

## Business Deductions

### Home office

- A home office automatically qualifies as a principal place of business if the sole location of a business or practice is the home and it is used exclusively and regularly to provide goods or services from that location. It also qualifies if it is the exclusive and regular place for the administrative or management activities of any trade or business of the taxpayer and there is no other location where the taxpayer conducts substantial administrative or management activities.
- The following expenses are used to calculate the home office deduction:
  1. Home mortgage interest and real estate taxes
  2. Home owner's insurance
  3. Utility expenses
  4. Repairs
  5. Association Dues
  6. Rental expense
  7. The lower of the original cost of the house plus improvement or the fair market value when placed into service.

You will need the square feet used for business and the square feet of the entire home. The above is a sample of deductible expenses, please consult your tax advisor concerning deductions specific to your tax preparation.

### Interest Allocation Rules

- Interest on a debt is allocated by tracing disbursements of the debt proceeds to the specific expenditure. As an example you can borrow money against your house and if the proceeds are used to pay for items used in your business, you can deduct the interest expense on your business return.

### Deductibility of Business Meals

To receive a tax deduction for a meal with a customer or employee, you must discuss business during the meal.

- Meal with employee 50% deduction
- Meal with client 50% deduction
- Meal for yourself while on the road for business 50% deduction
- Dinner for employee working overtime ( if deemed de minimis) 100% deduction
- Lunch ordered in for staff meeting (if deemed de minimis) 100% deduction
- Lunch or dinner or food offered during promotional event 100% deduction
- Certain businesses are subject to the Department of Transportation rules and may receive a greater deduction for meals. Please consult with your tax advisor.
- Required documents to support meal expenses
  - Restaurant's name and location
  - Number of people serviced
  - Date and amount of expense

### **Automobile Expenses**

- Some businesses may be able to use a standard mileage allowance for automobile expense instead of actual expenses. Both methods require that business mileage records be maintained. You should have the beginning and ending odometer readings for your business vehicle.
- Remember that a trip to the bank and office supply stores represents business mileage.

### **What happens if I cannot find the receipt for an expense?**

- IRS Notice 95-50 provides that documentary evidence if business travel and entertainment expenses such as receipts or paid bills, are not necessary for expenditures under \$75.
- The taxpayer is still **required to record in a diary or expense report the time, place, business purpose and amount of the separate expenditures.**

### **Health Insurance for the Sole Proprietor, Partner and S-corporation shareholder**

- This deduction is taken on the front of your 1040 and is not subject to any limitation. This is different from other medical deductions.

### **Employing a child in your business**

- Salaries paid to a child may create a source of earned income to support a contribution to an IRA or a Roth IRA.
- Wages paid to a dependent child can shift income from the parents' higher tax rates to the child's normally lower rates.
- If your entity is a *sole proprietorship* and your dependent child is under 18, the wages paid to the dependent child are exempt from Social Security and Medicare taxation and exempt for FUTA if the child is under 21.

### **Domestic Production Activities Deduction**

**What activities qualify?** Qualified domestic production activities include:

- Manufacture, production, growth or extraction of tangible personal property, computer software or sound recordings or qualified films
- Production of electricity, natural gas or potable water in the U.S.
- Construction services including related engineering and architectural services performed in the U.S.

### **Your DPAD is generally 9% of the smaller of:**

1. Your qualified production activities income (QPAI), or
2. Your adjusted gross income for an individual, estate, or trust (taxable income for all other taxpayers) figured without the DPAD.

However, your DPAD generally cannot be more than 50% of the Form W-2 wages you paid to your employees (including Form W-2 wages allocated to you on a Schedule K-1).

*The information presented is general in nature and may not be applicable to or suitable for the individuals' specific circumstances or needs and may require consideration of other matters. It is not intended as tax advice. Please seek the advice of your professional Tax Adviser regarding such matters.*