_\_

If a joint return, spouse's first name and initial \_\_\_\_\_ Last name \_\_\_\_\_

Home address (number \_\_\_\_\_ street). If you have a P.O. box \_\_\_\_\_

City, town or post office, \_\_\_\_\_ ZIP code. If you \_\_\_\_\_

**Label**  
(See instructions on page 16.)  
**Use the IRS label.**  
Otherwise, please print or type.

**Presidential Election Campaign** Check here if you, or your spouse, are eligible to contribute to the fund.

**Filing Status**

1  Single

2  Married