

10 Ways for Small Business to Deduct Over \$513,150

Since tax returns are on many business owners mind and the filing dates are quickly approaching we decided to discuss tax deductions that may apply to your business. If you are a small business owners and qualify to take advantage of these deductions listed below you could exceed \$513,000 for the 2013 tax year using the following 10 filings: 5 with maximum limitations and 5 without.

1. Up to \$500,000 for **capital expenses**. Form 4562; [Publication: Section 179](#)
To mobilize small businesses since 2008, [multiple federal stimulus acts](#) have made it possible through Section 179 for new companies to write off new and used equipment at a maximum of \$500,000. [Section179.org states](#), "if you buy (or lease) a piece of qualifying equipment, you can deduct the full purchase price from your gross income." The equipment must be used for business purposes more than 50% of the time to qualify.
2. Up to \$1,500 for **office space**. [Form 8829](#); [Publication: 587](#)
With a new [method](#), small business owners can make deductions on office space in their homes at a rate of \$5.00 per square foot for up to 300 square feet to a \$1,500 limit. This option, just a year young, simplifies the old, regular method of tallying each individual office utility. The [Home Expenses Chart](#) makes it even easier to determine space eligibility.
3. Up to \$5,000 for **start up costs**. [Form 1040 C](#); [Publication: 535](#)
*These include marketing costs, promotions, and employee training for small businesses in their first year. \$5,000 is deductible for businesses with start up costs under \$50,000; over \$50,000 by \$1,000 drops the deduction by \$1,000. For example, if startup costs are \$52,000, the deduction can only be \$3,000; at \$56,000, the deduction is **\$0.00***
4. Up to \$1,000 for **office supplies**. Form: 1040 C, or [8829](#); [Publication: 587](#)
Keeping receipts from every drive to the office supply store allows small businesses to deduct after equipping the desk. Office utilities must pass the 50% test. For example, if Debbie uses her laptop 55% of the time for business and 45% for personal reasons, her laptop becomes deductible.
5. Up to ¢56.5/mile for **auto expenses**. Form 1040 C; [Publication: 334](#)
The gas used on every drive to the office supply store can also be written off at ¢56.5/mile. This is a 1 cent increase from 2012 and will decrease to ¢56 in 2014. The average American drives between 10,000-15,000 miles per year; if the majority of driving is for work, it's possible to deduct more than \$5,650.
6. **Bad debts** from goods. Form 8949; [Publication: 535 Chapter 10](#)
Small businesses can deduct products taken without customer payment. This only applies to goods companies; service companies are ineligible. Bad debts other than unpaid goods, such as a sold bond asset, count as short-term capital losses and are reported on Form 8949.
7. 50% on **Business Entertainment**. Form 1040 C; [IRS Topic 512](#)
Business entertainment expenses must be directly related to business conducted and are 50% deductible. Proof of business from entertainment expenses is required. For example, if an agreement to a sale is made over a dinner, the signed agreement must be filed with the

restaurant receipt.

8. **Charitable contributions.** Form 8283; [Publication 526](#)

If a business is an LLC, a partnership, or an S corporation, it can make a contribution to a charity and pass the deduction to the small business owner. There are also tax incentives to donate used office equipment to [schools or NPOs](#).

9. **Interest** on business loans. Form 1040 C; Publication 334, [535 Ch 4 \(How to\)](#)

[Interest](#) on business loans qualifies as 100% deductible. If, for example, Chuck owns a landscaping business and takes out a loan of \$20,000 at 7% interest to buy a truck, he can deduct the annual interest.

10. **Education.** Form 1040 C; [Publication: 970 Chapter 12](#)

Job training qualifies for a deduction if 1) it sustains or strengthen job capabilities or 2) is legally mandatory. Other educational expenses such as tuition, textbooks, supplies, and commuting can be deducted as well. Education isn't deductible if it is for the minimum skills to do business, or if it is training for work in a new industry.

The important thing to remember is business expenses have two requirements; they must be 1) ordinary and necessary, i.e. common in the field or industry, and 2) separate from personal and capital expenses. However, some capital expenses are the most valuable deduction for first time small business owners because of Section 179.

We understand this is a bit technical so pass this list on to your CPA to discuss if you qualify for any or all of those tax deductions. Many accounting professionals and Controllers should also have an understanding of these topics – in case you need assistance our accounting staff is available to help.