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Tax Attorney for 33609 on Deductions for Small Businesses (part 2)

In this article, I shall continue with the deductions small business owners may claim in their tax returns.

1. Software expenses deductions

Any software you purchase for your business is to be deducted over 3 years because software generally is used for more than one year. However, Section 179 allows off-the-shelf software expenses to be deducted fully in the year of purchase provided it is used the same year. This provision will be until December 31, 2010. Starting from next year, this no longer applies.

When software comes with a new computer, then its cost is to be included into the cost of the computer itself and should be depreciated over 5 years. But Section 179 gives you the authority to deduct the entire cost of your computer and software in the year of purchase provided it costs less than \$133,000 for this year (this threshold may change next year).

2. Contributions to charity

If your business is a partnership, limited liability company or an S corporation (a corporation that is taxed like a partnership), all contributions to charity that your business makes can be passed on to you to be included into your personal tax returns as a deduction. But if you own a regular C corporation, your company is entitled to make the deductions. Individuals can make deductions of between 30% and 50% of their adjusted gross income to qualifying charities. For corporations, the proportion they can deduct is 10% of their taxable income.

If your business donates a gift in kind like a computer to a charity, you can deduct the value of the equipment from your taxable income. But this value must be net of the value that has already been lost through depreciation and if it has already been depreciated fully then you are not entitled to claim any deductions.

3. Advertising and promotional costs

Any form of advertising to promote your business is deductible. These include Yellow Pages listings, billboard advertisements, business cards, media advertisements etc. Promotional efforts

to create goodwill at the same time as publicizing your business is also deductible as long as there is a clear relationship between your business and the event your sponsor. For example, sponsoring the soccer T-shirts of a local team and having your company logo embossed on them.

4. Business entertainment expenses

You are entitled to claim up to 50% of your entertainment expenses provided the entertainment was done within a clear business setting (like a conference) or carried out immediately prior to or after a business discussion.

It would be a good practice to write down the purpose of the entertainment clearly on the receipt, such as 'Lunch with John Smith at Denny's to discuss the widget sale'.

Read more small business deductions in my next and final article.

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.