

Own a Business? Take Advantage of These Tax Deductions

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When you're in business for yourself, every penny counts. That's why it's important to take advantage of as many tax deductions as you can. But the time to start planning for these deductions is *not* tax time – if you wait that long, it's often too late.

As a business owner, you have many opportunities to generate tax deductions throughout the year. Whether you are self-employed or run your own corporation, you can plan ahead to save tax dollars by taking advantage of all the deductions to which you're entitled. Here are some to consider:

- **Home office deduction:** You may deduct expenses allocated to that portion of your home that you use *exclusively and regularly* for business purposes.

To qualify: Your home must be your principal place of business or be used to meet with clients in the normal course of business. If your home office qualifies, you can deduct a pro rata share of your total rent or mortgage interest payments, real estate taxes, depreciation, homeowner's insurance and utilities.

Planning Idea: It's easier to qualify if you set aside a whole room exclusively for business use.

- **Business Use of Automobile** – Business owners commonly use personal cars to run work-related errands, visit clients, or buy supplies. While the cost of commuting from your home to a separate office is *not* deductible, if you qualify for the home office deduction (above), you can deduct the cost of traveling from a home office to any other work-related location.

How to calculate your deduction: Two methods are available. You may deduct either: 1) a standard IRS-approved cost per mile driven; or 2) the actual costs of vehicle operation, based on the portion of total miles driven for business use.

In most cases, mileage is the simpler calculation, but in either case, the IRS requires you to document all business miles.¹

Planning Idea: Keep a notebook in your car. For every business trip, log the starting and ending odometer readings, the business purpose and the date.

- **Gifts** – If you give gifts to clients, such as a fruit basket at the holidays, the IRS allows you to deduct only **\$25 per person** annually. However, with smart planning, you may be able to increase the deduction. For example, you may deduct the cost of wrapping, delivering or insuring gifts above the \$25 limit.¹

Planning Idea: If a gift is intended to be used by a number of people, not an individual, you may be able to deduct more than the \$25 limit. For example, suppose you regularly send a \$100 holiday fruit basket to the president of a client firm. Ordinarily, only \$25 would be

¹ See IRS Publication 463, *Travel, Entertainment, Gift, and Car Expenses*, for details.

deductible. However, if you send the same basket to “all employees” of this firm, the full amount could be deductible, thanks to the \$25-per-person gift deduction allowance.

- **Employee Meals** – If your business provides free meals for employees and does not include their value as taxable compensation, you generally may deduct only 50% of the cost. However, there is an *exception* called “meals for the convenience of the employer” that can increase the deduction to 100%.

To qualify for the 100% deduction: You must show that the free meals you’ve provided: 1) were consumed at a worksite; 2) were offered to at least half of all employees; and 3) met a business purpose, such as increasing productivity.¹

Planning Idea: If you regularly “order in” food for employees and pay for it, document on the receipt how many employees participated, how many were present that day, the date and time of the meal, and the business purpose.

- **Business Interest Expense** – With the exception of the interest payments on a home mortgage, most personal interest is not deductible. However, 100% of the interest on business-related loans may be deductible.

To claim this deduction: Be sure to separate business loans from personal ones by using a separate consumer credit account, credit card, or bank loan for your business-related expenses.

Planning Idea: If you borrow money and use it for personal expenses, the interest is not deductible, but if you use the money for business expenses, it may be deductible.

These are just some ideas for business-related tax deductions. Be sure to talk to your tax advisor throughout the business tax year, so you can plan appropriately to help reduce your next tax bill.

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