Ten Tax Deductions For Entrepreneurs - Resources - Portfolio.com

http://w w w .portfolio.com/resources/2011/04/14/ten-tax-deductions-for-entrepreneurs May 22, 2011

It is estimated that entrepreneurs will file over 24 million tax returns in 2011. One of the beauties of owning a business come tax time is the ability to write off numerous business expenses through deductions.

For those who started a business last year, there's an additional bit of good news. Filers are entitled to a new, higher deduction for startup costs incurred in 2010.

There are also certain types of expenses that small-business owners cannot deduct, including personal expenses, capital expenses (such as business assets and improvements), or the expenses used to figure the cost of goods sold. (Here's the Internal Revenue Service's explanation of the latter.)

Here are 10 items that entrepreneurs may not realize they can deduct:

1*. New*—Startup deductions: Business startup and organizational costs are generally considered capital expenditures. However, for tax years beginning in 2010, owners can elect to deduct up to $10,000 of business startup costs paid or incurred after 2009. The $10,000 deduction is reduced (but cannot go below zero) by the amount such startup costs exceed $60,000 according to the IRS. Any remaining costs must be amortized.

2. *New*—Environmental cleanup costs: The election to deduct qualified environmental cleanup costs has been extended to cover costs paid or incurred in 2010 and 2011. Environmental cleanup costs are generally costs related to abating or controlling hazardous substances at a qualified contaminated site. To get the deduction, you need a statement from the designated state environmental agency that the site meets the requirement.

3. Interest on borrowed money: If you had to borrow money for business purposes, the interest is deductible. But be careful. If you use 70 percent of a loan for business and the other 30 percent for a family vacation, you can only deduct the 70 percent of the interest as a business expense.

4. Advertising and marketing: As long as they are directly related to your business, you can deduct the cost of ordinary advertising, including the cost of business cards, online yellow page ads, plus the costs of promotions that create good publicity (such as sponsoring a local sports team), notes American Express Open Forum.

5. Education and publications: June Klein, CEO, and Ira Klein, general tax counsel, of New York-based Technology & Marketing Ventures Inc., shared the following about educational classes and seminars, noting that it is best to check with a tax professional for individual cases: "Regulation 1.162-5 permits a business deduction for educational expenses if the education maintains or improves skills required in a taxpayer's employment or in its business. Education expenses include books. However, if the education expenses are required for a taxpayer to meet minimum education requirements for qualification in his employment or business, or to qualify for a new trade or business, the educational expenses are not deductible."

6. Retirement savings: The National Association for the Self-Employed points out that you can deduct retirement savings, such as SEP (Simplified Employee Pension plan) contributions and IRA deposits, which are deductible for last year's tax return up until April 18, 2011. That means you can count money deposited into these accounts, up until the day you file your 2010 tax return. In the case of SEP contributions, those can even be made up until an extended due date, as late as October 15.

7. Improvements for disabled, elderly: The cost of an improvement to a business asset is normally a capital expense. But if you improve a facility or public transportation vehicle in such a way that it becomes more accessible to and usable by those who are disabled or elderly, you can deduct those so-called "barrier removal" costs. You must own or lease the improved facility or vehicle for use in connection with your trade or business in order to get the deduction.

8. Bad debts: Small-business owners can deduct bad debts, meaning money the business is owed but cannot collect. But the deduction can only be taken if it was previously included in gross income.

9. Cameras, computers, video-recording equipment: The Kleins point out that IRC Sec 280F permits a deduction for "listed property" such as computers, cameras, video-recording equipment, and the like, if it is used more than 50 percent for business purposes. This applies regardless of whether the taxpayer owns or rents the property. What about cable TV, if a person's job involves the cable business? If the facts support exclusive use in a taxpayer's business, then the bill is deductible, but if the cable box is in one's own home, the answer is less clear. In that case, the cable box is rented along with the service, and a deduction for the more than 50 percent business usage should—emphasis on *should*—be allowable. Since the property is "listed property," the IRS will notice it and perhaps question the deduction, so be prepared to explain.

10. Association memberships: Business owners can deduct costs related to attending business meetings or conventions of certain tax-exempt organizations. These organizations include business leagues, chambers of commerce, real estate boards, and trade and professional associations.

The Kleins suggested these other often-overlooked deductions or tax-minimization techniques for entrepreneurs: home office deduction (IRC 280A); research and development credits (IRC Sec 41); deductions for uniforms and special clothing (Regulation 1.62-2); deferral of income for accrual basis taxpayers (Regulation 1.451-5); and like kind exchanges (IRC 1031).

Sole proprietors doing their own taxes can find help from a number of sources, including the NASE's Tax Resource Center, where small-business owners can ask the organization's CPAs and tax professionals a question and hear back within a few business days. The IRS also offers a website, IRS.gov, and a toll-free help line, 800-829-1040, for those seeking answers to tax questions.

Another good resource on deductions is IRS' Publication 535.

Get more business intelligence from Portfolio.com:

- **Clinching the Social Deal:** Newcomer to the daily deal space Facebook is going to leverage what it does best: be social. And the company plans to do so by teaming up with established coupon leaders to spread the word and watch the dollars multiply.
- **A Mixed Spending Bag:** Loans for small businesses and money for R&D were largely spared in the spending bill that helped to avert a government shutdown last week, but other industries, like construction and medical research, suffered cuts.
- **Flipping Out Over Consumers:** Cisco Systems is a company in transition. And like many others that are trying to distinguish which elements of their business work and which don't, Cisco has opted to cut its popular Flip venture. But business owners, who use the cameras for work, are wondering why.

Teresa Novellino writes for Portfolio.com