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Tax Attorney for 33609 on Deductions for Small Businesses (part 1)

If you are a small business owner, you should be aware of the many deductions the law allows you to claim for. The more you can legitimately claim, the less your taxable income will be. And if you take full advantage of your deductions, you might be able to afford for yourself a nice working holiday abroad, a nice car and other perks.

Let me share some of the deductions you can rightfully make as a small business owner.

1. The cost of starting your business

If your business is new, you may deduct up to \$5,000 in start up costs in the first year of business and \$5,000 in organizational costs but only after you actually start your business. This has been in force since October 22, 2004 but the rules would differ if your expenses exceed \$50,000. Any amount in start up expenses over the \$5,000 may be deducted over 15 years in equal amounts. You can write off market research expenses, employee training, advertising expenses etc.

If you expect your business to make a profit from the very first year, you may want to delay certain expenses until you actually start your business or carry out a bit of business just to officially start so that your expenses are deductible.

2. Expenses for vehicle use

This is a common form of deduction and there are very specific IRS rules to observe in order to make your deductions accurately. There are two ways you can deduct auto expenses, either using a standard mile-based rate or for actual expenses incurred. The present (2010) standard mile rate is 50 cents for every business-related mile travelled. Using this method you are also entitled to deduct toll and parking charges when your vehicle is used for business.

Generally, if you purchase a car for your business (new or second hand), you can write off your expense in one deduction or through depreciation, which lets you write off parts of business equipment cost (including cars) over several years. So in this case, you should use the actual expense method as it generally gives a larger deduction.

To qualify for standard mile rate, you must use this method of deduction on the first year you use a car for your business activity. Furthermore, you cannot use the standard mileage rate if you have claimed accelerated depreciation deductions in previous years, or have taken a Section 179 deduction for the vehicle.

The IRS is very strict on only allowing deductions for business use so if your vehicle is for both personal and business purposes, you have to keep records of where and when you used it for business. You can also qualify for certain credits. For example, you could receive credits for purchasing a hybrid car for your business. Check out Form 8910 for more details.

3. Books, legal and professional fees

You can make deductions from fees you pay to your lawyer, tax professional, consultant or accountant in the year you incur them. But if the service is clearly for your business benefit over the next few years, then the fees must be deducted over the duration of the benefit.

Likewise, purchase of business books including those which you use in lieu of engaging a legal or tax professional are deductible. But you cannot deduct professional fees connected to the purchase of business assets such as equipment. These charges are to be included with the costs of the purchase.

In my next article, I will share several more deductions small business owners are eligible for.

Darrin T. Mish is a veteran, nationally recognized tax attorney who has focused on providing IRS help to taxpayers for over a decade. He regularly travels the country training other attorneys, CPAs and enrolled agents on how to handle their toughest cases with the IRS. He is highly ranked among the top attorneys in the country, with an AV rating from Martindale-Hubbell and a perfect 10 on Avvo.com. Martindale-Hubbell has also honored him with a listing in their Bar Register of Preeminent Lawyers. He is a member of the American Society of IRS Problem Solvers and the Tax Freedom Institute. With clients on every continent but Antarctica, he has what it takes to solve your IRS problems no matter where you live in the world. If you would like more information about his practice and how he can help you, please call his office at (813) 229-7100 or toll free at 1-888-GET-MISH.