

Tax Tips

For Small Business

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Dunn Accounting & Tax Preparation
1920 Shady Springs Drive
Neenah, WI 54956-1136
Ph: 920-727-1040 Fax: 920-725-3866
Email: dunntill@kcie.com
Visit us at www.dunnaccounting.com

Determining Qualified Business Expenses

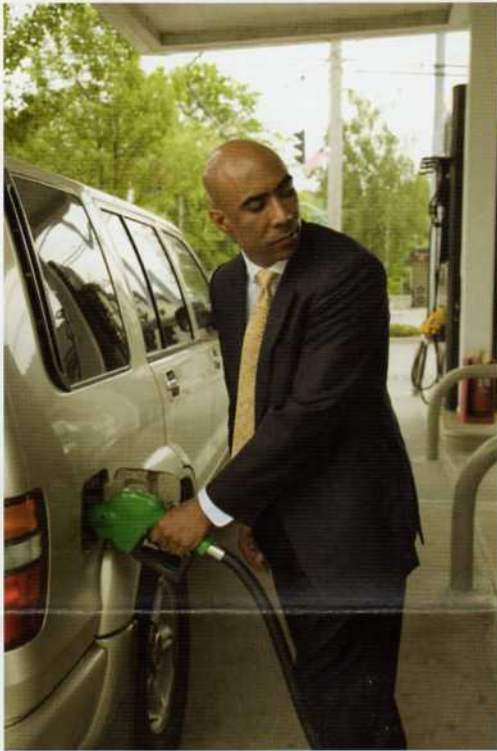
Be sure to deduct every legitimate expense

Amounts you spend in the course of conducting business are generally deductible from the gross income of that business. This includes any start-up expenses. You can claim amounts spent for items ordinary and necessary in your trade or business as a deduction against your income. Otherwise, the amounts are amortized, depreciated, or expensed depending on the nature of the purchases.

The IRS scrutinizes entertainment and meal expenses more than others because of the potential for abuse. You'll need to keep track of the business that was discussed during these events. Other expenses such as cellular phones, computers, and cars are specially classified as listed property because they can be used for both personal use and business use. The IRS requires you to keep written documentation of the business use of your car and computer, plus meals and entertainment expenses, so be sure to keep accurate records.

Expenses must be directly related to your trade or business to qualify as a deduction; amounts spent on items that may help you indirectly do not necessarily qualify. However, to increase your profit, be sure to deduct every legitimate expense that you can reasonably prove. Take advantage of your tax preparer's expertise throughout the year to assist you with tax planning opportunities as they arise.





Automobile Expenses

Which is better—deducting the standard mileage rate or actual expenses?

With the increasing cost of gas, it might be a good idea to revisit which tax deduction is the most beneficial—claiming 50.5 cents per business mile or your actual vehicle expenses. Claiming the standard mileage rate is easier. All you have to do is keep track of your business miles and multiply them by the current rate. In addition to the standard mileage rate, you may also deduct the costs for parking and tolls. Plus, if you are self-employed, you can deduct the interest paid on your car loan.

Claiming actual expenses may result in a larger deduction, but requires a bit more diligence in your record keeping. First, keep all receipts for gasoline, oil, repairs, and tires. Also, track any amounts paid for licensing and registration, insurance, garage rental, leasing, parking, tolls, and rentals. Sales tax and luxury tax are not deductible, although the amounts you pay can be added to the cost of your car and recovered through depreciation.

Regardless of what method you choose, the expenses are limited to your business use. Therefore, you must document the total miles and the business miles for the year to calculate the business-use percentage.

Reimbursing Your Employees for Business Expenses

What method should you choose?

Attracting and keeping good employees is a goal in any business. One way to make life easier for your employees is to have an easy to use reimbursement plan. Travel, transportation, moving, and educational expenses are common reimbursable expenses. As the employer, you have the option to set up an accountable or nonaccountable reimbursement plan. Under either plan, you can deduct many of the business expenses paid to or for employees. However, the plan you choose can make a big difference to your employees.

Qualified items that are reported under an accountable plan are not included in the employee's wages. Under this plan, you issue a check to the employee, who accounts to you for the expenses and returns the excess advance, if any. You take the deduction for the business expense, but the expense never shows up on the employee's W-2. For a meal expense, the employee must provide you with the time, place, and business purpose. You are allowed to give and deduct the meal per diem amount given to the employee. If the meal per diem is within the federal guidelines, no income is reported on the employee's W-2, even if he or she doesn't spend the entire amount. Keep in mind that you and your relatives are not allowed to use the per diem method.

Under a nonaccountable plan, you grant a certain amount of money to the employee to cover business expenses. The employee's W-2 income includes the expense money. You deduct the expense money as wages paid to the employee. The employee can deduct the allowable business expenses on his or her personal return, subject to a limit. Tax wise, the accountable plan is generally easier and more advantageous for the employee.



