Tax Deductions For Businesses And Individuals

Today we are going to discuss ways to reduce tax liabilities using your Home-Based Business.

Before we get started I have to make a disclaimer:

I'm not giving tax advice. If you want tax advice please consult with a competent attorney.

Now, let's get to it:

In our financial lives it's all about keeping more of what we earn. We make money but if we don't know how to manage it like the wealthy then we don't end up keeping it.

We can have a great home-based business. We can earn, save and invest but the bad thing about thriving is that the IRS want's their piece of the pie.

When you have a job the company takes a piece of the pie without much input from you. You pay tax BEFORE any other expenses are paid. However, when you have a business you pay tax AFTER you pay business expenses.

Whether you are set up as a soul proprietor, corporation, partnership or LLC, IRC Section 162 says that we can deduct all ordinary and necessary business expenses.

So, what is ordinary and necessary? Let me give you an example. There's a 1994 IRS case in which a woman deducted over $3,000 for a breast enlargement. The IRS tried to disallow the deduction but the Tax Court upheld her deduction stating that this she proved that the breast implant surgery was an ordinary and necessary business expense. How so? Well, Ms. Hess, better known as Chesty Love on the stage, was an "Exotic Dancer"

So if Ms. Chesty Love can legally deduct her breast implants then you shouldn't be afraid to deduct the expenses that you incur in our home-based business!

Ordinary and necessary mean: Common, accepted, helpful and appropriate. So, your HBB will help you increase your income AND deduct more expenses!

As a retired CPA, CFE and a former IRS agent here are some of the expenses that I deduct for my home-based business.

Marketing and advertising can be one of our biggest expenses. We have websites, domain names and other advertising strategies to educate people about our great product and system. Your marketing expenses are deductible.

When we buy demonstration supplies and brochures, those are totally deductible as marketing and advertising materials. Even the products in those packages are used for display, like the old time display counters back in the day. I surely use my books and table supplies as tax deductible display pieces and gifts to customers.

We use our **vehicles** to get to meetings, conferences and seminars so we need to keep a good travel log. I use the standard mileage rate, which is (54 cents). Also, you need to know the difference between commuting miles and deductible miles.

Sometimes we need people to **help** us do things like deliver packages, make calls for us and proofread our work, while we build our businesses. If we pay these people it's deductible. If we pay them $600 or more we have to report it on an1099. Keep canceled checks or some type of paper trail.

You can expense **equipment**, like copiers, printers and computers. Use section 179 to depreciate these hard assets.

When we contract with **professionals** like attorneys, accountants, computer experts, webmasters and trainers these expenses are deducted in the legal and professional category.

We all use **pens, paper, staplers** and related items for our office. Some of us even do opportunity meetings and workshops at our homes, so even the food and paper plates are deductible!

In most municipalities in the U.S. **occupational tax** certificates, also known as business licenses are required if you do business in your home, even if you don't see clients, and even if you **just** do business on line! If you decide to comply then this expense is deductible.
Travel is different from in town mileage and auto expense. Everyone that travels to workshops and events is entitled to a deduction for travel and meals. <u>Entertainment</u> deductions apply when you take potential clients out golfing and <u>Meal</u> expenses apply when you take them out to eat. But entertainment and meal deductions are limited. Remember that if you have a lack of documentation the IRS will likely try to disallow your deduction if you are audited.

Whether you're presenting or watching someone else present, make sure you have agendas for every day and can prove relevance and necessity.

The best **employees** that you can hire are your children. Did you know that you can hire your children that are between 6 and 18 years old, pay them a salary and have no tax requirements whatsoever? You have to actually pay them and they have to actually work and do time sheets, but the money can be used for anything from clothes to vacations to education. They can even loan the money back to you or use it to buy equipment for the business and collect perpetual rental income for their own business!

Most people have **cell phone and Internet** expenses. Yet they only become deductible when you have a business. A percentage of your time on the phone and on-line is used doing the business, so that percentage (for me it's upwards of 80%) is deductible.

Did you know that you could write off part of **your home**? The square footage of office space vs. square footage of your total home; or the simplified method of 300 sq. ft., is deductible. No additional depreciation can be taken and the office space used must be exclusively for office work. It can't be your bedroom, kitchen, living or dining room or the deduction is disallowed.

Now let's talk about a deduction that's exclusive to people that file the 1040 Schedule A – Itemized Deductions. You have the choice of filing the standard deduction, which is an amount contrived by the government or, if your actual itemized deductions are more than the standard deduction, you can file the Schedule A and itemize.

Usually people that have mortgages, real estate taxes, large healthcare expenses and charitable contributions file the Schedule A.

I am about to tell you all that itemize your deductions how you can deduct at least $2,000 more this year!

Listen up: I call this tip the Salvation Army Goodwill Goodie.

The charitable contribution deduction is a deduction on the Schedule A; "Itemized Deductions" form (Exhibit B). This form can be used by anyone who has more deductions than the standard deduction allows. For example, a married couple is automatically given a standard deduction of $12,600 on their 2015 tax return. If the couple has mortgage interest, real estate tax and state income tax withheld to deduct, more than likely, they will have expenses that exceed the $12,600 standard deduction and would use the higher total by completing the Schedule A.

Charitable deductions should be added to the above deductions on the Schedule A. These deductions are classified as cash contributions and non-cash contributions.

Cash contributions include money given to churches and other non-profit organizations. If you plan to take a deduction for cash contributions, you must pay by check and/or get a statement from the church or organization. Most churches and non-profit organizations send out annual giving statements. You must keep these in your file; **do not** mail them with your tax return.

The best-kept secret on the Schedule A, however, is the Non-Cash contributions. This deduction is for giving clothes, toys, furniture and other household items to the Salvation Army, Goodwill, American Kidney Fund and similar organizations.

You can deduct thousands of dollars in non-cash charitable contributions every year, and it is all "perfectly legal". Here's how.

Contributions come in the form of cash and non-cash. Cash contributions are monies that you give to non-profit organizations like churches, humanitarian charities and civic associations. Non-cash contributions are **items** given to these same organizations.

On the Schedule A in the section entitled "Gifts To Charity" there is a line that says "Gifts by cash or check" and another line that says "Other than by cash or check." At the end of each year most people receive statements from churches and other organizations that detail how much **cash** they gave. However, because of fear, most people put $500 or less on the “other than cash” line. This is where people miss out on thousands in deductions.

If you plan to deduct more than $500 in non-cash charitable contributions the only thing you need to do is complete one extra form called the 8283. All that form asks you is to whom you gave, when you gave, what you gave, when you acquired what you gave, and the value of what you gave. Not a scary prospect at all. Now I’ll tell you how to keep more of your hard earned cash:

When the American Kidney Fund or other charities call and say they will have a truck in your area, or when you accumulate enough clothes and other “stuff ” in your closet that you need to give it away, do this:

1. Take all of the clothes, shoes and other items out of the closet and lay them neatly out on the floor.

2. Take a picture of the items and print the picture as soon as possible.

3. Take a pen and paper and write down a description of all of the items that are on the floor.

4. Place the items in a plastic bag or bags, and put the bags on the front porch if they are coming to get it, or in your car to take to the Goodwill.

Now, you’ll receive a receipt in the front door if they are picking up the bags, or you need to obtain a receipt if you are dropping off bags. You have a receipt, a picture and a listing of what you gave. On the Salvation Army website is a thrift store value guide:

http://salvationarmysouth.org/valueguide-htm/

This guide gives the thrift store values for most items that we accumulate in our homes. For example, women’s suites are worth between $6 and $25. Well, you can’t tell most women that their suites aren't worth at least $25. Therefore, 4 suites in one bag is a $100 write-off! Now I hope that you can see how one bag alone can be worth more than $500!

You can give as often as you want and accumulate as many receipts as you can get your hands on. To add to this goodie, you can get clothes and stuff from family members and friends that don't itemize. If they don't file tax returns or if they don't have enough write-offs to use the Schedule A, you can go to their homes, pick up their stuff and take it to the Salvation Army!

When they give you their stuff, it is a **gift** to you, and its value is the same as it was when it belonged to them. For example, if Aunt Mary is 68 years old and doesn't file any more but she gives you 4 nice suites, you can take them to the Goodwill and get a $100 write off from that gift! Make sure you take pictures and make a listing of what Aunt Mary gave you.

When you keep good records of what you gave, have your receipt from the charitable organization and have pictures, you have two good legs to stand on if you are ever audited!

I try to give non-cash donations to organizations twice a month. That way I have at least 24 receipts at the end of the year. With the donated items listed on paper, an accepted thrift store valuation sheet and pictures to show that my deductions are legitimate and accurate, I'm confident that my donation deductions will stand up to any scrutiny.

Large companies and rich people have all types of special deductions written into the tax code for them to utilize. For example, the "Augusta Rule" or "Master's Exemption" is a rule that allows people to rent out their personal homes for 14 days or less and not have to pay any income tax on the earnings! This rule was created for the people living around the Master's gold tournament in Augusta, Georgia. Each year thousands of wealthy people flock to this tournament and they want to stay in nice homes near the golf course. I don’t know who started this but typically some congressman writes a stealth rule into a large bill and it passes without debate. There are hundreds of these special “loopholes” in the code for the wealthy to take advantage of. These Augusta homeowners avoid having to pay thousands in taxes because they rent their homes out for upwards of $20,000 for that two- week period.

Now, most of us would never be asked to rent our homes, so it only benefits the wealthy. This non-cash charitable contribution deduction is the middle class and poor man’s way of taking advantage of an IRS regulation, reducing our tax burden and sticking it to the IRS!