

# THE TAX PREP BOOK



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# Introduction (*Relax*)

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First things first, RELAX! Taxes isn't something to be afraid of, if you're moving smart.

Yes, it may be very complicated and a lot of information to process But with this Ebook I will help you navigate and gain a better understanding of your Taxes like a pro.

So let's begin first thing first let's understand some quick terminology.



# Terminology

- **Tax Deduction** (aka write-off) is any expense that is ordinary or necessary to operate your business/side gig. So, the following expenses need to be at least partially used for business to deduct them. If you are unsure, please contact your CPA or tax accountant.
- **Tax Credits** Tax credits are much like credits you get from a store. After you calculate your tax bill, you can use the credit to reduce the amount that you owe to Uncle Sam. Tax credits are more valuable than tax deductions because they directly cut the amount of tax you owe, rather than reducing the amount of taxed income. A \$200 credit, for example, will turn a \$1,000 tax bill into only \$800. A few credits could even give you a refund you weren't expecting
- **Tax Exemptions** This is an amount the IRS lets you subtract from your income to reflect all the people who count on your income. You can claim as tax exemptions yourself, your spouse and your dependents. The IRS allows a set amount for each exemption and, as with deductions, this total is subtracted from your AGI to come up with your final, lower earnings amount upon which you must figure your tax bill. Your personal exemption amount is in addition to any tax deductions, either standard or itemized, that you claim



- **Taxable Income** Taxable income is your overall, or gross, income reduced by all allowable adjustments, deductions and exemptions. It is the final amount of income you use to calculate how much you owe in taxes.
- **1099** - A form is used to report non-employment income, including dividends paid from owning a stock or income that you earned as an independent contractor.
- **AGI** Adjusted gross income, or AGI, is all the income you receive over the course of the year, including wages, interest, dividends and capital gains, minus things such as contributions to a qualified IRA, some business expenses, moving costs and alimony payments. AGI is the first step in calculating your final federal income tax bill.



- **Filing Status** Your filing status is an IRS classification based generally on your marital status. It is used for your [filing requirements](#), standard deduction, ability to claim certain tax breaks and the amount of your tax. There are five filing statuses:

- **Single**
- **Head of Household**
- **Married filing separately**
- **Married filing jointly**
- **Qualifying Widower**

- **Sole Proprietor** A sole proprietor is someone who owns a business by themselves. They report their share of income and expenses on [Form 1040, Schedule C.](#)



# I Am Here To Help

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Okay now that we have terminology out the way I need you to understand one MAJOR thing Not paying taxes is a crime and yes Taxes is a HUGE expense for entrepreneurs whether you are just starting in your business or still working a job. In this ebook book I will help you understand Taxes and how you are taxed and how to lower your tax bill every year.

Don't get scared by a big tax bill or by the IRS deadline. You do not have to pay your whole tax bill all at ONCE, you can pay in installments. You can pay as low as \$100 a month depending on your situation, You can also file what is called an extension, to buy yourself time on filing. You aren't penalized so harshly when you file an extension. Amendments are also very helpful depending on your situation, an amendment is simply a revision to your previously filed taxes.

But the one thing you want to make sure you don't do is NOT do anything

You will get penalized if YOU DO NOT PAY YOUR TAXES.

But I am here to help .



# Understanding How You Are Tax

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Understanding how you are tax by the IRS will help you in the long run There are many different things that we will go over but the first Thing I want you to understand is the “ The Golden Tax Formula”

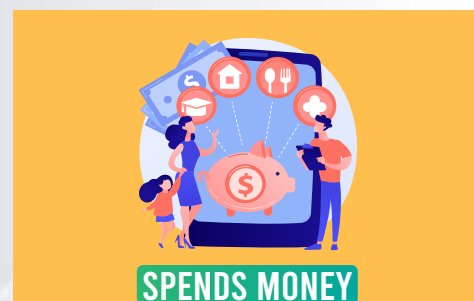
This formula shows how employees or someone working for a company is taxed different from someone who is a business owner or a self employed Individual.

So when you work for a company and receive a paycheck taxes are already taxing out for the IRS and then you get to spend whats left at the end of the year you get what is know as a tax refund which is money owed to you for overpaid taxes essentially.

But as an Entrepreneur / Self Employed Individual you are taxed a bit differently you earn money and you are taxed on whatever is left after expenses thats why its is very important for entrepreneurs to track your expenses don't worry I will teach you how.



# THE GOLDEN FORMULA



**VS**

# The Different Filing Status

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Another thing I want to touch on is your Filing Status how you file have a major effect on how much you will pay in taxes or even the ability to qualify for certain tax breaks.

For example : A married man making 46k salary with a stay at home wife and two kids is taxed substantially less than a single man making 150k per year as a business owner.

Your filing status is an IRS classification based generally on your marital status. It is used for your [filing requirements](#), standard deduction, ability to claim certain tax breaks and the amount of your tax. There are five filing statuses:

- **Single – Me , Myself And I**
- **Head of Household – Me and my kids/ Or I take care of a sibling/ disabled grandma, etc.**
- **Married filing separately – Married and it's complicated**
- **Married filing jointly – Married and we live together**
- **Qualifying Widower – your spouse passed away and you ARE NOT re-married**

# How To Set Up Your New Business For Success

Okay now that we have figured how we are going to file lets make sure your business is set up properly , one thing I see a lot of entrepreneurs do is skip this process in the beginning and going straight into making money, which I am a firm believer in start first and figure out the rest later but not being set up properly could cost you a lot of money in the long run and lot of time to back track and fix things.

First Thing first you want to get a business name if you can't think of one for now just us your actual name and make a LLC under that name.

## How To Make An LLC

Now You want to go ahead and make a business bank account

I find this step important because to properly do your taxes and the get all the deductions you need to make sure your business and personal accounts are separate.

Come to the bank prepared you will need your business formation paperwork as well as your EIN in hand.

If more than one person is listed on the business, typically all of them will need to be present with IDs.



1

When you combine personal and business finances you forfeit write offs and business deductions because the IRS doesn't know which transactions are business or personal.

2

When facing litigation, the judge can "pierce the veil" which means dissolve your entity and allow the plaintiff to take your personal assets.

What I recommend doing is setting up multiple business bank accounts to keep your money organized something like this

*The accounts are:*

- **Income** – all the money you make comes into this account and then is distributed to the other four accounts.
- **Tax** – this account is where you save money is for your estimated tax payments.
- **Owners Pay** – in this account you deposit your salary.
- **Business Expenses** – use this account to pay for all business

This video will better explain how this method works

**Bank Account Set Up**

# Bookkeeping

Ok now that you have the different accounts and your business funds separate from your personal funds now its time to keep track of your expenses you would want to make sure your books are up to date on a monthly basis.

➤ **Bookkeeping** - The activity or occupation of keeping records of the financial affairs of a business.

There are many different softwares out there that you can use to Track and Organize your expenses my favorite and the most popular is Quickbooks.

Use [Quickbooks Online](#). QB online the best software out for easily tracking and recording your business expenses and it's very easy to set up. All you need to do is purchase the software, link your business account and credit cards, and review your transactions on a monthly basis. You can also hire a bookkeeper to do this.

If your familiar with quickbooks and don't want to use them here is some alternative



➤ **PARO**

➤ **FRESHBOOKS**

➤ **NEATBOOKS**

# Most popular business formations

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When it comes to registering your business with the state ,

There are many different business structures you can choose From here are a few the one I recommend the most which is super simple is the LLC. You can get an LLC simply by going to your secretary of state website and go under the corporations division.

- **Single member LLC** - The term single-member is used to recognize that the LLC has one owner, as opposed to an LLC in which there is more than one owner.
- **Multi member LLC** - A multi-member LLC, also known as a MMLLC, is a limited liability company (LLC) with more than one member.
- **Partnership** - A partnership is simply a business shared by multiple owners. It's not a legal business entity, and it doesn't have to be registered with the state. Basically, if you decide to go into business with another person without filing any state paperwork, you're automatically in a partnership. These can be vert tricky in court, be sure to keep track of who buys what. Be sure you have an operating agreement in place.



- **S Corp** - S corporations are corporations that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes.
- **C- corp** - A C corporation (also known as a C-corp) is a legal structure for a corporation in which the owners, or shareholders, are taxed separately from the entity.
- **Sole proprietorship** - A sole proprietorship or sole trader is an unincorporated business with a single owner who pays personal income tax on profits earned from the business. You do not need an EIN for this, you can operate using your social security number on





# 1099s And You

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If you ever have done any work for a company you are familiar with a 1099 form. A 1099 form is used to report non-employment income, including dividends paid from owning a stock or income that you earned as an independent contractor.

## Pro Tips: When Dealing With 1099s:

- You want to make sure you have an EIN to give companies instead of your Social Security number, your social security number is very sensitive information even though some companies handle this information very sensitively you can never be too careful.
- Have contractors fill out W9 upon hiring them. You'll need the information they will provide on this form in order to issue them a 1099. Sometimes it's hard to get people to fill out W9's after they have been paid.
- Anybody you pay for any service that adds up to over \$600 in a calendar year you want to make sure you issue them a 1099 because that is an expense that will help lower your overall tax bill.
- When you receive a 1099 for a company you want to make sure it matches up to what you were paid because you are responsible to pay taxes on that income and you do not want to pay more in taxes especially if you received less money than they are saying they sent you.
- Even if you do not 1099 everyone make sure you keep a record of everyone you pay whether it be throw invoices or Zelle receipts.



# Popular Forms

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Even when you do hire a CPA/or a tax prep, there are many different tax rules and codes that everyone doesn't know about. These are some popular ones I always recommend bringing up to whomever file your taxes. You you can also visit [irs.gov](https://www.irs.gov) and **search more specifically for forms that may help you with your tax bill.**

## POULAR FORMS

- *1098-T – up to \$1000 credit for college students, your school will give you this*
- *1098-E - your student loan interest is deductible*
- *Form 7202 – a credit for self-employed people who cared for themselves or others while sick during the pandemic*
- *Form 2441 – IRS is reimbursing people up to 50% for daycare/ babysitter/nanny costs during the pandemic*
- *Popular Forms for self-employed people  
Form 8829 – helps you make rent a business deduction*
- *Popular form for people who purchased TESLA / ELECTRIC CARS*
- *Form 8936 – up to \$7500 for those who purchased an electric vehicle (any model, some hybrids are also eligible)*
- *2020/2021 Stimulus : if you qualify for stimulus and did not receive it, you can mark it on your taxes and you will either get it added on your return or they will deduct it from what you owe.*

# Taxes For Brand Owners

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As Brand owner I get it there is a lot you need to keep a track of from making designs to purchasing your items all the way to making sure your customer get there items on time , so the last thing you want to worry about is taxes.

Trust me I get it but what if I said taxes could be the least of your worries or an easy process for you let me show you how with tips and tricks I have learned in my business journey.

So the main thing you want to do as a business owner when you start making money is PLAN for your tax liability. Save at least 20% of earnings to possibly pay for you tax bill.



As a brand/business owner you need to keep track of all your expense because there are many things you can write off that's specific to your brand such as :

## **Deductions** *(more specific to brand owners)*

➤ **Shopify** – monthly fee, fee for apps ... any platform you sell on that charges you a fee can be deducted

➤ **Shipping and freight** – ship station, UPS, FedEx, USPS this is a very important one because as a brand owner we spend about 30% of our money on shipping alone.

➤ **Supplies** – Samples, blanks, rhinestone transfers, poly mailers, stickers, hang tags, novelty items purchased for promo, racks for clothing, items purchased for shoots

➤ **Advertisement** – Facebook ads, paying influencers, billboards, S/o's from fashion pages, car wraps

➤ **Contract labor** – graphic designers, stylists, photographers, business coach, financial advisors, paid models

**Utilities**- phone bill, internet/ wifi

**Travel**- any time you travel for a pop up, to go meet a designer, or a manufacturer



# Taxes For Brand Owners

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## **Sales Tax** *(more specific to brand owners)*

Sales tax for brand owners is a very tricking thing and is very hard for me to explain in just words but it something very important and crucial that I didn't want to leave it out in this book below this video will teach you how to set up and pay your sales tax on time as a brand owner.

### Sales Tax

# Taxes For Brand Owners

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As you can see there are an array of things you can get a Tax deduction for as a brand owner that you are already paying for that's why it's very important to keep track of your receipts and if you can't do that which is very hard trust me I know we are all human use a program like quickbooks to do it for you.

# FREE GEM

I know some of this still may be confusing for some , even I can admit this is alot of info to take in so just for you below is my personal tax lady that helps me with all my taxes just be sure to let her know Dre sent you.



TAX LADY



# 150+ deductions you can use

## Accounting Expenses

Tax Preparation, accounting expenses, auditing expenses, and bookkeeping expenses are deductible business expenses.

## Tax Preparation fees

Tax preparation, including preparing and filing forms by a CPA, tax attorney, or tax adviser, for tax strategy and are business deductions.

## Accountant/CPA/Financial Adviser

The services of a CPA, accountant, or financial advisor or review of financial statements or business financial planning.

## Bookkeeping Expenses

You can deduct all expenses for bookkeeping, including those for a bookkeeper, or for bookkeeping and accounting software to help you or an employee do your bookkeeping.



## Auditing

If you are a public corporation, you can deduct fees for an auditing firm.

Expenses for accounting for illegal activities are never deductible. You cannot deduct the cost of accounting software or the services of a tax preparer, for your personal tax return. Preparation of your Schedule SE for self-employment taxes is a personal tax expense, and it can't be deducted as a business expense.

You can't deduct fines and penalties for late filing or for underpaying your taxes, so make sure you know the tax filing deadlines and that your tax preparer or tax software is accurate.

## Advertising

Advertising expenses are deductible. Advertising is so broad, so I've listed some categories below:

- *Costs of advertising materials: business cards, brochures, and web pages.*
- *Advertising in media: Ads, Media, Social Media Ad promotion, Pens with your business logo, ads in newspapers and magazines, and ads on TV, the internet, and cable.*

*Marketing activities such as direct*

You can deduct the cost of putting an advertisement for your business on your car (business or personal), but you can't deduct the cost of driving your car around town as an advertising expense.





## Amortization

Intangible business assets, like intellectual property, customer base, and licenses, are amortized. The processes of depreciating and amortizing are basically the same. The value of the asset is determined, and the life of the asset is calculated by comparing it to other similar assets.

### Intangible assets include (but are not limited to):

1. Goodwill Education, business books and records, operating systems, or any other information base, including lists.

Certain intangible assets are NOT considered to be intangibles and may not be amortized over 15 years. The IRS has very strict guidelines relating to intangible assets. You should consult you CPA for specifics about what assets you can and cannot amortize in categories 1 through 8. Sometimes you can amortize assets if you created these assets, unless “you created them in acquiring assets that make up a trade or business or a substantial part of a trade or business.”

## Application Software

Better known as “apps.” If purchased and it relates to business the fee is 100% deductible.

## Attorneys

Attorney fees are deductible. See Professional fees for more detailed description and exceptions.



## Audits

The cost of auditing services or an audit by an accounting firm is deductible. Fees associated with hiring a CPA or lawyer to defend your business in an IRS audit is deductible.

Whether you have a car that has been purchased by your business or you are using your personal vehicle for business purposes, you need to know which expenses are deductible. The IRS regulations for deducting business driving expenses apply to employees and business owners in different ways.

This section is a bit complex so I wanted to create a deep dive video for you to help you better understand. So if you want to learn about auto deductions how to write off a G-Wagon or Tesla Model,

**CHECK OUT THIS VIDEO !!**

## **Bank Charges**

Bank Charges, ATM Fees, bank services, check printing cost, penalties and credit card fees are all deductible.

## **Billboards**

If you are renting or own a billboard you can deduct the expense. The rental cost for billboards is deductible. Billboards you own can be deducted the year of purchase or depreciated over time.

## **Bodyguard**

Bodyguard services is an ordinary and necessary expense of your business, it is a deductible expense.

## Bonus

Bonuses for employers/owners are a legitimate business expense and can be deducted under certain circumstances. First, let's take a look at bonuses for owners/shareholders:

- *SCorporations can deduct bonuses for shareholders and owners, as long as they own their shares at the time the bonus is paid.*
- *CCorporations can only deduct bonuses for shareholders/owners who have a 50 percent or higher ownership at the time the bonus is paid.*
- *For sole proprietorships, partnerships, and limited liability companies (LLCs), bonuses are not deductible business expenses because the owners/partners/members are considered by the IRS to be self-employed. This is one situation in which having a corporation and being an employee of that corporation might result in more tax deductions.*

Bonuses to employees are considered income and are taxable to the employee. You must withhold income taxes and FICA taxes on employee bonuses (unless the employee is over the Social Security maximum for the year). If you decide to give your employees a bonus, you must give them the opportunity to change their withholding authorization (on Form W-4) for that paycheck and change it back for subsequent paychecks. Many employees like to change their bonus check withholding, so they receive more of the bonus.



## **Bookkeeping**

Certified Public Accountant (CPA), bookkeeping, accounting, recordkeeping, bookkeeping software you purchased are deductible.

## **Booking agency fees/ Management**

For musicians, artist, entertainers, booking agents fees that are paid out of pocket are deductible.

## **Books**

Books, magazines, e-books, newsletters, newspapers are deductible.

## **Boxes**

If you have boxes, packaging materials, cartons, and other containers that holds the goods you sell they are considered part of your inventory, therefore this expense is a part of cost of goods sold and is deductible.

## **Buildings**

Buildings that you or your business owns are depreciated over time.

## **Building Improvements**

Building improvements, renovations, remodeling, and repairs can be deducted.

## **Business Cards**

Business cards are deductible.

## **Business Gifts**

Your business can deduct no more than \$25 of a gift to any one person each year, including employees.

## Business Licenses

Business licenses, registrations, and similar fees are deductible.

## Business Trips

Business trips are deductible, but there are many rules and restrictions. See *Travel*.

## Cars

You can deduct the cost of using a car for business or you can take a standard mileage rate, but with limitations. See *Automobile*.

## Cell Phones

If you use your cellular phone and Smartphone 100% of the time for business; it is 100% deductible. However, if your phone is used partly for business, you are required to deduct the percentage of the cost used for the business.



## Charitable Contributions

You or your business can deduct any of the following:

- *Cash contributions*
- *Gifts of property or equipment (called “in-kind” contributions)*
- *Mileage and other travel expenses incurred in working for a charitable organization, based on the IRS-designated standard mileage rate for charitable work.*

You cannot deduct the value of your time or the time of your employees working as a volunteer for a charitable organization, such as time spent serving on a nonprofit board.

If you are a sole proprietor, your business taxes are filed on Schedule C of your personal Form 1040. Your business cannot make separate charitable contributions because the only way individuals can deduct these contributions is on Schedule A. That means you must be able to itemize the deductions to take them. The same is true for a single-member limited liability company since the single-member LLC files taxes as a sole proprietor.

If the partnership makes a charitable contribution, each partner takes a percentage share of the deduction on his or her personal tax return. For example, if the partnership has three equal partners and donates a total of \$3,000 to charity in a year, the partners can each claim \$1,000 in charitable deductions.



## Classes

Many classes and education are deductible. See *Education*.

## Cleaning Services

Cleaning and janitorial services for the business premises are deductible. In addition, clothing used for cleaning and laundry services used exclusively for work are deductible if the clothing is unsuitable for street wear, such as uniform, costume or protective gear.

## Clothing

Clothing used exclusively for work and unsuitable for street wear is deductible. Clothing with your company logo stitched on it is tax-deductible. This means if you get your logo stitched on your favorite suit, you can deduct it! But wait there's more. Each time you take these garments to the cleaners, you can deduct those costs as well! Game Changer!!

## Clubs

Membership fees and dues for clubs, associations, and organizations may or may not be deductible, depending on the nature of the organization.

## Commissions & Fees

Commissions that you pay to acquire new customers who sign long-term contracts may have to be amortized over a period of years. Commissions that you pay to outside salespeople or companies and commissions paid for referrals, finders fees, and the like are deductible. Real estate commissions are added to the cost of real estate and depreciated over the life of the asset.



## Commuting

You are not allowed to deduct commuting expenses from your home to your regular place of business and back. The IRS allows businesses to deduct expenses for business travel by owners and employees, but no deductions are allowed for commuting expenses. The rationale is that everyone commutes (travels to work), so commuting is not a business but a personal expense.

## Compensation

Self-employed people cannot take a deduction for compensation you pay to yourself. See *Paying yourself*. Compensation paid to any independent contractors or other nonemployees is deductible.

- Employers' compensation to employees is deductible.
- Corporations: Owners of corporations are employees of their businesses.

Your compensation is treated like any other employee wages.

## Computers

Computers, monitors, printers can be deducted the year of purchase or deducted over five years.

## Conferences

Cost of conducting or attending business conferences are deductible. Including travel and meals. Meals are 100% deductible.

## Consultants

Consultant fees are deductible.



## Contractors

Contractors who you hire for labor are deductible. Please note that you need to send them 1099's to report how much you paid them each year.

## Contracts

The cost of preparing a contract is deductible if it is not substantial.

## Conventions

Fee for attending a business convention is deductible. Travel and lodging expenses are deductible; meals are 50% off

## Copyrights

Copyright is amortized over 15 years.

## Cost of Goods Sold

Businesses can deduct the cost of inventory once the goods are sold.

## Credentials

The cost of education to obtain a credential is deductible in some situations. See *Education*.

## Credit Cards

Making purchases for your business on a credit card is 100% deductible. If you are a sole proprietor or a single member LLC, you can deduct purchases made on your personal credit card. Note, you cannot include personal charges.

Partnerships, LLCs, Corporation and S-Corp should have a debit and credit cards in the business name to maximize tax deductions.

## Customer List

A customer list that you purchase is considered an intangible asset.

## Delivery Charges/ Shipping

Delivery charges incurred for goods you sell, business assets, weekly delivery services are deductible.

## Depreciation

Depreciation is an income tax deduction that allows a taxpayer to recover the cost of property or assets he/she purchased and “placed in service,” meaning it is used in his trade or business. A fixed asset is an asset that a business or firm will use to earn income. In this situation, the owner of the business does not anticipate selling the asset within a year of acquiring it, but rather the asset will still be “in service” after that period of time and will help produce long-term income.

Residential real estate can also be depreciated.

### Examples of depreciable assets include:

- *Machinery*
- *Vehicles*
- *Computers and software*
- *Other standard office equipment*
- *Furniture*
- *Buildings*

Depreciation is contrasted with an expense. Business expenses, which commonly include cash transactions such as a business office supplies, are fully deductible in the year in which they were incurred. The expense of purchasing a fixed or tangible asset can be depreciated and spread out over a number of years.

Businesses have a choice as to how to take a depreciation deduction. They can either write the cost off as an expense or they can deduct it as depreciation. If the business chooses to write it off as an expense, they can deduct the entire cost in the first year. Or they can depreciate it and write the asset's value off over its useful life expectancy. For example, if a business purchases a \$100,000 piece of equipment, I can take the entire \$100,000 in year one or deduct \$14,286 a year for seven years.

Various types of property are subject to different periods of time over which they must be depreciated. Depreciation calculates how much of an asset's value will be "used up" over these periods of time. For example:

- *Manufacturing tools and tractors depreciate over a period of three years.*
- *Computers, office equipment, light vehicles, and construction equipment depreciate over a period of five years.*
- *Office furniture and miscellaneous assets depreciate over a period of seven years.*
- *Residential real estate depreciates over a period of 27.5 years.*
- *Commercial real estate depreciates over a period of 39 years.*
- *Improvements to land depreciate over periods of 10, 15, or 20 years, with some exceptions.*

## **Design Cost**

Most design cost, including brochures, packages, and logos are deductible.

## **Directors' Fees**

Fees paid to directors of corporation are deductible.

## Domain name

Expenses associated with acquiring, registering and keeping a domain name are deductible.

## Donations

Only corporations are allowed a deduction for donations to charities or community organizations, at least in the “charitable” category. If the donation results in favorable publicity for the business, and therefore a likelihood of increased sales, many businesses deduct the donations, not as charitable contributions but as a promotion expense.

## Downloads

Downloaded music, apps, software and publications, if for your business, are deductible.

## Drones

Drones used for businesses can be deducted the year of purchase or depreciated over 7 years.



## Dues for organizations

You may deduct costs for dues to professional organizations, and those organizations which you can show are necessary to conduct your business. For example, your dues to the Chamber of Commerce are deductible if you can show that your Chamber membership allows you to promote your business.

### You may deduct dues you pay to:

- *Boards of trade*
- *Business leagues*
- *Chambers of commerce*
- *Civic or public service organizations, like Kiwanis or Rotary*
- *Professional organizations such as bar associations and medical associations*
- *Real estate boards*
- *Trade associations*
- *Personal or hobby clubs*

### You cannot deduct dues for these types of clubs:

- *Entertainment activities or facilities*
- *Recreation or sport, including golf clubs, country clubs, health and fitness clubs*
- *Airline or hotel clubs (like the airline clubs at airports)*
- *Any club with a social purpose*



## Education expenses

Self-employed business owners can deduct costs for their education, subject to certain limitations in the same way as individual taxpayers. You are self-employed if you own a business that is not a corporation.

**To be deductible, you must be able to show that the education:**

- *“Maintains or improves skills required in your presentwork.”*
- *It is required by law or regulations for maintaining a license to practice, status, or job. For example, professionals can deduct costs for continuing education.*

**Education expenses are not deductible if:**

- *The education is needed to meet the minimum educational requirements of your present trade or business. For example, you can’t deduct the cost of obtaining a license to practice if you don’t already hold such a license.*
- *The education is part of a program of study that will qualify you for a new trade or business.*

Many employers provide educational benefits for employees. Some of these benefits are for continuing education, to maintain professional licenses, or to gain new skills, credentials, or degrees to benefit both the employee and employer. Self-employed business owners also may be able to deduct education expenses.

Education expenses are legitimate business expenses. But there are still some qualifications that must be met before these expenses are fully deductible to your business. As usual with the IRS, this issue is complicated. Consult your CPA.

## **Electricity**

Electricity & other utilities are deductible.

## **Electronics**

Electronic equipment and devices are considered business assets, which can be deducted the year of purchase or depreciated over five years.

## **Employee Business Expenses**

If you reimburse your employee for out of pocket business expenses, you are entitled to take a tax deduction for the expenses. There are strict rules surrounding employee reimbursement, consult your CPA.

## **Employees**

Wages and benefits you pay to your employees are deductible.

## **Employment Agencies**

As an employer, if you pay an agency to find you employees you are allowed to deduct the fees associated with the service.

## **Equipment**

Equipment can be deducted the year of purchase or depreciated over five years or seven years, depending on the type of equipment.

## **Family**

A spouse or a parent on your payroll is treated like any other employee, expect a spouse and parents are not subject to Federal Unemployment (FUTA) Tax.

If you hire your children, if they are under the age of 18, they may be exempt from income and payroll taxes.

## **Finder Fees**

Finder Fees and commissions are deductible.

## **Fines**

Fines and penalties for violations of the law are not deductible. Penalties relating to not meeting contract requirements, and any other fines and penalties that does not require breaking the law are deductible.

## **Fixed Assets**

Fixed assets are machinery, equipment, furniture, fixtures, and any other assets owned by the business are depreciable assets.

## **Fixtures**

Shop, Store, and building fixtures can be deducted the year of purchase or depreciated over seven years.

## **Flexible spending accounts**

A flexible spending account is an employee fringe benefit and is deductible.

## **Flowers**

Didn't you know? Yes, flowers are deductible for your office, the store, secretary, client or customer.

## **Free Agents**

Free agents are another term for independent contractor and their fees are deductible.

## **Freelancers**

Fees charged by freelancers and other independent professionals are deductible.





## **Freight**

Freight cost on goods you sell are deductible.

## **Fringe Benefits**

Employers can deduct the cost of employee fringe benefits.

## **Fuel**

All fuel costs are deductible. Fuel cost for cars and light trucks are deducted differently than large trucks and heavy-duty equipment. See *Automobiles*.

## **Furniture**

Furniture can be deducted in the year of purchase or the depreciated over seven years.

## **Garbage Services**

Garbage services and other utilities are deductible.

## **Graphic Design**

Graphic design fees are deductible.

## **Grooming**

Personal grooming expenses are not deductible, except when you're traveling away from home overnight on business.

## Handling Charges

Similar to shipping, handling charges added to a freight bill are deductible.

## Heating

Heating and other utilities are deductible.

## Home Office

You can take a percentage of allowable home-related expenses, based on the percentage of your home used for business, including these expenses:

- *Casualty losses (with limits)*
- *Mortgage interest*
- *Real estate taxes*
- *Security system*
- *Homeowner's insurance*
- *Direct expenses for improving the business area of your home*
- *Depreciation on your home's value*
- *Rent, if you don't own your home*
- *Repairs made to your work area or that benefit your work area*
- *Utilities*

You can't include expenses for the home that have nothing to do with your business. For example, if you add a patio on the other side of your home, you can't include that in your deduction calculation.

## Importing

All fees and taxes related to importing can be deducted.

## Incorporation fees

If you are incorporating an existing business, fees to incorporate the business are deductible.

## Independent Contractors

Independent contractors are not employees and are self-employed and in business for themselves. The cost of hiring an independent contractor is deductible.

## Individual Retirement Arrangement (IRA)

IRA is a tax deferred retirement plan for individuals. Contributions to an IRA are not a deductible business expense.

## Insurance

Insurance is deductible!

A typical business insurance policy will cover several types of coverage. The cost of these types of insurance is a deductible business expense. These coverages include:

- *Property insurance, casualty insurance, and general liability insurance. The casualty and liability sections deal with all kinds of employer liability, commercial auto liability, and general crime insurance.*
- *Business interruption insurance is often included with overall business property and casualty coverage. It includes coverage in case you can't carry on business after an unexpected emergency or natural disaster.*

## Intellectual property

Intangibles, also called intellectual property, are business assets you cannot see, such as copyrights, trademarks, patents, and goodwill. Most intangibles are amortized over a period of years.

## Interest expense

Interest paid on business debts, interest on credit card purchases, and interest on purchases of business assets is deductible.

## Internet

The cost of internet access is fully deductible if used only for business.

## Inventory

Businesses that sell products need to be familiar with inventory. Keeping track of inventory is important for your business because:

- *Inventory is a valuable business asset. You need to know how much you have and how much it's worth.*
- *Costs associated with buying and selling inventory are deductible business expenses that can reduce your business taxes.*
- *Reporting inventory correctly can keep you from having problems with the IRS.*
- *Cost and gross profit from sales of inventory is a major part of your business tax return.*
- *Did you know you can use the value of your inventory as collateral for a loan?*



## Businesses have two kinds of inventory:

- *Supplies sitting on shelves waiting to be used.*

These include office supplies, cleaning supplies, computer supplies and accessories, and supplies used for specific purposes.

### Janitorial service

Janitorial and cleaning services are deductible.

### Landscaping

Landscaping, gardening, and lawn care expenses are deductible

### Laundry services

Laundry services for clothing used exclusively for work are deductible. Note, the clothing has to meet the IRS requirements. See *Clothing*. While traveling away from home on business, laundry service is deductible.

### Lawyers

See *Professional services* and *Attorney*.

### Leases and Rent

Business leases and rentals for buildings, vehicles and equipment are deductible. Payments made to cancel a lease is also deductible.

### Car/Automobile Leases

You can deduct lease payments for business vehicles. The vehicle does NOT need to be in your business name to get these deductions. However, the vehicle must be used for business.

## Legal Fees

Most legal fees and paralegal fees, filing fees and related expense are deductible.

## Licenses

Business licenses and permits, and licenses for any business property, are deductible.

## Licensing Fees

Fees paid for the rights to use someone else's work, such as trademark or an artist's photograph are deductible.

## List

Fees paid to rent or acquire mailing, email, telephone, or other lists are deductible.

## Loan Fees

Business loan fees are deductible. See *Loans* and *Interest*.

## Lodging

Lodging is deductible while you're traveling away from home overnight on business. See *Travel*. Corporations can deduct actual lodging expenses or use a per diem rate. Non-corporate businesses cannot use the per diem.

## Logo

Cost of creating your company or product logo is deductible. Graphic designs and package designs are also deductible. Ask your CPA if the cost can be deducted immediately or has to be amortized over several years.

## **Losses**

Casualty and theft losses are deductible, with some limitations. Business losses, which is shown as a loss on your tax return, can be used to offset other income this year and can also be used to offset profits from other years.

## **Machinery**

Machinery can be deducted the year of purchase or depreciated over seven years.

## **Magazines**

Magazines, books, newsletter, newspaper and all print and online publications that are in any way related to your business are deductible.

## **Mailbox store rentals**

Mailbox rentals are deductible.

## **Mailing Lists**

Mailing list rentals and purchases are deductible.

## **Mailing supplies and Expenses**

Mailing supplies and postage costs are deductible.

## **Maintenance**

Maintenance and minor repairs are deductible.



## Management Fees

The fees charged by consultants you hire for management help are deductible.

## Marketing

Marketing is a broad term that includes advertising, promotion, news releases, catalogs, public relations, etc. are deductible.

## Market Research

Market research expenditures may be deductible currently, or they may have to be capitalized over time if they are large expenses. If the expense is not substantial, the fees for market research are deducted when incurred.

## Materials and Supplies

See *Supplies*.



## Meals

Meal expenses are still deductible, with some changes.

- *Meals during entertainment events are deductible if they can be separated out*
- *Meals for employees while traveling, for all-employee events, or business meals, in general, are still deductible at 100 percent.*
- *Meals for employees at your location (think cafeteria or break room) are no longer deductible at 100 percent, but only at 50 percent).*
- *When it comes to deducting meals, I recommend keep track of the following*
  - *Date*
  - *Amount*
  - *Business that was discussed*
  - *Name of person you had the meal with*

## Membership Fees

Membership fees/dues and other expenses related to professional organizations, merchant and trade associations, unions, business leagues, unions, chamber of commerce and similar business groups are deductible.

## Merchandise

Merchandise is another term for inventory, goods for sale. Merchandise cannot be deducted until sold.

## Merchant association

Dues and meetings are deductible.

## Messenger service

Messenger service are deductible.

## Mileage Allowance

Mileage is deductible but there are rules to deducting mileage. Please read this in its entirety.

There are two methods available for deducting driving expenses related to business travel, the standard mileage rate or the actual vehicle expenses.

### What Is the Standard Mileage Rate?

The first option for deducting driving expenses is to use the standard mileage rate. In this deduction, you will calculate total miles driven and multiply it by the standard mileage rate.

Driving for Uber or another ride-sharing company? Driving for your own business? Driving a truck as an independent contractor? No matter what kind of business driving you do, you need to know the IRS standard mileage rate for the year, in order to do your business taxes.

At the time this book was published the Standard Mileage Rates is as follows:

- *57.5 cents per mile for business miles driven*
- *17 cents per mile driven for medical or moving purposes*
- *14 cents per mile driven in service of charitable organizations (fixed by Congress, never adjusted for inflation).*

You can make deductions using standard mileage if:

- *You have used the standard mileage rate since you first leased or bought the car.*
- *You have leased a car and intend to use the standard mileage rate deduction for the entirety of the lease.*
- *You use four vehicles or fewer in your daily business operations.*

You cannot use the standard mileage rate if:

- *You have used the actual expense tax deduction and claimed the accelerated depreciation deduction in previous years.*
- *You have claimed a Section 179 deduction on the vehicle.*

*If you use the standard mileage rate you cannot deduct:*

- *Lease payments.*
- *Depreciation.*
- *Actual auto expenses.*

*You can still deduct business related:*

- *Parking fees and tolls.*
- *Interest if you have a loan on the car.*
- *Applicable registration fees and any taxes.*

You can switch to using the actual expense method in later years even if you first began using the standard mileage rate.

Another option available for deducting driving related expenses is the actual expenses method. You can use this method if you are not able to use the standard mileage rate or if you simply choose not to.

## You Must Use Actual Expenses If:

- You have a fleet of vehicles (more than four) used simultaneously for your business activities.
- You lease a car and do not plan on using the standard mileage rate for the entirety of the lease.
- You used the actual expense calculation when your vehicle was first used for business purposes. You cannot switch to standard mileage rate in later years.

## Examples of Actual Expenses You Can Deduct:

- Interest on a vehicle loan
- Vehicle depreciation (leased vehicles cannot be depreciated)
- Registration fees and tax
- Parking fees and tolls
- Garage rent
- Lease payments (an income inclusion amount must be subtracted from the amount you can deduct if the vehicle's value is above a certain amount. This amount changes yearly so be sure to check with the IRS or your accountant)
- Insurance
- Gasoline
- Oil
- Maintenance
- Repairs
- Insurance
- Tires
- License plates
- Registration fees

## **Motorcycle**

The cost of a motorcycle used for business can be deducted the year of purchase or depreciated over five years.

## **Moving expenses**

You may deduct all the expenses of moving your business from one location to another. Employers can deduct moving expenses paid to employees or reimbursed to employees, if the move meets the IRS requirements for distance and length of the stay.

## **Net Operating Loss**

If your business incurs a loss this year, you will not owe any income taxes on the business. You may not know that this loss can be used to offset income and reduce taxes from other years. The loss can be carried back 2 years to offset income. If there are additional losses remaining you can carry the loss balance forward to apply to as many as 20 future years.

## **Networking**

Networking usually refers to interacting with people to promote your business. Networking expenses are deductible, although you want to ensure that the expenses are not considered entertainment.

## **Notary Fees**

Notary fees are tax deductible.

## **Notes**

Promissory Notes and notes payable, like loan payments, are not deductible. The interest is deductible.

## **Occupational**

Occupational licenses, fees, and registrations are deductible.



## **Office**

Cost of renting an office is deductible. The cost of an office building you own can be depreciated.

## **Office equipment**

Office equipment can be deducted the year of purchase or depreciated over five years.

## **Office supplies**

Deductible, Deductible, Deductible!!!

## **Operating expenses**

“Operating Expenses” is a general term for the day-to-day cost of running a business. Various expenses fall under this category, check individual category to determine if expense is deductible or not.

## **Operating Losses**

Business losses can be used to offset other income in the year incurred and can also offset profits from other years. See Net Operating Loss.

## **Organizational Cost**

This is a tax deduction only available to corporations. Organizational cost are the legal and accounting services and government filing fees to set up a corporation. Up to \$5,000 of the organizational cost can be deducted the first year the business opens. Expenses in excess of the \$5,000 are amortized over 15 years.

## **Package Design Cost**

Deductible.



## Packaging Materials

Packages, bottles, boxes, cartons, packing supplies are deductible.

## Painting

A paint job is deductible.

## Paralegal Fees

Paralegal fees are deductible.

## Parking

Parking at your regular place of work is not deductible. This is considered a commuting expense. All other business parking costs are deductible.

## Parties

A company or holiday party where all employees are invited is 100% deductible. All of your employees do not have to show up but they all must be invited to deduct the cost. Company parties that all employees are not invited to are considered entertainment therefore, not deductible.



## Patents

Patent costs are amortized over 15 years.

## Paying yourself

If your business is a sole proprietorship, partnership, or LLC, you, the owner (or co-owner), are not an employee of your business. You cannot hire yourself as an employee!!!! You cannot pay yourself a wage and deduct it as a business expense. You do not pay payroll taxes on it and you cannot claim it as a deduction. Your profit is your wage which is reported on your personal tax return.

Corporations: If your business is a corporation, you are an employee of your business. Your salary is a deductible expense of your business. See *Wages*.

## Payroll

See *Wages*.

## Payroll Services

Hiring a payroll service to process your payroll a deductible cost.

## Pension Plans

Pension plans are set up by employers for employees. Many employee pension plans are deductible, but you should consult your CPA.

## Permits

Business Permits and Licenses are deductible. Permits obtained before starting your business cannot be deducted until the business is operating.

## Photocopies

Deductible.

## Plants

Office plants and their upkeep are fully deductible.

## Postage

Postage, post office box rents, and postal permits are deductible.

## Post Office Box

Post office box rent, and mailbox store rentals are deductible.

## Presentations

The cost of planning and giving business presentations are deductible.

## Prizes

Prizes and awards given to customers that generate sales or publicity for your business are deductible. There is a difference between prizes and gifts. Business gifts are limited to \$25 per recipient per year. Prizes and awards do not have that limit.



## Professional Services

The IRS specifically lists Certified Public Accountants and attorneys under the category of legal and professional fees, but other professionals can be included. Such as, independent contractors, appraisers, systems analysts, consultants, and bookkeepers.

Fees paid to an attorney or accountant as part of the startup of your business cannot be considered in the category of legal and professional fees. These fees are part of the cost of business startup, and they must be included in this cost. Some of the costs of startup may be considered an expense in your first year of business, but the rest of these startup costs are spread out over several years.

**Some of these legal and professional fees for a business startup might include:**

- *Cost of hiring an accountant or consultant to set up your business accounting system and recordkeeping system*
- *Cost for an attorney to help you register your business legal entity with your state*
- *Cost for an attorney to set up your corporate records and prepare your bylaws, if you are starting as a corporation; and*
- *Cost for an attorney to write your partnership agreement for a partnership or operating agreement for an LLC.*

Some of these professional fees and costs are specifically not deductible as business costs, while others may be deductible in other places on your business tax return.

Fees paid to professionals for personal advice, personal taxes, or personal legal services are not deductible business expenses. Use your business checking account or business credit card for the business portion and your personal funds for the personal portion. You may not deduct fees paid to professional lobbyists to represent your company's interests in a local, state, or federal legislature.

## **Profit-Sharing Plans**

Self-employed people cannot set up a profit-sharing plan for themselves, but they can have one or more retirement plans. Employers are able to deduct profit sharing plans for employees.

## **Promissory Notes**

A promissory note is a promise to pay money you owe. The note is not deductible, but the interest is.

## **Promoter fees**

If you are a rapper, singer, musician, artist, or entertainer and you pay promoters out of pocket it is a deduction.

## **Promotion**

Promotional expenses are deductible. These may include brochure, audio, public relations, small gifts, greeting cards, or some service.

## **Protective Gear**

Cost of gear is deductible.

## **Real Estate**

Real estate is a building and land. Buildings can be depreciated. Land cannot be written off until sold.

## **Rebates**

Deductible.

## **Recreation Facilities and equipment**

Recreation and athletic facilities and equipment on the business premises that are open to all employees are deductible.



## Referrals

Commissions or fees paid for referrals are deductible.

## Refunds

Money you refund to a customer is deductible.

## Relocation Cost

Cost associated with relocating is deductible. See *Moving Expenses*.

## Rent

Rentals and leases for building, vehicles, and equipment are deductible.

## Repairs

Minor repairs to buildings, machinery, and equipment are deductible if they are a current expense. Major repairs are deductible and depreciate over a period of years.

## Research

Research and development cost are deductible.

## Reserves

As reserves are funds set aside for future use or an unplanned expense or loss, they are not deductible.

## Roads

You can deduct the cost of maintaining a private road or driveway on your business property.

## Royalties

Royalties you pay are deductible.

## Sales Expenses

Most sales expenses are deductible. See individual expense category.

## Sales Refunds

Money you refund to a customer is deductible.

## Samples

Samples of your merchandise, given to prospective buyers or to people who might review or publicize your products are deductible.

## Scholarships

Scholarship given to members of the community as a gesture of goodwill may be deductible as a promotional expense.

## Security

Security services and patrols are deductible.

## Seminars

The cost of attending seminars and business meetings are 100% deductible.



## Shipping & Shipping Supplies

Shipping and shipping supplies on goods sold are deductible.

## Studio

The cost of renting a studio is deductible and the cost of a building you own studio is depreciated.

## Subcontractors

If you are hiring subcontractors to work with building contractors you are also hiring, you will deduct the cost the same way you do building contractors.

## Subscriptions

Subscriptions are deductible.

## Supplies

Office supplies and miscellaneous business supplies are deductible.

## Surveys

The cost of conducting surveys to get customers opinions is deductible.

## SUVs

You can deduct the cost of using an SUV for business. See *Automobiles*.

## Tariffs

Tariffs and all fees and taxes related to importing and exporting can be deducted.

## **Tax Credit**

Tax credits are special tax incentives created by congress to stimulate the economy, to encourage businesses to act in socially or environmentally responsible ways. Tax credits and tax deductions are different. Tax deductions are expenses that reduce business profit. Tax credits do not reduce your profit, but they do reduce your taxes directly.

## **Tax Return Preparation**

Fees charged to prepare your business taxes are deductible. If your CPA is preparing your personal and business taxes, ask him/her to separate out your bills for each service.

## **Telephone**

All business telephone services, fees and taxes for landlines and cell phones are deductible.

## **Thank you cards**

Deductible. It is such a nice touch to add to your product and/or service so now that you know it is deductible, send out a thank you card to your clients.

## **This E-book**

Yup, save your invoice and deduct it!

## **Tolls**

Vehicle tolls are deductible.

## **Tools**

Inexpensive tools and tools with a life of a year or less are deductible. Expensive tools are depreciated over seven years.

## Touring expenses

See *Travel*.

## Trademark

The cost of obtaining a trademark, service mark, trade name, or trade dress is amortized over 15 years.

## Trailers

Travel trailers, utility trailers, and movable mobile homes can be deducted the year of purchase or depreciated over five years

## Training

Training expenses, seminars, videos, and manuals are deductible. See *educational expenses*.

## Transportation

Local transportation expenses are deductible except commuting expenses which are not deductible. See *Commuting*.



## Travel

If your travel is not commuting but is business travel, you can deduct travel expenses including:

- *Transportation by airplane, train, bus, or car between your home and your business destination,*
- *Taxi, uber, limo, or shuttle expenses,*
- *Baggage fees or shipping of work-related materials,*
- *Car expenses, for use of your own car or a rental car,*
- *Lodging and meals, if your trip is overnight or long enough that you need to stop for sleep or rest,*
- *Dry cleaning and laundry expenses,*
- *Business-related phone calls while you are away,*
- *Tips for business-related expenses while you are traveling; and*
- *Other business-related expenses while you are traveling.*

It's important to keep good records on these expenses so you can show business purpose.

- *Business Trips within the U.S*
- *Business Trips outside of the U.S*
- *Business & Vacation Combined*
- *Deductible Expenses*

## Trucks

You can deduct the cost of using a truck for business.

## Uncollectible Accounts

Uncollectable accounts are deductible as bad debts, but only if they were previously in your income when you made the sale.

## Uniforms

Uniforms used exclusively for work are deductible. This includes costumes and protective gear.

## Unions

Dues and meetings are deductible.

## Utilities

Utilities, including electricity, gas, heating fuel, water, sewer service, and garbage pick-up are deductible.

## Wages

The salaries, wages, commissions, and bonuses you have paid to the employees of your small business are tax-deductible expenses if they are deemed to be:

- *Ordinary and necessary*
- *Reasonable in amount*
- *Paid for services actually provided, and*
- *Actually, paid or incurred in the year for which you claim the deduction*

## Warehouse

The cost of renting a warehouse is deductible. The cost of a building you own warehouse can be depreciated.

## Warranties

Extended warranties that cost additional money are deductible if they do not extend beyond twelve months.

## Website

The cost of designing and setting up a website is deductible.

## Workshop

Cost of renting a workshop is deductible. The cost of a building you own workshop can be depreciated.