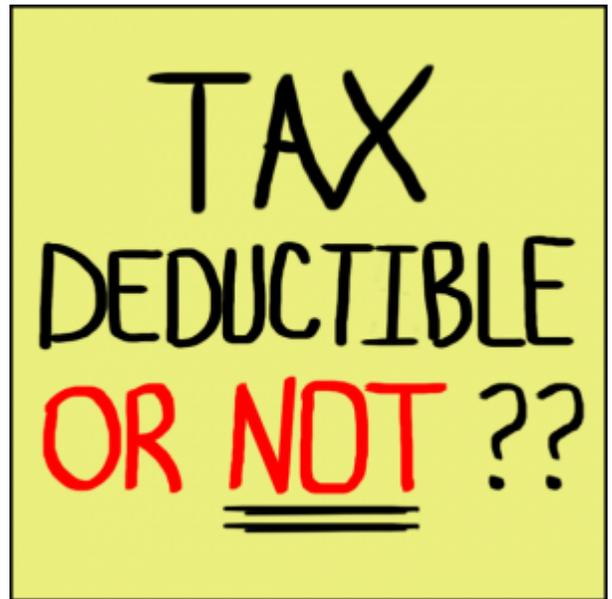


Small Business Tax Deductions



Business Tax Deductions

Posted September 17, 2018

Ahh.. the good stuff. Yes, you work hard. Yes, you want to be able to get a little extra from your hard work and your business. Yes, you want this to be tax-advantaged. We get it. This post will discuss the 185 small business tax deductions you cannot take, explain how to position yourself on allowable business tax deductions, and then get into hot topics such as automobiles, home offices, deducting MBAs, Cohan rule and other fun things. Let's not forget about the Sutter rule too... the good doctor who made every meal a business meal (spoiler alert: he lost).

This page is a condensed version of Chapter 8 on Tax Deductions and Fringe Benefits from our book titled **Taxpayer's Comprehensive Guide to LLCs and S Corps**. You can fix yourself a Moscow Mule with cucumber vodka and click on the button below for the online version.

[Chapter 8 Tax Deductions](#)

[Shortie Book in PDF](#)

Section 199A Pass Thru Tax Reform

Section 199A deduction also known as the Qualified Business Income deduction arises from the Tax Cuts & Jobs Act of 2017. This is a significant tax break for small business owners but there are rules and limits of course. We have written a short article which outlines what is considered a qualified business for the qualified business income deduction including the dreaded specified service trade definitions (which is easily summed up as "any trade or business where the principal asset is the reputation or skill" of the owner). Click on the button below for our article-

[Pass Thru Tax Reform](#)

S corporations remain a critical tax saving tool for two reasons. First, the usual self-employment tax savings remains intact for all business owners including specified service trades or businesses. Second, a business owner might need to pay W-2 wages to himself or herself to not be limited by income, and only corporations can pay W-2 wages to owners (in other words, an LLC cannot without an S Corp election). Read the article above for riveting information!

185 Business Tax Deductions You Cannot Take

Similarly to the 185 reasons to not elect S corporation taxation, there aren't 185 small business deductions that you cannot take. However, we want to start with the crazy things small business owners try to do since it is such a good springboard for discussion. Having said that, we are not trying to limit your deductions nor are we the government's accountant. The Watson CPA Group is your advocate, and we can help position you and your business to maximize your small business deductions.

100% Cell Phone

Most small businesses operate on a cell phone. However, most small business owners also use his or her cell phone as a personal phone. The minute you get the "Hey honey... we need milk and eggs" text message to your cell phone, it drops from 100% business use to something else.

If you attempt to deduct 100% of your cell phone as a small business tax deduction, the IRS will claim 0% and then force you to demonstrate why it should be something else. Conversely, if you approach this from a position of being reasonable it is extremely challenging for the IRS to argue otherwise. What is reasonable?

Anywhere from 50% to 80% is a good jumping off point. Since this is a mixed use expense between personal and business, the cell phone charges should be paid by you personally and then reimbursed by the company for the business use portion through an accountable plan. See Chapter 6 about Accountable Plans.

Automobiles



Automobiles will be discussed in nauseating detail later, and there is a decision tree as well to help determine if you should own it or the business. In keeping with the business tax deductions that are disallowed, claiming your only automobile as 100% business use is a tough sell.

Home Office Improvements

You cannot spend \$30,000, finish your basement, plop your desk in the middle of it and deduct the \$30,000 for two reasons. First, the entire space must be regularly and exclusively used as a home office. This means the theater room must be a conference room, and the wet bar must be the office kitchen. Might be tough in the world of small business tax deductions.

Second, even if the entire basement is designated business use, the \$30,000 represents an improvement. Therefore it must be capitalized as an asset and subsequently depreciated over 39 years.

Food

More bad news. You cannot deduct your business meals unless you fall under one of two situations-

- You are entertaining a client, prospect or other business associate (or a small group such as 12), and discussing business matters, or
- You are away from your tax home where you require substantial rest (such as an overnight trip), and that trip has a business purpose.

So if you cruise through the Starbucks drive-thru and grab your triple grande vanilla breve on the way to your day meeting, no good. However, if you are traveling away from your tax home when on a business trip, then order the venti.

Your small business tax deduction is limited to 50% under both circumstances.

Per Diem

Sole proprietors including single-member LLC owners, and partners are allowed to deduct the federal per diem rate for meals. Lodging can only be deducted using the actual cost of lodging. Where are S corporations? You are not going to like this. Employees of corporations are eligible for per diem allowances, reimbursements and deductions **unless** this same employee owns more than 10% of the corporation.

This means that most S corporation shareholders are hosed, and can only deduct (or get reimbursed) for actual meal costs. **IRS Revenue Procedure 2011-47** has this limitation and **IRS Publication 463** states in part "A per diem allowance satisfies the adequate accounting requirements for the amount of your expenses only if...you are not related to your employer." You are related to your employer if-

- Your employer is your brother or sister, half brother or half sister, spouse, ancestor, or lineal descendant,
- Your employer is a corporation in which you own, directly or indirectly, more than 10% in value of the outstanding stock, or
- Certain relationships (such as grantor, fiduciary, or beneficiary) exist between you, a trust, and your employer

So the question becomes, if you are an LLC being taxed as an S corporation, are you a corporation where you own stock or an limited liability company where you own a membership interest. We believe these are one in the same in this context. Don't fret. You can still deduct 50% of your meals when traveling; you just need to use actual expenses and not per diem allowances.

Country Club Dues

Nope. The IRS does not care how many times or how much you entertain your clients, prospects and business associates at your country club. The membership dues are not allowed small business tax write-offs. However, the specific out-of-pockets expenses associated with qualifying meals and entertainment incurred at your country club are deductible. There's some other devils in the details, but this is the general gist.

Don't confuse this with other types of dues such as Chamber of Commerce or other professional organizations such as BNI. Those dues are 100% deductible although there is some scuttle butt about BNI since a portion of the dues are for meals.

Commuting Expenses

It is unfortunate, but expenses associated with your commute to work are not deductible. Tolls and parking are the common ones small business owners attempt to deduct. There is a subtle difference to be aware of- driving from a work location to your client's place of business is not commuting. Commuting is driving from your home to your office or client's place of business.

You can solve a lot of problems surrounding commuting expenses by qualifying for a home office. Then your commute is from the bedroom to the home office. And if you shower, then the commute is from the bathroom to the home office.

Professional Attire

The tax code is very clear on this. Anything that you can convert to everyday use is considered personal, and therefore not tax deductible. Many business owners want to deduct dry cleaning expenses or Men's Warehouse purchases, but they usually cannot. We know you are rocking it in the double-breasted vest without a coat look, but the IRS doesn't have fashion sense and therefore doesn't care. However, there are some exceptions (of course there are).

Loan Payments

Many businesses have loans, either for automobiles, business equipment or lines of credit. However, having an expense category of "Loan Payment" is a dead giveaway that the business owner doesn't understand that only the interest portion of the loan payment is deductible.



Zeus and Apollo

Let's say you are a hotshot private investigator driving a red Ferrari 308 GTS in Hawaii. Can you deduct two Dobermans as business expenses? Possibly. We recently worked with a client who is a criminal defense attorney where we demonstrated that the need for security dogs was a bona fide occupational qualification. In other words, the dogs provided security to the criminal defense attorney so he was able to perform his job. Stop laughing, it was L-E-G-I-T. Not because of the creativity, but because of the argument's position.

Another way to look at these obscure examples- the IRS allows you to deduct most things if they eventually lead to the generation of taxable income. Think of investment fees. Think of Zeus and Apollo who allowed the attorney to continue taking on high-risk, high-profit (taxable) defense cases. Here is some more information from our LLC and S Corporations book-

[Tax Deductions That Are Grey](#)

Tax Planning with Depreciation Recapture

Please understand that depreciation is a tax deferral system rather than a tax avoidance system. Huh? When you sell or dispose

of an asset, you might have to pay tax on the portion that was depreciated.

For example, you buy a \$200,000 piece of machinery and use Section 179 depreciation to deduct the entire \$200,000 in the first year. Five years later you sell the equipment for \$150,000 because you slapped some new paint on it and you are a shrewd negotiator with your buyer. You will now have to recognize \$150,000 of taxable ordinary income. Yuck. But there is a silver lining- depreciation recapture is taxed at your marginal tax rate up to a maximum of 25% tax rate. So, you could have depreciated your asset during 39.6% marginal tax rate years just to pay it all back at 25%. Bonus. Tax planning is a must! How many times have we mentioned that?

Small Business Tax Deductions Themes

There are some over-arching themes and concepts for all small business deductions. The business expense must be-

- Ordinary and necessary (IRS Publication 334), **and**
- Paid or recognized in the current tax year, **and**
- Directly related to your business, **and**
- Reasonable, and not lavish or extravagant (IRC Section 162 and IRS Publication 463).

Let's break these down. An ordinary expense is one that is common and accepted in your field of business, trade, or profession. A necessary expense is one that is helpful and appropriate, although not necessarily required, for your business. In **Samp v. Commissioner (Tax Court Memo 1981-706)**, an insurance agent had a handgun since he traveled to an area with a recent unsolved murder. The tax court responded with "A handgun simply does not qualify as an ordinary and necessary business expense for an insurance agent, even a bold and brave Wyatt Earp type with a fast draw who is willing to risk injury or death in the service of his clients."

You have appreciate a Wyatt Earp reference from a tax court judge. Ouch. Clean up on aisle Allstate.

The expense must be paid or recognized in the current year. Expenses that were paid but not deducted in previous years cannot be "caught up" by deducting them today without amending your prior tax returns (which are easy to do, and should be done if there is money to be had).

Value of a Business Tax Deduction



Here is another concept that small business owners miss. Tax deductions only reduce taxable income. If you spend \$1,000 and your marginal tax rate is 25%, then you only save \$250 by spending \$1,000. Every December the Watson CPA Group fields hundreds of phone calls and emails from clients asking if they should buy something to save on taxes. Our response is a simple flowchart-

- Do you need the item you are considering? If No, then stop. Don't buy anything. If Yes, then continue to the next question.
- Is the current year's income unusually high, or do you expect to earn more next year?

Without sound snarky, why would you buy something on December 31 if your tax rate will only increase the following year? Wait 24 hours, buy the cool thing you need and get a better yet delayed tax deduction. And if you don't need it, why would you spend money unnecessarily only to get a portion of that back in tax savings? Another way of saying this is- keep some tax deductions in your pocket for next year. You don't want to be in a position where you ran out of perfectly good deductions in a year of increased taxable income.

Conversely, if your current taxable income is unusually high and you expect it to go down next year then perhaps you should accelerate your timelines for major purchases. The Watson CPA Group can help with the tax modeling and planning.

All too often we hear people at cocktail parties say something silly like "Don't worry, it's a write-off." Remember that money is still leaving your person, and the money you are getting back in the form of a tax deduction is substantially less. Just because it is a "write-off" or a business tax deduction doesn't mean that you are using Monopoly money.

Tax credits are in contrast to tax deductions. Tax credits such as \$7,500 for buying a cool Tesla or \$13,400 for adopting a child are a dollar for dollar reduction in your tax due. For example, if the computed tax liability is \$20,000 and you max out your adoption credit of \$13,400, you will only have a tax liability of \$6,600. However, if you spend \$13,400 in office furniture you will save taxes based on your marginal tax rate- 25% tax rate equates to \$3,350. See the difference?



Automobile Decision Tree

In deciding whether to own the automobile personally or through your small business, here is a simplified decision tree. It is not a hard and fast set of rules, but will provide some guidance.

- If you typically buy new cars every 2-3 years, can justify a business use above 80% and drive 15,000 miles or less per year, then have the company own it. The depreciation will be a great small business tax deduction.
- If you typically buy new cars every 2-3 years, but cannot justify business use above 80% **or** drive 15,000 miles or more per year, then own it personally and get reimbursed. At 15,000 miles the tax benefits of depreciation over 2-3 years becomes a wash.
- If you typically buy used cars that are 5 years or older, then own it personally and get reimbursed. The POS potentially becomes a huge money maker.
- If you buy a new car every 5-6 years, typically spending more than \$60,000 and can justify business use above 80% then the question becomes more complicated and depends on miles driven. Fewer than 12,000 miles, have the company own it. More than 12,000 miles, own it personally and get reimbursed. At exactly 12,000 miles, flip a coin.

These are not hard and fast rules. These are rules of thumbs and generalizations. We always caution people trying to split the atom to save some money. At the end of day, most small business owners do what makes him or her feel most comfortable, and the few bucks that might be left on the table is overshadowed by the lack of anxiety and headache. Here is some more information from our LLC and S Corporations book-

[Automobiles in Your Business](#)

Also... the Tax Cuts and Jobs Act of 2017 created 100% Bonus Depreciation which means you can now deduct 100% of heavy vehicles using both Section 179 and Section 168. Luxury cars are still limited to \$18,000, but the Hummer Loophole is back-

[100% Bonus Depreciation](#)

Multiple Work Locations

You can have multiple work locations. The IRS states that if you use a home office as your primary location for substantial administrative activities you are allowed to essentially have two work locations. For example, you own a landscaping company and you have an office in your shop. You perform all your administrative activities such as hiring and firing employees, accounting, balancing your checkbook, talking to your attorney, chatting it up with your Colorado Springs CPAs at the Watson

CPA Group, etc. in your home office, that office counts as a work location in addition to your office in your shop. Here is the play by play blurb from the IRS-

You can have more than one business location, including your home, for a single trade or business. To qualify to deduct the expenses for the business use of your home under the principal place of business test, your home must be your principal place of business for that trade or business. To determine whether your home is your principal place of business, you must consider:

- 1. The relative importance of the activities performed at each place where you conduct business, and*
- 2. The amount of time spent at each place where you conduct business.*

Your home office will qualify as your principal place of business if you meet the following requirements.

- 1. You use it exclusively and regularly for administrative or management activities of your trade or business.*
- 2. You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.*

This also works well for the consultant who works out of his or her home office, but also spends a ton of time on site with the client.

Don't forget that commuting miles between your residence and your office are not deductible, but if you have a home office suddenly these miles become business miles and therefore deductible. Boom! The use of Boom! is apparently out of fashion. Whatever.

You can read the full [IRS Publication 587](#) (Business Use of your Home) for more information.

Business Travel Deduction

Let's start off by saying the IRS despises business travel deductions. They view it as a way to rifle personal expenses through the business, and on some levels they are correct. But then again, the rules allow for it under some circumstances. The easiest way to explain business travel as a small business tax deduction is to run through some examples.

You travel to Tahoe to look at rental properties. None of the expenses associated with this trip is deductible. If and when you purchase a rental property in Tahoe, the expenses associated with your travels will be considered an acquisition cost and added to the basis of the purchased property. Upon sale you will realize the tax benefit of your travels through a smaller capital gain.

You travel to Las Vegas on Tuesday for a conference. At night you take in the sights, attend the conference on Wednesday and return home the same day. Travel is deductible at 100%, hotel is deductible at 100% and meals are deductible at 50% (the normal deduction).

Same Las Vegas trip but you return on Friday, with Tuesday and Wednesday being the only days you attend the conference. Since the business portion of the trip did not exceed half of the overall trip, none of the travel is deductible. However, Tuesday's and possibly Wednesday's hotel and meal costs are deductible.

Same Las Vegas trip, but the conference is from Tuesday to Thursday, and you still return home on Friday. Travel is deductible at

100%, and hotel is deductible at 100% provided you demonstrate that returning home on Thursday was not economically feasible. Meals would follow suit with the hotel but at 50% (the normal deduction).

You travel to Miami on Thursday for a conference that starts Thursday and ends on Friday. You also schedule business meetings on Monday. You do not return home on Saturday since it was not economically feasible. Travel is deductible at 100%, hotel is deductible at 100% (including the Saturday and Sunday stay) and meals are deductible at 50%.

This is a generalization, but you get the idea. There are additional exceptions for travel outside the United States and additional rules about side trips (such as seeing Mom on the way home from a business trip). See your Mom (that's important) we'll worry about the deduction later!

If your spouse and / or children are employed by the S corporation, and have a genuine need as you for business travel then he or she follows the same rules above. Where business owners get into trouble is the employment part. Your spouse and / or children must have a legitimate position with the company, and a genuine reason for business travel.

Having Junior stuff envelopes is fine, but bringing Junior to a conference on the "evolution of the market economy in the early colonies" probably won't work. Or have Junior attend a seminar where Vickers argues that Gordon Wood "drastically underestimates the impact of social distinctions predicated upon wealth, especially inherited wealth." Gotta love that epic bar scene from Good Will Hunting.

Deducting Business Meals



Business meals as a tax deduction was in flux because of the butchering of Section 274 in connection with the Tax Cuts and Jobs Act of 2017. However, the IRS released Notice 2018-76 which basically restores 2017 rules for 2018 and going forward. Here is our blog article on it-

[Business Meals Blog Article](#)

We chatted about business meals earlier in the chapter. To reiterate the two themes, you must be either-

- Entertaining a client, prospect or other business associate (and small groups of the same), and discussing business matters, or
- Away from your tax home where you require substantial rest (such as an overnight trip), and the trip is for business purposes.

Your small business tax deduction is limited to 50% under both circumstances.

The theory on this is straightforward- you have to eat regardless of owning a business or not. In other words, your meal is not contributing directly to the operations or success of your business. The IRS is clever- they don't mind giving you a tax deduction today on something that eventually will result in taxable business income through growth and profits in the future.

To deduct a meal or entertainment as a business expense that was shared with a client, prospect or other business associate, there are two scenarios to consider.

For business discussions during a meal, you must have a clear business goal in mind, the discussion must be substantive beyond casual conversation, and you must have an expectation of income or benefit to your business from the meeting. The meeting's main purpose should be business related with the eating of food being incidental or secondary.

Here is a short list of the entertainment activities the IRS will categorically deny a business conversation effectively took place- nightclubs, theaters, sporting events, large social gatherings, hunting or fishing trips, pleasure boating, and Yes, golf outings. The theory is simple- you must be discussing business matters, and in the eyes of the IRS these activities don't allow for that. Not our argument, so don't blame us.

However, and this is a big however, these expenses can be deducted under "associated entertainment" also referred to as "goodwill entertainment." If the entertainment precedes or follows a substantial and bona fide business discussion or meeting, then sporting events, golf outings and the like are deductible.

This also leads to larger groups. For example, the Watson CPA Group has a client appreciation party. Last year, we had over 250 people show up for a baseball game. We could not discuss business matters with each person- impossible. And the IRS would not allow a meals and entertainment deduction for the same reason. However, we deducted the client appreciation party as a promotional expense and maintenance of our goodwill, booked under Advertising.

You may also deduct as a business tax deduction the cost of meals and entertainment for business discussions that occurred before or after the meal or entertainment. For example, after a length day of negotiating a business transaction you take the associate out for a nice dinner to relax. While eating your dinner nothing is discussed about business. Since these two events are so closely related, the cost of the dinner is deducted as a meals and entertainment expense. The business discussions before or after the meal or entertainment must be substantial and closely connected (nexus).

What happens if your spouse tags along to a business meeting over dinner? Or if the client or business associate brings his or her spouse? Do you have to split the bill up between business and non-business participants? No. The IRS considers the spousal attendance to the meeting to be incidental.

Can your spouse be considered a business associate as an employee? Of course. Before you get all excited about trips to Gallagher's in Time Square with your spouse to discuss business, we encourage restraint and reasonableness. If the occasional business discussion occurs during a meal, and the meeting's original intent was business, then this becomes a small business tax deduction at 50%. Position yourself carefully, and Yes, your spouse needs to be an employee or shareholder.

You can deduct 100% of the meals you provide your employees in social settings such as parties or picnics, or if the meal is for the convenience of the employer such as working lunches. This is called de minimis, and here is the blurb from the IRS-

In general, a de minimis benefit is one for which, considering its value and the frequency with which it is provided, is so small as to make accounting for it unreasonable or impractical. De minimis benefits are excluded under **Internal Revenue Code**

section 132(a)(4) and include items which are not specifically excluded under other sections of the Code. These include such items as:

- Controlled, occasional employee use of photocopier. "Bob, making copies."
- Occasional snacks, coffee, doughnuts, etc. Glazed only.
- Occasional tickets for entertainment events.
- Holiday gifts
- Occasional meal money or transportation expense for working overtime
- Group-term life insurance for employee spouse or dependent with face value not more than \$2,000
- Flowers, fruit, books, etc., provided under special circumstances such as your 103 year old grandmother died.
- Personal use of a cell phone provided by an employer primarily for business purposes. Don't even go there on this one!

In determining whether a benefit is de minimis, you should always consider its frequency and its value. An essential element of a de minimis benefit is that it is occasional or unusual in frequency. It also must not be a form of disguised compensation. Therefore, routine dinners with your business partner are not de minimis. It might not qualify for the 50% either unless a business purpose is germane to the meal.

Sutter Rule

The Sutter rule allows the IRS to disallow a portion of your business meals when they consume a large part of your normal living expenses. In other words, if every meal you eat is a justifiable business meal, it might not matter under the Sutter rule. This rule was created in **Richard Sutter v. Commissioner, 21 Tax Court 170 (1953)**, where Sutter expensed his lunch every day but the court found that "the deduction for the cost of lunches was apparently almost entirely payment for petitioner's own meals when he attended such functions as meetings of the Chamber of Commerce. There is no evidence that these costs were any greater than expenditures which petitioner would have been required to make in any event for his own personal purposes. They must consequently be disallowed."

Sutter was audacious- he deducted everything he could think of. It is a great read.

Again be careful. Business meals and entertainment are low hanging fruit for the IRS. We've seen thousands of dollars in tax savings disappear before our eyes during an examination because the client could not demonstrate the business purpose. To not lose an audit, make sure you keep receipts beyond relying on the credit card statement. In addition, keep a log or journal of the person(s) you met with and the topics of discussion. Be very specific. Memories fade, so if you intend to reconstruct this evidence upon receipt of your examination notice from the IRS, think twice. IRS agents are no dummies on meals and entertainment.

Cohan Rule

Let's briefly discuss record keeping, and then jump into a famous New York entertainer named Cohan who ultimately provided a nifty rule that can be used during an IRS audit. To be able to demonstrate a business deduction you need to show the date, the

There are some minor tax advantages to paying your children- for example, you can pay your child \$6,300 in wages, and since the standard deduction for 2016 is \$6,300 the child will have not have any taxable income. This will not affect your ability to take the tax exemption for your child. If you pay yourself this income through a shareholder distribution and you are in the 15% tax bracket, you will unnecessarily pay about \$885 in income taxes. Your kids are going to take your money anyways- might as well make it tax-advantaged.

You could also pay your child more money since their tax bracket is probably lower than yours. They can gift up to \$14,000 per year back to you. Almost hard to say with a straight face. Here is some more information from our LLC and S Corporations book including retirement scenarios-

[Putting Kids on Payroll](#)

Education as a Business Tax Deduction

To be able to deduct education expense as a small business tax deduction, the education must either-

- Maintain or improves skills required in your existing business, or,
- Is required by law or regulation to maintain your professional status through continuing education credits such as attorneys, accountants, real estate agents, mortgage lenders, etc.

So, can you deduct your MBA? Perhaps. In [Lori A. Singleton-Clarke v. Commissioner, Tax Court Summary Opinion 2009-182](#), the court ruled in Lori's favor. She was an established nurse, and she went back to school to obtain an MBA in Health Care Management. She was already in charge of quality control from a management perspective, and the MBA did not lead to an additional and discernable skill. Additionally the court stated that the MBA improved her current work skill as a quality control coordinator. Subtle difference.

Summary of Small Business Tax Deductions

This chapter is huge, and has a ton of information in it and perhaps it is overwhelming. To reiterate information from the beginning of this chapter there are some over-arching themes and concepts for all small business deductions. The business expense must be-

- Ordinary and necessary (IRS Publication 334), **and**
- Paid or recognized in the current tax year, **and**
- Directly related to your business, **and**
- Reasonable, and not lavish or extravagant (IRC Section 162 and IRS Publication 463).

We want to give you this table to help summarize the business deductions that are clearly not allowed (black), the ones that clearly are allowed (white), and the gaggle of exceptions (grey).

Business Expense	Deduction?
401k Plan	Get \$500 tax credit from IRS for starting one. Great way to defer taxes. We can set this up.
Advertising	Yes.
Automobiles	Business use only. Use decision tree to see if you should own it or the business. Depends on price, turnover, miles driven, business use and marginal tax rates. Personal use added to W2 Box 1, 3 and 5 using Lease Value rates in IRS Pub 15-B.
Business Travel	All kinds of rules. Mix pleasure with business under some circumstances. 50% if business discussion with client, prospect or associate. 50% if traveling away from your tax home on business.
Business Meals	100% for company social gatherings or convenience of the employer (lunch).
Cell Phone	Business use only. Never 100% unless you have second phone. Reimbursed through Accountable Plan.
Client Gifts	Max \$25 per recipient per year.
Commissions	Yes.
Commuting Expenses	No. If you have a home office, then commuting becomes business travel and subsequently Yes.
Copier Lease	If the lease can be considered a capital lease, then No. If the lease is an operational lease, then Yes. Depends on the facts and circumstances.
Country Club Dues	No. Don't throw the book. Not our fault.
Defined Benefits Plan	Get \$500 tax credit from IRS for starting one. Great way to defer taxes. We can set this up.
Education	Only if improves your current work skills or necessary for professional credentials. 50% if business discussion with client, prospect or associate. 50% if traveling away from your tax home on business.
Food	100% for company social gatherings or convenience of the employer (lunch).
Golf Outing	No. Seriously. Let it go. Unless you have a close nexus to a bona fide business meeting before or after (referred to as "associated entertainment").
Guard Dogs	If you are a high risk defense attorney on the East Coast and need a security detail, then Maybe. Must be a bona fide occupational qualification.
Health Savings Accounts	Company contributions, Yes. Added to your W2 Box 1.
Home Office	If regularly and exclusively used for business then Yes. Multiple locations OK provided home office is primarily used for substantial administrative activities. Reimbursed through Accountable Plan.

	Business liability insurance, Yes.
	Auto insurance, Yes if the company owns the car.
	Health insurance, Yes and added to W2 Box 1.
	Dental insurance, Yes and added to W2 Box 1.
	Eye insurance, Yes and added to W2 Box 1.
	Long Term Care insurance, Yes but limited.
	Disability insurance, No. Otherwise your benefits become taxable income.
	Life insurance, No. Only in C corporations where the corporation is the owner and beneficiary (no S corp election!).
Insurance	
	Great way of reducing tax liability for the same amount of cash. Must do it correctly and follow state child labor laws.
Kids On Payroll	
Legal, Professional Fees	Yes.
Merchant Card Fees	Yes.
	Maybe. If employees own more than 10% of a corporation, then No. Sole proprietors and single member LLCs including partners in partnerships, Yes.
Per Diem	
	If the clothing is suitable for everyday use then No. If the clothing is a uniform then Yes.
Professional Attire	Possible advertising expense. No dry cleaning unless clothing otherwise qualifies.
Profit Sharing Plan	Get \$500 tax credit from IRS for starting one. Great way to defer taxes. We can set this up.
Retirement Plan	Get \$500 tax credit from IRS for starting one. Great way to defer taxes. We can set this up.
	Sales tax, Yes.
	Payroll tax, Yes for company portion.
Taxes	Estimated tax payments, No. Nice try.
	No, unless you have a separate office location. If using home office, utilities is a part of the deductible basis.
Utilities	
Website	Yes.

There you go. There are tons of variations, exceptions, rules to follow, interpretations, positioning, and many more modifiers that we can't think of right now. Please contact us if you have any questions or concerns- we love to run through small business tax deductions with owners. And like a good parent, we try to find ways to say Yes. Yes, you can go to Johnny's house right after you clean your room. Yes, you can deduct that expense provided you document it this way.

Comingling of Money

We've mentioned this previously, and we'll do it again here. Rule #1- Please get a separate checking account for your business, preferably with the same bank as your personal checking account so transfers (shareholder distributions) are easy. Rule #2- Do not pay for personal expenses or any mixed-use expense with business funds.

This is bad for several reasons- the IRS hates it. It erodes the corporate veil which is already dangerously thin since you are a closely held corporation. Lastly, if you need to re-construct your financials because of a QuickBooks disaster or some other disaster, having your business transactions compartmentalized within a bank account makes life better. All money coming in is

income. All money going out is an expense or a distribution.

Do you get the feeling that we've said these words before? Like déjà vu? Ever have vuja de? It is the feeling that this has never happened before- opposite of deja-vu. Yes, we did mentioned this before in Chapter 5 on Operating Your S Corp. Here it is again.

Read Rule #2 again. It is imperative to keep an arms-length perspective on you, the employee, and relationship with the S corporation. If you worked for Google or Ford, you wouldn't be able to get the business to buy your groceries or pay your mortgage directly. Same thing with your business. Here is another quick table to help you out with the "Which debit card should I use?" question.

Cash Outflow	Checking Account To Use
Car Lease	Personal, unless lease is in business name.
Gas for Car	Personal, unless owned / registered by business
Estimated Tax Payments	Personal, since an S Corp is a pass-thru entity
Cell Phone	Personal, reimbursed through Accountable Plan
Home Utilities	Personal, reimbursed through Accountable Plan
Home Office Renovations	Personal, possible partial reimbursement
DSW, Banana Republic	Personal, but it would be nice
Shareholder Distribution	Business
Self-Employed Health Insurance	Business
Out of Pocket Medical	Personal, unless you have an HRA
Accountable Plan Reimbursements	Business
401k Contribution	Business
SEP IRA Contribution	Business, but you should use a 401k instead