



FOX VALLEY TAX SOLUTIONS

*Personal Precise Passionate - A Different Tax Firm*

4.5

# The Top ~~5~~ Tax Deductions for Small Businesses

NAEA

NATIONAL ASSOCIATION  
OF ENROLLED AGENTS

POWERING AMERICA'S TAX EXPERTS®



**St. Charles**  
Chamber of Commerce

Harry Eng, CPA, EA, National Tax Practice Institute Fellow, Partner,  
Fox Valley Tax Solutions, SCORE Certified Business Mentor

# Today You Will Learn About.....

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Audit-Proofing Your Records

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Accountable Plans

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Tax-Free Fringe Benefit & Deductions for Your Smartphone

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Deductions for Your Home Office

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Deductions for Your Vehicle

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Deductible Travel to Exotic Locations

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Deductible Meals & ~~Entertainment~~

# Audit-Proof Your Records

- Checking Accounts
- Record Deductible Expenses Weekly
- Keep Logs
- Elements of travel & entertainment
- Statute of Limitations
- Bottom Line - You Need to Prove:
  - What You Bought
  - That You Paid for What You Bought

Continental Airlines  
Somewhere, CA 94709

Page: 1

Folio No. 001422

Date	Description	Debit	Credit	Customer
12/24/08	Long Distance Calls 810-528-8218	14.78		ROSEHVER
12/24/08	Room	89.00		KIMBY
12/24/08	Room Tax *Room	9.00		KIMBY
12/25/08	Terrace Cafe Food 84152 : CHICK #378	7.88		ROSEHVER
12/25/08	Long Distance Calls 810-528-8218	4.28		ROSEHVER
12/25/08	Room	89.00		KIMBYSHAH
12/25/08	Room Tax *Room	9.00		KIMBYSHAH
12/25/08	Long Distance Calls 810-528-8214	8.50		ROSEHVER
12/25/08	Room	89.00		ALITHO
12/25/08	Room Tax *Room	9.00		ALITHO
12/25/08	Visa Card 00000000000000000000000000000000		347.78	ROSEHVER



*Timeline of events and expenses*

December 1st: left Vancouver and drove to San Francisco  
→ see gas fill-up receipt for proof of travel date.

December 6: slipped and fell during hike  
December 6: ER visit at General Hospital  
→ paid \$500 deposit, see receipt

December 6: rented crutches  
→ see receipt for \$60

December 10: left San Francisco, returned to Vancouver  
→ see lunch receipt for takeout before crossing the border for proof

When it comes  
to deductions

| Your form of  
business  
matters

- Sole Proprietorship  
or SMLLC
- Partnership or  
MMLLC
- Corporation – either  
S or C

# | Accountable Plan

Expenses Must Have a Business Connection

Employees Must Adequately Account to the Company/Business Within a Reasonable Time (Provide Proper Documentation Within 60 days)

Employees Must Return Any Excess Reimbursement or Allowance Within a Reasonable Time - generally 120 days)

Technically Cannot be Used For Self-Employed Owners (Sole Proprietors & SMLLCs)

Partnerships (MMLLCs) Can Have a Reimbursement Arrangement for Owners (Details Specified in the Partnership Agreement)

# Historically The Top Five Were:



Cellphone



Home Office



Vehicles



Travel



~~Business Meals & Entertainment~~

# Cellphones & Tablet Devices

- If you have employees or independent contractors  
Business can pay & not require record keeping
- Employees are:
  - current employees including you if you are an employee of your corporation
  - Partners in your partnership
  - Directors if you operate as a corporation
  - Independent contractors performing services for you
- Must be for Non-compensatory reason
- Sole Proprietors & SMLLCs must account for personal usage – deduct as operating expense & depreciation





# Home-Office

- You Can Have More Than One Office:  
Principal Office Determined by Administrative Use – Make it in Your Home
- Regular Use & Exclusive Use
- If Corporation: Convenience-of-Employer Test
- Don't Fret About the Gross Income Limit
- Classify Your Repairs Properly
- Prove Your Expenses
- Identify Your Depreciable Basis







# How Much Can You Deduct?

- The \$5 Per Square Foot Safe Harbor
- Allocate Actual Expenses Based on Business Percentage
  - Gross Square Footage
  - Number of Rooms
  - Net-Square-Footage

# Claiming Home Office Expenses

- Sole Proprietor or SMLLC
  - IRS Form 8829
- Corporation – previously 3 ways – now 2
  - **Worst:** Rent to your Corporation
  - ~~**Better but Still Bad:** Claim as an Itemized Employee Business Expense~~
  - **Best:** Reimburse using an **Accountable Plan**





## Vehicle Ownership and Usage

- Deductions When You Acquire
- Deductions While You Operate
- Deductions When You Dispose

# Deductions When You Acquire

How much & How fast depend on:

- **When:** Bought & Placed in Service
- **Purpose:** Business v. Personal
- **Configuration:** Truck? Van? Pick-Up? SUV? or “Passenger”?
- **Cost:** 2017: > \$15,800 or 2018: > \$50,000
- **Size:** GVWR >6,000 lbs
- **Usage:** > 50%

A grid of 12 small calendar images, each showing a different month from January to December. The calendars are arranged in a 3x4 grid. Each calendar is a standard monthly layout with days of the week and dates. The colors of the calendars vary by month: January (blue), February (pink), March (green), April (yellow), May (orange), June (red), July (purple), August (brown), September (grey), October (blue), November (pink), and December (green).

Vehicle	Sec. 179	Bonus Depr.	MACRS Depr.	Total
N/U* Car > 6000 GVWR	\$55,000			\$55,000
N/U Pickup GVWR > 6,000 & bed $\geq$ 6 feet	\$55,000			\$55,000
New SUV GVWR > 6,000	\$25,000	\$30,000		\$55,000
Used SUV GVWR > 6,000	\$25,000	\$30,000		\$55,000
SUV/Pickup GVWR $\leq$ 6,000	**	\$8,000	\$10,000	\$18,000
Car Curb Wt. $\leq$ 6,000	**	\$8,000	\$10,000	\$18,000

- Section 179 Write Off:
  - “Section 179”: Up to 100%; not reduced by usage as long as >50%
  - But SUVs are limited to \$25,000
  - Bonus Depreciation: 100% beginning on Sep. 28, 2017 thru 2022
- “Luxury Vehicle” Limitation
  - Vehicles in 2017 costing >\$15,800; >\$50,000 beginning 2018 \*\*
- Personal Use Reduces Luxury Limits and Depreciation Deductions (But Not Section 179)

Example of a \$55,000 Vehicle Purchase

# Auto – When You Operate

- Actual Expenses vs. Standard Mileage Rate
- Mileage Log
- Using Technology
- Multi-Car Strategy
- Sole Prop: Report on Schedule C
- Partners & Corp Employees: Use Accountable Plan Reimbursement

[illegible]

## When You Dispose of a Business Vehicle

- Disposal of a business vehicle produces a taxable gain or deductible loss regardless of how deductions were claimed
- Losses create cash when you sell to an unrelated party
- 2017 Tax Reform killed the old strategy of using “trade ins” to defer gains
- But, having a taxable event does not mean you will pay more taxes
  - Sell and Buy can save you self-employment taxes
  - Re-discovering hidden source of tax losses for “Schedule C” taxpayers who use the optional mileage rate
  - New tax law may cause you to change how often you replace vehicles
- Know what your business basis is in your vehicle
- Discuss options with your tax pro *before* you act





Turning Your Vacation –  
Even a *Luxurious* One  
Into Deductible  
Business Travel

## Tax Facts of Life –

- **Transportation Expenses** – in the 50 States & Wash. D.C is an All-or-Nothing Expense
- **Life Expenses** – During travel, you can deduct the cost of sustaining life – these include lodging and meals – on business days, but not on personal days
- **Basic Rule of North American Area Business Travel** – travel expenses are deductible as long as your trip is an “Ordinary & Necessary” cost of doing business

## The Real Test is Summarized into 5 Rules

- Profit Motive – must expect trip to create profit at some point
- Requires a Stay Overnight
- The “For Only” Test
- Primary Purpose Test
- Well Maintained Records

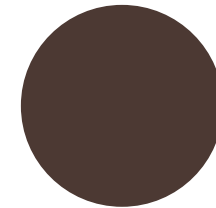


- 7 Day Travel Rule – Allows 100% deduction of transportation costs to a business destination even when you work only one day and spend the rest of the time at the beach (IRC Sec 274(c)(2)(A))
- The Expanded “Tax Deductible Meetings & Seminars Boondoggle Areas” Rule (IRC Sec 274(h))
- The Two-Person Seminar Rule (Carl H. Jones v. Comm.)
- Mechanics of Building an Itinerary That Maximizes Deductibility
- Deduct Lodging Even When You Are Staying Close to Home



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# Travel Rules



# Convention Seminar Rules

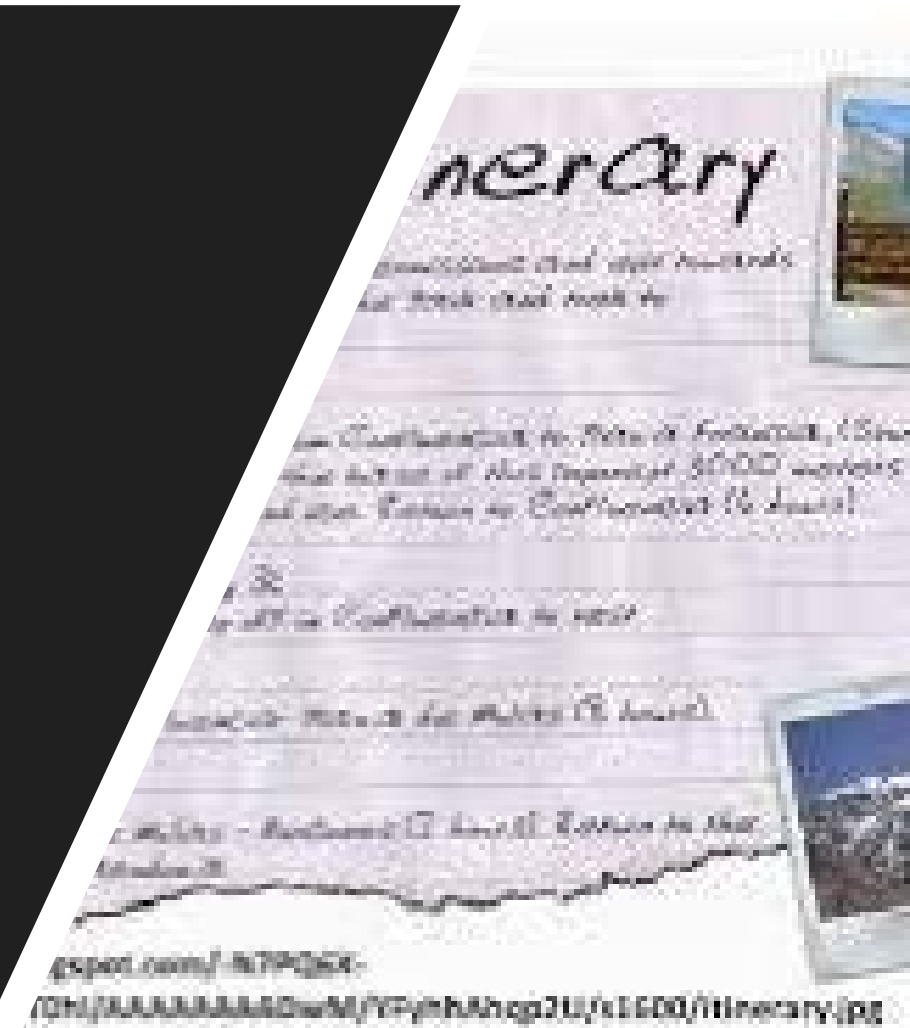
- Travel Expenses to Conventions inside the North American area are deductible if the convention advances the interest of your business
- Conventions outside the North American area must relate directly to the conduct of your business and must be reasonable for the event to take place in the chosen location
- If the convention provides videotaped lectures, you can deduct travel expenses only if you could not view the lectures from any other location
- You cannot deduct the expense when the seminar relates to one of your investment activities and not to your trade or business



the  
convention

# Tax Planning Your Itinerary – Definitions & Rules You Need to Know

- What constitutes a “Business Day”?
  - 4 Hours + during normal business hours (W)
  - Transportation Days (T)
  - Sandwich Days (S)
- Deductions for “Business Days” = Costs of Sustaining Life:
  - Meals & Lodging, Phone, Transportation, Cleaning & Laundry, Cabs, Tips, etc.
- Outside of the US?
  - The 76/24 Test
  - Partial deductions for transportation when not 100%
  - Business reason for each city visited
- Make sure you work on Friday and Monday



# Once Upon a time...you could write off 50% of golf and dining with your clients

- A business setting can be your office, a restaurant, or a convention`
- Meet the Associated Entertainment rules and you can deduct your cost, your spouse's cost, and amounts you spend on prospects, colleagues, clients and customers, and their spouses
- You don't have to pay for others to deduct your own
- Special rules prohibit lodging deductions, but combining a business trip with golf can make your lodging deductible
- Most entertainment is subject to 50% cut, but does not apply to charity golf, including professional tournaments where proceeds go to charity





# **Repealed by the 2017 Tax Cuts & Jobs Act**

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**Repealed by the 2017 Tax Cuts & Jobs Act**

# 2017 Tax Reform Targets Meals & Entertainment Deductions



- 2017 Tax Reform Act repeals tax code that allowed a 50% deduction for entertainment, amusement, or recreation directly related to or associated with, the active conduct of your business
- Deduction is prohibited regardless of business discussion, negotiation, business meeting, or other bona fide transaction
- A short list of what died:
  - ~~Business meals with clients and prospects~~ Still Deductible!  
See IRS Notice 2018-76 as of 10/2/2018
  - Golf, skiing
  - Tickets to football, baseball, basketball, soccer, etc. games
- Good News (if you can call it such) no need to timely document related or associated entertainment cause it's not deductible (DUH!)

## OK So What Survived?

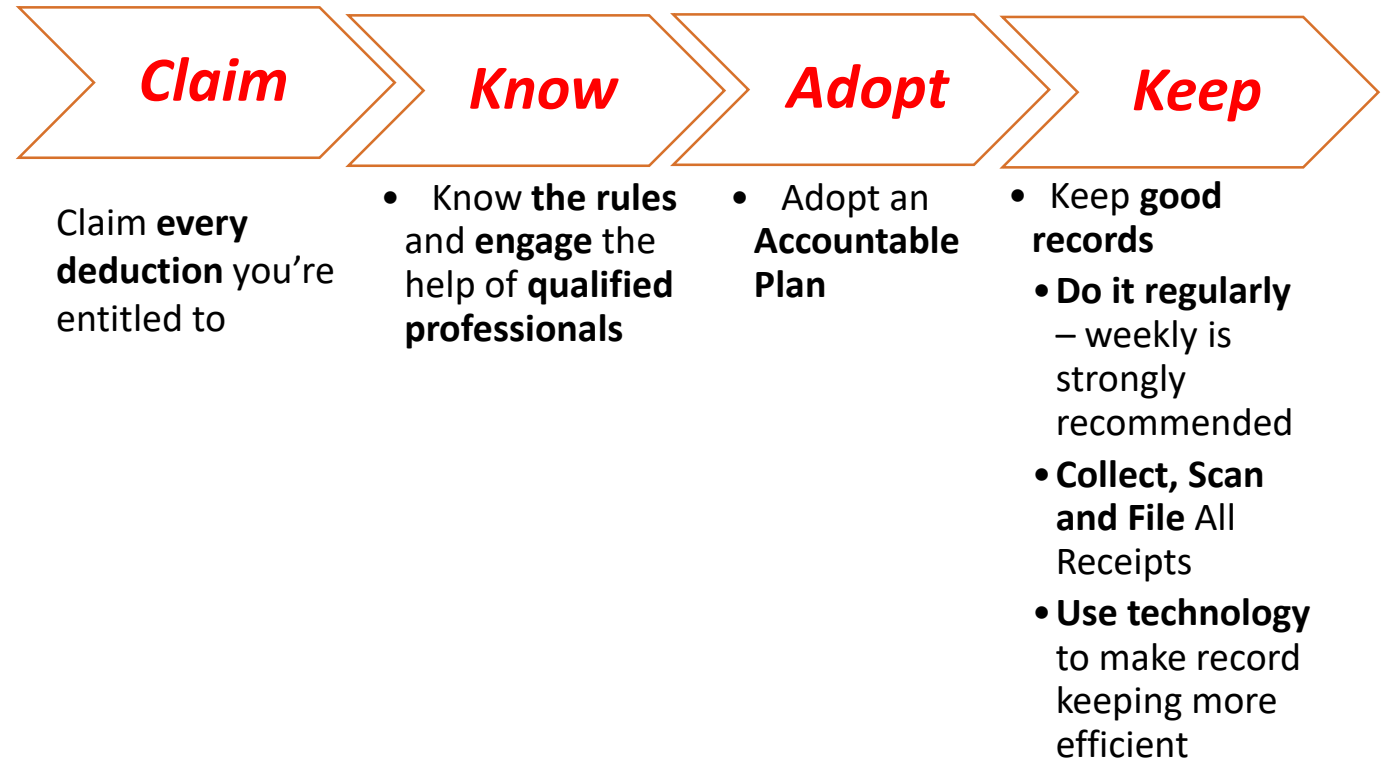
- Employee Meals – Must be served on your “business” premises, and for you business convenience
  - At required business meetings
  - Meals served to employees required to staff their positions during meal times
  - Meals served to employees at in-office cafeterias
  - Food and meal costs for employees who live on premises for convenience of employer
- Entertainment related expenses (Sec 274(e)) – see your tax pro
  - Recreation for the benefit of employees and general public,
  - Expenses directly related to business meetings of employees, shareholders, agents or directors
  - Attendance at a business meeting or convention such as those held by business leagues, chambers of commerce, real estate boards, etc.

# When Forming a Tax Strategy for Entertainment Cuts Consider...

- Renting Your Home to Your Corporation
- Taking Your Employees on an Employee Party Trip
- Partying With Your Employees
- Making Your Vacation Home a Deductible Entertainment Facility
- Creating an Employee Entertainment Facility
- Deducting the Cost of the Entertainment Facility Because Facility Use Creates Compensation to Users



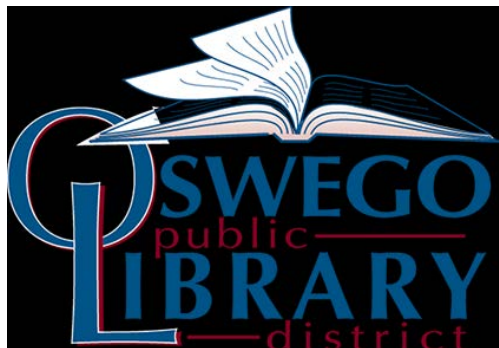
# Takeaways for successful deductions





TAX

Questions



# Thank You

This presentation has been brought to you by SCORE, The National Association of Enrolled Agents and the Oswego Public Library.

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