

15 Common Tax Deductions for Small-Business Owners



We don't have to convince you that taxes are complicated—especially for small-business owners. You know it. We know it.

And, quite frankly, you probably feel like you have much bigger fish to fry. You're looking for ways to improve your product or service, what you can do to improve your customer experience, and how you can cut costs and increase revenue.

But not paying attention to your taxes could cost you big time—especially if you're not sure which small-business tax deductions you're eligible for. The last thing you want to do is miss out on deductions that could save you hundreds or thousands of dollars on your taxes or, worse, make some mistakes that leave you in hot water with the IRS.

But don't worry! We can help you get a better grasp on what you can write off your tax return.

The “Ordinary and Necessary” Rule

Unfortunately, the IRS doesn't have a master list of small-business tax deductions for each and every profession there is. Instead, they leave small-business owners with this general rule of thumb for what business expenses you can write off your taxes: If something is “**ordinary and necessary**” to running your business, then it's a tax-deductible expense.

In other words, if you *need* certain items or services to survive as a business, you can write off those expenses on your tax return. So, if you're an artist, you need paint and brushes and canvases to create your artwork. Those costs are tax-deductible. But getting a haircut? You're going to have a hard time proving your new hairdo is essential to keeping your art business alive.

While certain expenses are specific to what kind of business you run, here are some of the most common tax deductions available for most small-business owners:



1. Qualified Business Income

The 2018 tax reform law changed how deductions work for most taxpayers—including small-business owners. Under the new tax law, **most small businesses** (sole proprietorships, LLCs, S corporations and partnerships) **will be able to deduct 20% of their income on their taxes.** *Woo-hoo!*

Basically, if you own a small business and it generates \$100,000 in profit in 2019, you can deduct \$20,000 before ordinary income tax rates are applied.

Be warned: There are a few limits, however, that could prevent you from claiming this deduction. The biggest obstacle is the income limit that applies to some high-income business owners such as lawyers, doctors and consultants. Once your income exceeds \$157,500 for single filers or \$315,000 for pass-through business owners who file a joint return, this deduction begins to phase out.¹

You'll want to reach out to one of ABL&Co's Tax Advisor to see if you're eligible for this pass-through entity deduction.

2. Home Office

Have you turned a spare room in your house or apartment into a home office space? Good news! That means you'll probably be able to deduct expenses for the business use of your home, which include mortgage interest, insurance, utilities, repairs and depreciation. The simplified version of this deduction allows small-business owners to deduct \$5 for every square foot of your home office, up to a maximum of 300 square feet.²

But it's important to remember the IRS only allows you to claim this deduction if your home office is used *exclusively* for business purposes on a *regular basis*. If your home office doubles as a guest room for your mom when she's in town, that's not going to fly.

3. Rent

With rent always going *up*, it's nice to get a break *somewhere*. The cost of renting a space for your business is fully deductible, whether it's a storefront on a busy downtown street for your cupcake shop or an office space in a business complex for your travel agency.

4. Advertising and Marketing

If you've been handing out more business cards to potential clients than candy to trick-or-treaters on Halloween, you're in luck! You'll be able to deduct the cost of printing those business



cards on your tax return. Basically, anything you use to promote your business and bring in new customers (from social media ads to billboards) is 100% deductible. So, deduct away!

5. Office Supplies and Expenses

Okay, no matter what kind of business you run, you probably have a need to stock up on traditional office supplies—whether it's printer ink, pens or Post-it Notes. Those traditional office supplies are fully deductible!

If you've bought a new laptop, smartphone or some software that you use for your small business during the year, you can write off the entire cost of those expenses, too.

6. Utilities

Uncle Sam knows you have to keep the lights on to keep your business going (and vice versa). Everything you spend on utility bills for your business—including electricity, phone, internet, water, heat and sewage—is fully deductible.

7. Repairs

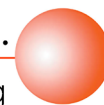
Roofs leak, toilets break, and walls need to be repainted from time to time. If you need to repair parts of your business property or just perform regular maintenance to keep things running efficiently, you can write off those costs on your taxes too.

8. Car

A lot of small-business owners use vehicles in order to get stuff done—whether it's driving to and from meetings with clients or using a pickup truck to transport heavy equipment from worksite to worksite. If you can prove that you use a vehicle for business purposes, you can deduct those expenses from your income.

Now, there are two ways you can claim this deduction:

1. **Use the standard mileage rate.** Add up all the miles you drove for your business and multiply by the IRS's standard deduction rate to figure out your deduction. As of 2019, the standard mileage rate is 58 cents per mile.³ So, for example, if you drive 5,000 miles for business purposes in 2019, you'll be able to deduct \$2,900 off your taxes.
2. **Add up your actual car-related expenses.** Now, this option is going to take a little more work. If you keep very detailed records throughout the year, you can add up how much your car depreciated and how much you spent on gas, repairs, tires, tune-ups, car insurance and registration fees. That will be your deduction, instead of the mileage.



Which option you choose basically depends on how economical your car is, how much it cost you to drive it throughout the year, and how well you documented your car-related expenses. Better save those receipts!

9. Travel

Many small-business owners and their employees spend a lot of time in airports and traveling around the country to do business. But all those airline tickets and hotels can get pricey! If that's you, the good news is that you can deduct most travel expenses from business trips for you and your employees if there is a business purpose behind the trip.⁴ Just make sure you hang onto all your receipts and keep detailed records from your travels.

10. Meals

Wining and dining business clients can get pretty expensive, but at least you'll be able to split the check with Uncle Sam. You can deduct 50% of the costs for business lunches, but not "entertainment expenses" like sporting events or a concert.

The costs of providing meals for your employees at a company picnic or a holiday party, however, are fully deductible!

11. Salaries and Employee Benefits

If you have employees, what you pay them—from salaries and wages to bonuses and commissions—are tax-deductible business expenses. You can also deduct contributions to their retirement plans, education assistance and most other employee benefit program costs. Do you have any freelancers or contract workers? What you pay them is tax deductible, too!

12. Taxes

Nothing feels better than deducting *taxes* on your taxes. While you can't deduct federal income taxes, there are still plenty of other taxes closer to home you'll be able to write off on your tax return. For example, you can write off up to \$10,000 of state and local income taxes, sales taxes, real estate taxes and personal property taxes.

Here are a few other taxes you can also deduct:

- Part of your self-employment tax
- Franchise taxes
- Excise taxes
- Occupational taxes



13. Insurance

No matter what kind of business you're in, you definitely want to protect it. And the best way to do that is to get the right kinds of insurance in place. The cost for many of the insurance premiums you'll need for your business—like liability insurance, fire and flood insurance or a business owner's policy—are deductible. Medical insurance for your employees is also deductible under certain circumstances as well.

14. Legal and Professional Fees

You have the right to an attorney—and the right to deduct any legal and accounting fees charged by attorneys and accountants that are related to your business operations.

15. Debt Interest

Listen, we believe **the best way to run your business is to run it completely debt-free**. Debt is *not* a tool to grow your business—it dramatically increases risk. Debt will slowly suck the life out of your business. And, if you're not careful, business debt can lead to years of stress, endless payments and even bankruptcy.

If you're thinking about taking out a business loan, *don't do it*. That's just dumb!

But if you've *already* taken out a loan for business purposes, whether it's a mortgage or a line of credit, you can probably deduct the interest you're paying on the loan from your taxes. But this is one deduction we *don't* want you to have.

Now go pay off that loan as soon as possible and never borrow another cent again!

Sources:

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