

This memorandum is intended to provide a general, informal overview of some common expenses that may arise in the ordinary course of operating a business. It is not intended to be exhaustive, and other expenses not discussed here may also be deductible depending on the specific facts and circumstances of your business. Because business expense rules can be nuanced and subject to change, this memo should not be relied upon as authoritative guidance. Clients are encouraged to review IRS Publication 334, Tax Guide for Small Business, for a more comprehensive and authoritative discussion of business expense administration and deductibility.

“What am I allowed to deduct”? This is the most common question I am asked as an accountant, in short to be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business.

A common example I give to my clients in the maritime industry is that of a dive watch. A dive watch is an ordinary and necessary tool of a captain that scuba dives with charter guests. When purchasing the watch a Captain has the option to buy a \$40 Casio or a \$400 Seiko, both watches are necessary however only the Casio might be considered ordinary. The same may also be said for hotel stays as well. If you are traveling away from home on business and have the option to stay at a Four Season’s resort or a Hampton Inn the IRS may disallow the travel to the resort as unnecessary especially if a lower cost option was available.

Keep in mind that just because you believe an expenditure is tax deductible does not mean that the IRS will agree. IRS court cases are full of examples in which the tax court has one interpretation of what is “ordinary and necessary” and the taxpayer has a different view as to what is “ordinary and necessary”. When in doubt I encourage taxpayers to reach out to their accountant to discuss.

Below is a list and description of the most common business expenses you may incur, please review and contact me with any questions.

Automobile

If a vehicle is used exclusively for business purposes, then generally you may deduct the entire cost of operating the vehicle. However, the standards of “exclusive use” are hard to meet. It’s more likely that your vehicle is used for both personal and business and you will, therefore, need to determine what vehicle expenses are business related.

Generally, travel between two business destinations is considered a deductible operation of the vehicle. This can mean travel from your home office to the post office to deliver mail or the supply store to purchase office supplies. This also may include travel from one client's location to another client's location and back to your place of business. Please note that "commuting miles" are not deductible. Commuting miles are travel from your home to your regular place of business on a daily basis. For example if you live in West Palm Beach and drive every day to your office in Fort Lauderdale those miles are not deductible however once you are in Fort Lauderdale the business related travel you incur will be deductible.

Generally, travel deductions using a vehicle are calculated by mileage. It is the taxpayer's responsibility to keep a mileage log recording the business related use of the vehicle and a record of the business purpose of the trip. Mileage logs are now simpler to maintain using apps on mobile devices. Please note that even if the vehicle is being depreciated it is still the tax payers responsibility to maintain a mileage log.

For a vehicle expense worksheet, please visit our website at avmaraccounting.com and go to the "tax organizer" tab. For more questions regarding vehicle deductions, please contact me directly.

Bank Fees

Bank Fees are relatively simple to record, most fees are directly debited from your bank account making it easy for us the accountant to spot and deduct when preparing your year end tax return.

Communications

Cell Phone and internet bills are often categorized as "communications". You will want to pay these costs out of your business bank account. If any portion of your communications costs are personal in nature please notify us at the end of the year and we will allocate the personal portion accordingly.

Dues and Subscriptions

Expenses incurred for dues and subscriptions commonly include the costs for trade associations, the fee to keep your company active with the State, subscriptions for publications directly related to the production of income. As with all business related expenses, pay for these expenses out of your business bank account or with your business debit/credit card.

Education

To be deductible, your expenses must be for education that (1) maintains or improves your job skills, or (2) is required by your employer or by law to keep your salary, status or job. However, even if the education meets either of these tests, the education cannot be part of a program that will qualify you for a new trade or business, or needed to meet the minimal educational requirements of your trade or business.

Although the education must relate to your present work, educational expenses incurred during temporary absence from your job may be deductible. However, after your temporary absence, you must return to the same kind of work. Usually, absence from work for one year or less is considered temporary.

Expenses that can be deducted include:

- Tuition, books, supplies, lab fees, and similar items
- Certain transportation and travel costs, and
- Other educational expenses, such as the cost of research and typing

Since many of our clients are in the maritime/yachting industry I often see a deduction for MPT (Maritime Professional Training). The cost of taking courses at MPT may be considered a business related expense if you are already in the yachting related field but if you are new to the industry and are taking these courses to enter the yachting industry the costs will probably not be deductible.

As with all business related expenses, pay for your qualified education expenses out of your business bank account or with your business debit/credit card.

Equipment and Tools

Any tools and equipment you purchase necessary to conduct trade or business are deductible. As with all business related expenses, pay for your qualified equipment and tool expenses out of your business bank account or with your business debit/credit card.

Health Insurance

Health insurance may be deductible depending however, you generally may not claim the self-employed health insurance deduction for any month you were eligible to participate in an employer-subsidized plan through your employer or your spouse's employer. Please contact our office if you are unsure as to whether you may deduct your health insurance.

Liability Insurance

Business liability insurance is considered a business expense, as with all business related expenses, pay for your qualified insurance expense out of your business bank account.

Meals and Entertainment

ENTERTAINMENT 2018- Please note that as of January 1st 2018 most business entertainment is no longer deductible. This includes but is not limited to sporting events, concerts, country club dues and any other deduction that may be considered “entertainment”.

Please note when I refer to meals in this section I am referring to meals as a form of entertainment, travel meals will be discussed in the section under “travel”.

Office Expense and Supplies

Supplies and office expenses typically include paper for your printer, staples, toner, etc. Since most of these expenses are purchased at places like Office Depot it is important that you keep the receipts for these purchases. An IRS auditor may see a charge to your credit card from “Office Depot” however they will not know what you purchased, as with all business related expenses, pay for your qualified insurance expense out of your business bank account.

Travel

With any travel expenses that you plan to write-off, you will need to be able to prove that the travel was directly related to your business, such as a product convention meeting with a client, or in the case of many of our clients travel related to the yacht they work on.

Flight costs typically aren't a problem, even if you always fly first class. It's the limo from the airport to the hotel that would be cause for concern. Meals are deductible at a rate of 50% of the bill. If you are taking client to dinner, you will need to be able to show that you discussed business at the meal.

This is where a journal or electronic log really comes in handy. When traveling on business, be sure to document your daily events, like which clients you spoke to, where and when you met and what you discussed. Should your business ever be audited, the IRS will require you to produce such a journal.

Family vacations are not a tax deduction, unless your family members are part of your business. You have to justify that by holding business meetings or by all parties attending a business convention while on the trip. If you go to the Bahamas and lay on the beach all five days, chances are you really shouldn't try to write that off.

As with all business related expenses, pay for your qualified travel costs out of your business bank account or use your business debit/credit card. Meals are only 50% deductible, this is an allocation we make at the end of the year when we prepare your tax return. Generally travel meals are incurred when you are more than 24 hours away from your home and a meal is not being provided to you.

International travel does have it's own rules and we encourage clients to contact our office to review how best to take advantage of traveling outside the United States.

Uniforms

You can deduct the cost and upkeep of work clothes if the following two requirements are met.

- You must wear them as a condition of your employment.
- The clothes are not suitable for everyday wear.



It is not enough that you wear distinctive clothing. The clothing must be specifically required by your employer. Nor is it enough that you do not, in fact, wear your work clothes away from work. The clothing must not be suitable for taking the place of your regular clothing.

Examples of workers who may be able to deduct the cost and upkeep of work clothes are: delivery workers, firefighters, health care workers, law enforcement officers, letter carriers, professional athletes, and transportation workers (air, rail, bus, etc.).

Musicians and entertainers can deduct the cost of theatrical clothing and accessories that are not suitable for everyday wear.

However, work clothing consisting of white cap, white shirt or white jacket, white bib overalls, and standard work shoes, which a painter is required by his union to wear on the job, is not distinctive in character or in the nature of a uniform. Similarly, the costs of buying and maintaining blue work clothes worn by a welder at the request of a foreman are not deductible.

Protective clothing. You can deduct the cost of protective clothing required in your work, such as safety shoes or boots, safety glasses, hard hats, and work gloves.

Examples of workers who may be required to wear safety items are: carpenters, cement workers, chemical workers, electricians, fishing boat crew members, machinists, oil field workers, pipe fitters, steamfitters, and truck drivers.

As with all business related expenses, pay for your qualified uniform costs out of your business bank account or use your business debit/credit card.

Misc./Other

The expenses mentioned above are some of the more common expenses that you will incur, there will always be misc/other expenses that don't always fit into a specific category. In those cases you are always welcome to contact me to discuss. In any even if you think the expense is a qualified business deduction, pay for it out of your business bank account or use your business debit/credit card. As discussed in the beginning of this memo you will want to make sure the expense is both ordinary and necessary to the production of income in your trade or business.

The tax advice in this writing is not intended, and cannot be used by you, to avoid any penalties the service may impose as a result of taking any position in this writing we conclude is more likely than not to be resolved in your favor.