

Client Document 3 - Can I Deduct This?

Because your accounting records are transferred to your tax return at the end of the year, we use the U.S. Tax Code when determining if an item qualified as a business expense. Because we use the U.S. Tax Code, we often refer to business expenses as tax deductions. We created this document to show our clients the U.S. Tax Code treatment for some of the most misunderstood business expenses/business tax deductions.

Business Clothing

Uniforms and protective clothing are the only clear-cut business clothing expense. We define uniforms as clothing that identifies what profession you're in without the use of a name tag or company logo. Examples of uniforms are police uniforms, hospital scrubs, and military uniforms. Suits and other formal wear are not usually tax deductible, even if they're required attire for business events you must attend. Examples of protective clothing are steel-toed boots, safety goggles, and protective gloves.

Charitable Donations

Unless you're taxed as a C Corporation, charitable donations that your business makes flow through to the owner's personal tax return on Schedule A. They must be made to a registered 501(c)3 charity.

Commute Costs

Your daily commute to the office is not a tax deduction. Other business trips are; however, you need to subtract the length of your commute from the business trip. For example, today you travel straight from home to visit a client 20 miles away. Your normal commute to the offices is 5 miles. You can deduct 15 business miles for this business trip (20 miles minus the normal 5-mile commute to the office).

Federal Income Tax

Federal Income Tax is never a tax deduction.

Fines or Penalties

Any fines or penalties levied against you for breaking the law aren't deductible, i.e. a speeding ticket.

Gifts for Customers

Business gifts are deductible, up to \$25 per gift. If you give a \$25 gift to 10 customers, you could take a total deduction of \$250. But if you give a \$250 gift to one customer, you could only deduct \$25.

Grooming

As a general rule, grooming is not allowed as a tax deduction. Exceptions could be if you worked as a model or an on-air television personality, as an inordinate amount of grooming expense is then required. Getting haircuts before of attending formal business functions is not a business expense.

Home Office

The Home Office deduction is a deduction on your personal tax return (not your business return) for using a room in your home as a dedicated office for your business. This room cannot be used for

anything else. The IRS believes that this deduction is frequently abused and therefore many CPA's believe that you're more likely to be audited if you claim this deduction.

Meals & Entertainment

You can use the Meals & Entertainment (M&E) deduction in two specific scenarios.

- If you take a client out to eat you can deduct half of the cost as a M&E expense. If it's just you, or if the meal has no business connection to it, it's not deductible. On the receipt, write down the names of the client you ate with and the purpose of the meeting.
- If you're traveling, you can deduct half the cost of food as a M&E expense. You do not have to have a client with you. What constitutes travel? It's usually an overnight trip somewhere for a business purpose.

Mileage vs Actual Auto Expense

If you drive a personal vehicle for business, you have two options for deducting your automobile expenses: The standard mileage rate and the actual expense method. Once you choose one, you cannot switch. If you choose the standard mileage rate, you can't deduct actual car operating expenses like taxes, oil changes, auto insurance, and vehicle depreciation. You can still deduct parking and toll charges though.

Political Donations

Political donations are never a tax deduction.

Travel Expenses

The IRS considers travel expenses to be deductible if the business trip is longer than a typical work day. So, deductible travel expenses involve an overnight trip, or a very long day-trip. The most common travel expenses are lodging and food. Even if your trip doesn't meet the IRS's definition of business Travel, you can still deduct your mileage or actual auto expenses, you just can't deduct the cost of your food.