RITBS, INC.

Complete List of Small Business Tax Deductions

Business Meals

Business meals for employees and clients can be considered tax-deductible. Qualifiable purchases depend on the purpose of the meal and who benefits from it.

Percentage deductible:

Entertaining clients – 0% deductible
Business meals with clients – 50% deductible
Office snacks and meals – 50% deductible
Company-wide party – 100% deductible
Meals and entertainment expenses – 100% deductible

Eligibility:

The expense must be reasonable and not extravagant or excessive.
The taxpayer or an employee must be present.
The meals must be served to a current or potential business customer, consultant, client, or similar business contact.
If the meal is provided at an entertainment activity, it must be purchased separately from the activity itself.

Example deductions:

Meal expenses while traveling on business
Reasonable food and beverage spent on social company activities, including holiday parties and happy hours

Special considerations:

In order to be eligible, meal costs must be considered reasonable. Exorbitant prices for extravagant meals likely won't qualify as a deductible business expense.

Business Insurance

Business insurance can be completely deducted from your taxes if it is considered both ordinary and necessary to your company's operation. The vast majority of modern businesses are required to carry some form of business insurance due to state laws, industry regulations, or required contracts.

Percentage deductible: 100%
Eligibility: If the business insurance policy benefits the business and serves a business purpose, it can be considered eligible for tax-deduction.

Example deductions:

Data breach insurance
General liability insurance
Workers' compensation insurance
Commercial real estate insurance
Professional liability insurance

Special considerations:

Not all business insurance premiums can be written off. If the insurance policy in question is not considered ordinary and necessary, the IRS likely won't approve.

Business Interest

Loans taken out for business purposes, including mortgages on business real estate or lines of credit obtained for business purchases, may qualify for tax deduction.

Percentage deductible: 100%

Eligibility:

The taxpayer must be legally liable for the acquired debt.

The taxpayer and the lender have a true debtor-creditor relationship.

The taxpayer and the lender must intend for the debt to be repaid.

Example deductions:

Investment interest expenses

Interest on purchases made on credit for inventory stock

Prepaid mortgage interest on loans for business property

Interest on credit card debt

Special considerations:

Interest that must be capitalized does not qualify as tax-deductible. This includes any interest added to a principal balance of a business loan or mortgage. Capitalized interest should be assessed and depreciated along with other costs of the business asset.

Advertising + Marketing

In the eyes of the federal government, small business advertising and marketing efforts qualify as fully tax-deductible. As long as the actual expenses are considered ordinary, reasonable, and necessary, business owners can count on this deduction to lower their liability.

Percentage deductible: 100%

Eligibility:
Any marketing or advertising expenses spent on campaigns to generate or retain customers can be deemed eligible.

Example deductions:

Costs of producing advertising materials such as business cards, flyers, etc.
TV and newspaper advertising costs
Influencer marketing

Special considerations:
Costs that are considered primarily personal are exempt from deduction, even if they have some promotional value.

Business Use of Car

Costs associated with operating a business vehicle are tax-deductible under certain qualifying circumstances.

Percentage deductible: 100%

Eligibility:
Business vehicles are cars, SUVs, and pickup trucks that are used for business activities. Taxpayers looking to write off business use of car expenses will need meticulously kept records to provide to the IRS.

Example deductions:

Registration fees and taxes
Gas and oil costs
Maintenance and repairs
Licenses
Vehicle insurance
Rental or lease payments
Tolls and parking fees

Special considerations:
If the taxpayer uses the car for both business and personal purposes, they must split the costs based on actual mileage. Vehicles used as equipment, such as dump trucks, and vehicles used for hire, such as taxi cabs and airport shuttle vans, do not qualify.

Beginning on January 1, 2020, the optional standard mileage rate used to deduct the costs of operating a business vehicle changed to 57.5 cents per mile.

Education

Small businesses that provide their workforce with educational benefits may be able to fully deduct the associated costs of offering this perk. Tax-deductible education expenses include everything from continuing education to courses intended to provide workers with advanced professional licenses.

Percentage deductible: 100%

Eligibility:
Deductible education costs must add value to the business and increase the workforce's expertise and skills.

Example deductions:
Classes and workshops intended to improve skills in the business's field
Subscriptions to professional publications
Industry relevant seminars and webinars

Special considerations:
Educational expenses that qualify employees for a different trade are exempt. Courses necessary to meet the minimum education requirement are also exempt from tax deduction.

Depreciation

Depreciation is a method where the cost of fixed and tangible assets are allocated over time. Depreciation effectively measures how much an asset's value has been exhausted within a given time.
This tax write-off allows small business owners to assess the value of an asset over time while factoring in its age, wear, and decay.

Percentage deductible: 100%

Eligibility:
The taxpayer must own the asset.
The asset must be used for income-generating operations.
The asset must have an estimated useful life expectancy.
The asset's determinable lifespan must exceed one year.

Example deductions:
Computers
Equipment
Machinery
Office furniture
Business vehicles

Special considerations:
Bonus depreciation allows taxpayers to claim a larger portion of depreciation on assets purchased within the tax year. With bonus depreciation, up to 100% of an asset's cost can be deducted as long as the asset is business qualified.

Legal Fees

Legal fees are among many of the professional service fees that qualify as tax-deductible when filing business income taxes. The expenses incurred must be considered ordinary and necessary to the business in order to be written off.

Percentage deductible: 100%

Eligibility:
The legal fees must be business related. This is also true of legal cases the taxpayer did not win.

Example deductions:
Fees for resolving tax issues
Fees related to whistleblower claims
Fees related to unlawful discrimination claims

Special considerations:
Any legal or professional fees related to personal issues are exempt from deduction, including child custody, personal injury, property claims, and more.

Moving Expenses

Moving your business to a new city or state? The direct expenses incurred may be eligible for tax deduction.

Percentage deductible: 100%

Eligibility:
The costs associated with transporting business equipment, supplies, and inventory typically qualify as deductible.

Example deductions:
Transporting inventory stock
Relocating machinery

Special considerations:
Under President Trump’s Tax Cuts and Jobs Act, moving expenses that are not directly correlated to the move of the business are no longer deductible. All personal moving expenses are exempt.

Rent

Business owners that rent a building, office space, warehouse, or other type of business property may be able to deduct rent expenses if space meets eligibility standards.

Percentage deductible: 100%

Eligibility:
The property must be used for business purposes in order to be written off.

Example deductions:
Rent paid on business property
Rent paid on a business parking garage
Rent paid on an office space

Special considerations:
The IRS claims that if you have or will eventually receive equity in or title to the property in question, rent expenses will not be considered deductible. If you use a home office, you may be eligible to write off a portion of the cost. This expense must be recorded under the home office deduction.

Salaries + Benefits

Small business owners with employees can write off their workers' salaries, benefits, and vacation pay on their business tax returns. This also includes regular wages, commission, and bonuses.

Percentage deductible: 100%

Eligibility:

The employee(s) must not be the sole proprietor, a partner, or an LLC member.

The salaries and benefits must be considered reasonable, ordinary, and necessary.

The salaries and benefits must have been paid in the year in which the taxpayer claims the deduction.

Example deductions:

Employee salaries

Employee paid time off

Employee commission and bonuses

Special considerations:

Generally speaking, the IRS does not challenge itemized salary and benefits deductions. There are, however, some cases where the IRS will deem a deduction unreasonable if the employee has any degree of leverage over the employer. This includes investors and people of personal acquaintance.

Phone + Internet Expenses

Expenses paid to power the business with internet and phone service can be written off to lower small business owners' tax liability.

Percentage deductible: 100%

Eligibility:
If phone and internet usage is essential to the business' operations the incurred costs can be fully deducted.

Example deductions:
Internet service subscriptions
Cell-phone service subscriptions
In-flight internet purchases

Special considerations:
If you use the phone and internet for a mix of work and personal reasons, you can only write off the percentage of the cost that goes toward your business use.

Travel Expenses

Percentage deductible: 100%

Eligibility:
For a trip to qualify as business travel, it must be considered ordinary, necessary, and to a destination away from the taxpayers resident state.

Example deductions:
Airplane, train, or bus ticket costs
Parking and toll fees
Taxis and other modes of transportation
Meals and lodging

Special considerations:
Vacation expenses are exempt from tax deduction. In the eyes of the IRS, a “vacation” is:
A trip where the majority of days away are not spent doing business.
A business trip that can’t be verified through correct documentation.

Home Office

Self-employed workers, contractors, freelancers, and telecommuters require a home office to conduct business duties. Business owners who use a home office for business may be able to deduct expenses tied to creation and maintenance of the workspace.

Percentage deductible:

Home-office business deductions are assessed based on what percentage of the home is used for business. To find this number, one must measure the square footage of the office space and find what percentage it is of the total area of the home.

Eligibility:

To qualify for the home-office deduction, the taxpayer must utilize part of the home “regularly and exclusively” for business. The office does not need to be in a separate room, but it must be in a space solely designated to work and business operations.

Example deductions:

Direct expenses, including: designated phone lines, paint jobs, and long-distance call costs

Indirect expenses, including: utility bills, general repairs, and homeowners insurance

Special considerations:

There are two primary options business filers can opt for when taking the home office deduction: simplified and standard. The simplified option is easier, but could potentially result in a smaller final tax break. The standard option requires a bit more mathematics and precise recordkeeping, but could yield a larger deduction.

Office Supplies + Expenses

Office supplies that are essential to running and maintaining a functional office are considered fully tax-deductible.

Percentage deductible: 100%

Eligibility:

There are three key IRS rules that determine whether or not an office supply qualifies as tax-deductible:

The taxpayer must not keep a record of when the supplies are used.

The taxpayer must not take inventory of the supplies.

Deducting these items must not skew the business's final income.

Example deductions:

Printers and ink cartridges

Janitorial and cleaning supplies

Work-related computer software

Disposable kitchenware

Pens and paper

Special considerations:

Business filers are only allowed to deduct the costs of office supplies used in the current tax year.

Startup Expenses

Small business owners who have launched a new business venture in the latest tax year can write off up to $5,000 in startup expenses. Startup expenses include any costs incurred to create the business or buy the business.

Amount deductible: Up to $5,000

Eligibility:
The IRS classifies business startup expenses as capital expenses because they are used for an extended period of time, not just within one year.

Example deductions:
Marketing costs
Travel costs
Training costs

Special considerations:
If you are buying tangible business-use assets, such as vehicles or equipment, the costs of these assets must be depreciated over the life of the assets.

Bad Business Debt

Believe it or not, it's actually very common for small business owners to hold uncollectible or worthless business debts. These are considered bad business debts. Bad business debts are often the result of credit sales to clients for goods sold or services provided. Unpaid goods are also considered bad business debts.

Percentage deductible:
Partly worthless debts – dependent on the amount you charge off on your books

Fully worthless debts – 100%

Eligibility:
The debt in question must be partly or fully worthless to be considered deductible. Worth is based on the chance the amount owed will be paid back.

Example deductions:
Loans to clients, distributors, suppliers, and employees
Credit sales to customers
Business loan guarantees

Special considerations:
Nonbusiness bad debts, such as personal investments or personal activities, must be totally worthless to be tax-deductible. Additionally, nonbusiness tax debts can not be deducted if they are only partially worthless.

Business Casualty Losses

The federal income tax rules for deducting business casualty and theft losses are very similar to the rule regarding personal property losses.

This is even applicable to properties outside of federally claimed disaster areas.

Percentage deductible: 100%

Eligibility:
The taxpayer must be the owner of the property.
The loss must occur as a result of a sudden and unpredictable event.

Example deductions:
Natural disasters—fires, hurricanes, tornadoes, storms, etc.
Vandalism
Pandemic restrictions
Burglary
Civil disturbances

Special considerations:
Long-term processes, casualties, and losses are exempt from tax-deduction. These include erosion, wood decomposition, and termite damage.

Charitable Donations

Small business owners who are interested in giving back to their community through charitable donations deduct the entire cost contributed.

Percentage deductible: 100%

Eligibility:
To qualify, the donation must:
Benefit a qualifying organization
Be a cash contribution
Be made during the current tax year

Example deductions:
Donations made to a church, synagogue, or other religious organization
Donations made to a civil defense organization established under federal, state, or local law
Donations made to a war veterans' organization established in the United States

Special considerations:
If the business is set up as a sole proprietorship, LLC, or partnership, these charitable expenses should be claimed on personal tax forms. If the business is an S-corporation, charitable expenses should be claimed on corporate tax return forms.

Investment Interest

Interest capitalized on money borrowed with the intention of making investments can be written off on small business income tax returns.

Percentage deductible: 100%

Eligibility:
Deductible investment interest strictly applies to interest accrued on money borrowed to produce future investment income. This includes interest, dividends, annuities, and royalties that one would expect to appreciate in value.

Example deductions:
Capital losses
Qualified dividends

Special considerations:
It is not possible to deduct more in investment interest than earned in investment income.

Foreign Earned Income Exclusion

American citizens who own businesses abroad can, under certain circumstances, exclude the foreign income they have earned from their business tax return. The foreign earned income exclusion prevents double taxation, ultimately saving the taxpayer money.

Percentage deductible: 100%

Eligibility:
To qualify and claim the foreign earned income exclusion, the taxpayer must:
Be a U.S. citizen or resident alien
Have a qualifying presence in a foreign country met by the Bonafide Resident Test
Have paid foreign taxes on foreign earned income

Example deductions:
Any foreign income earned and taxed in the respective foreign country

Special considerations:
The foreign earned income exclusion has limitations. According to the IRS, it does not qualify money received for personal services delivered to a corporation that represents a distribution of earnings and profits rather than reasonable compensation.

Retirement

Small business owners are responsible for funding their own retirement plans to supplement their Social Security benefits. Fortunately, there are tax implications that lend a helping hand to business owners making contributions.

Percentage deductible: 100%

Eligibility:
Retirement accounts that comply with IRS regulations and are deemed “tax-qualified.”

Example deductions:
Contributions made to the following types of tax-qualified retirement plans:
Roth IRA
SIMPLE IRA
Keogh plan
Solo 401(k)

Special considerations:
Business owners with employees must follow a specified set of rules in order to keep their retirement contributions as tax deductible. These are called nondiscrimination rules and they assert that the business owners’ selected retirement plan benefits all employees—not just the owner.