

## **Small Business Tax Help: Are You Claiming Enough Deductions?**

The formula is pretty simple: your small business must pay taxes on what's left of your revenues after you have deducted all your expenses. That said, it would seem to make sense to claim the maximum allowable number and amount of deductions in order to reduce your tax liability. Luckily, the IRS gives you lots of choices as to tax deductions that you can legally claim.

Here are some deductions that you should think about when doing your business tax planning.

Here's some allowable tax deductions that you don't want to miss.

### 1. Deductions for Start-up Costs

In your first year of small business, you are allowed to write off as much as \$5,000 in start-up costs. In addition you can write off an additional \$5,000 in organizational costs. Not only that: you also have the option of spread out expenses not deducted in the first year over a period of 15 years, beginning with when you opened your business. Eligible costs include things like market research, company advertising, training of your employees, travel for business, legal advice and other costs. Consult your tax professional for more details.

### 2. Deductions for Education

First stop: IRS Publication 970, "Business Deductions for Work-Related Education." For the most part, you can write off expenses related to your employees' education if the courses relate to their jobs.

In other words, if the course helps them keep pace with the marketplace demands (or improve their skills) or if they need the course to actually keep their existing jobs, then the expense may be a legitimate deduction. The bad news is that you can't take a write-off on any expense related to training in a new, unrelated field. A couple of other things to remember: You can also claim a write-off if you are self-employed. Deductions also include the cost of getting to and from the classes. Consult your tax professional for more details.

### 3. Deductions for Vehicles

Be careful here: the rules for deducting automobile expenses are pretty detailed and the Feds pay close attention to anyone claiming these deductions. So, for starters, keep clear and concise records. You can deduct expenses two ways:

The first option is to claim a deduction by counting how many miles you drove while on business. Currently, you can claim a deduction of 44.5 cents per mile. Check to make sure that is the current amount, as it does change occasionally. The other option is to track your total expenses incurred on things like gasoline, repairs and maintenance.

Remember: keep good records. If you're using your own personal vehicle for your small business, make sure you separate the times you use it for business from the times you do not. Include dates, destinations, purpose of the travel, etc. Read IRS Publication 463 for more info. And here's an important point: if your employees use a business vehicle while running personal errands, for example, you have to show this as income to them on their W-2.

A couple of other things to remember: If you bought a new (or previously owned) car, you can take a write-off. You'll have to decide if it's better to take it in one single deduction or spread out over a period of time through depreciation. And if that car is a hybrid, you might be eligible for a tax credit. Read IRS Publication 8910 for more details. As always, consult your tax professional for more details.

#### 4. Deductions for Equipment

You have the ability to take a write-off for small business equipment purchases. The write-off can be pretty large — in 2006 it amounted to over \$100 thousand. And the equipment can be used; the only requirement is that you use it at least half the time for your company. Allowable equipment includes things like computer hardware, machinery, office furniture, automobiles and other related equipment.

Make sure you read a current copy of IRS Form 4562 before planning your tax strategy on this point. If you decide you are not going to claim this write-off immediately, you can spread it out over a period of years by claiming depreciation on that equipment. Consult your tax professional for more details.

#### 5. Deductions for Entertainment

The IRS definition of entertainment is pretty flexible. Generally speaking, if you attend a business meeting, for example, and you are not reimbursed for the expenses, you're allowed to write off up to half the entertainment expense. They do caution you that the "entertainment" must be in a business context. This means if you go to a seminar or conference, that's OK. Also, the entertainment should come immediately before or after the meeting. You get a break if you are self-employed; then, the 50 percent deduction cut-off does not pertain to you. Consult your tax professional for more details.

#### In Conclusion

The Internal Revenue Service is pretty generous in offering your business a whole range of tax write-offs. Just make sure you talk to your tax attorney or CPA to get the most current rules and regulations before you begin planning.