

# Overlooked Tax Deductions

Every business Owner is looking for ways to reduce expenses without cutting corners, without reducing quality, or losing sales. But few businesses look to the one area guaranteed to save you money: your tax return.

Each year, America's small businesses overpay their income taxes by over two billion dollars. The overpayments were made because the businesses failed to take tax deductions they were legally entitled to take. Many of these businesses are still unaware of their errors. They overpaid their taxes and don't even know it.

The IRS is not going to help these businesses. The IRS will never tell you about a tax deduction you didn't claim. That is up to you.

Here are a few deductions you can take and benefit greatly from doing so:

1.       **Association dues and other expenses.**  
          This includes dues paid business groups, professional organizations, merchant and trade associations, chambers of commerce, etc. Dues to community service organizations, such as Rotary, Lions, etc. are also deductible. Dues and membership fees in clubs run for pleasure, recreation, or other social purposes are not deductible.
  
2.       **Bank charges**  
          Bank charges, services, penalties, check writing and credit card fees are deductible. Check printing costs are deductible.
  
3.       **Bankruptcy**  
          Costs of filing for bankruptcy and related expenses are deductible. If a supplier goes bankrupt, and if you paid for goods or services not delivered, you can deduct your loss as a bad debt.
  
4.       **Barter**  
          If the goods or services you receive are used in your business, you get a business deduction on your taxes, just as though you paid cash. You deduct the fair market value of the goods or services received.

5. **Bounced checks**  
Bounced checks are deductible; that is, the ones your lousy customers bounce on you. Your own bounced checks, the ones you wrote, are not deductible. However, the bank charges and penalties are deductible.
6. **Children on payroll**  
You can hire your children, get a deduction for their wages, and – within certain limitations – the children are not subject to income or payroll taxes. The rules are very specific, but generally, if your child has little or no unearned income such as bank interest, and does legitimate work for your business, you can pay your child up to \$5,150 a year tax free and get a business deduction for the wages. It's a rare tax law indeed that lets you have your cake and eat it too.
7. **Classes**  
The cost of education for any self-employed individual is deductible, but only if the education maintains or improves a skill required in your business. Education expenses are not allowed if the education is required to meet minimum educational requirements of your present business or if the education will qualify you for a new trade or business.
8. **Credit Cards**  
Business purchases made with a credit card are fully deductible. Fees and interest are also fully deductible. You can use your personal credit card for business purchases. If the card is used partly for business, you must prorate any bank charges or credit card fees, personal vs. business. And, only the interest on business purchases can be deducted.
9. **Casualty Losses**  
Business losses from fire, storm, or from theft or vandalism are fully deductible to the extent they are not covered by insurance. Stolen or destroyed depreciable property (business assets you are depreciating) can be deducted as a casualty loss, but only to the extent of the undepreciated balance. If you wrote the entire asset off the first year, you have no deductible loss.

10. **Disability Insurance**  
Disability insurance for your employees is deductible. Disability insurance for yourself is not deductible unless you are an employee of your corporation. Insurance that pays for business overhead expenses during a time you are disabled is deductible.
11. **Flowers**  
Flowers are deductible, for the office, for the store, for your secretary, for a customer or client, for an office party.
12. **Greeting Cards**  
Deductible. And greatly appreciated. Send lots of greeting cards.
13. **Internet Access**  
The costs of internet access are fully deductible if used only for business. If used partly for business, you must prorate the cost and deduct only the business portion.
14. **Lobbying Expenses**  
If you spend money to try to influence a federal or state legislator or a federal or state election, you must meet two requirements in order to deduct you expenses: (1) The total amount spent cannot exceed \$2,000, and (2) The money must be spent “in house”, meaning you cannot hire an outside professional lobbyist.
15. **Penalties**  
Tax penalties and fines for violation of the law are not deductible. Penalties for not meeting contract requirements, and any other fines or penalties that do not involve breaking the law, are deductible.
16. **Punitive Damages**  
Punitive damages imposed by a government agency for breaking the law are not deductible. Any other punitive damages (such as for breach of contract), late charges, and the like, are deductible.

17. **Razing a Building**  
The cost to demolish a building must be added to the cost basis of the land. It cannot be deducted.
18. **Shows**  
Shows you put on to promote your business are deductible. Food and beverages served are fully deductible. Shows you attend are also deductible, although meals you purchase are only 50% deductible.
19. **Tax Penalties**  
Tax penalties are not deductible.
20. **Tax Return Preparation**  
Fees paid to prepare business tax returns are fully deductible. For sole proprietors, only the cost of preparing the business part of your 1040 tax return (Schedule C and/or Schedule F and related schedules).
21. **Telephone**  
All business telephone uses are deductible. Tax deductions for a home telephone are limited. You may not deduct the basic monthly rate for the first telephone line in the home. Expenses beyond the basic rate, such as business-related long distance calls, optional services, Yellow Pages listings, and any special business equipment are deductible. Any additional business lines into the house after the first line are fully deductible if used exclusively for business. Cellular phone service is also deductible if used for business purposes.
22. **Tips**  
Tips paid for meal service are considered part of the meal, and are only 50% deductible. Tips for services other than food are fully deductible.
23. **Tolls**  
Vehicle tolls are deductible if on a business trip. If you take the standard mileage allowance, tolls are deductible in addition to the mileage allowance.

24. **Uncashed Checks**  
Are uncashed checks deductible? An uncashed check was not really paid, was it? So it really isn't deductible. A check written and mailed (or delivered) by December 31 can be written off the year it was written, even though it was not cashed until the new year.
25. **Watch Dog**  
The cost of buying, feeding and maintaining a watch dog is deductible. The animal itself may have to be depreciated over its expected life.
26. **Web Page or Web Site**  
The cost of designing and setting up a Web page is deductible. If the amount is significant, it may have to be depreciated over three years. Hosting fees and costs of maintaining a Web site are deductible. The cost of internet access is fully deductible if used only for business. If used partly for non business, you must prorate the cost and deduct only the business portion.
27. **New Points on Refinancing**  
Any points you pay to refinance your home can be deducted on a monthly basis over the life of the new loan. So, if you refinanced your mortgage on June 1, 2006, for a 20-year term, seven out of 240 months will have passed by Dec. 31. If you paid \$2,400 in points, you can write off \$70 (\$10 a month for seven months) for 2006. You can write off \$120 for 2007 and each year thereafter until the points have been deducted in full. The amount may not be huge, but every little bit helps.
28. **Old Points on Refinancing**  
This is one deduction lots of people miss. All unamortized points on old refinancing are deducted in the year of a new refinancing. So, let's say you refinanced on June 1, 2004, and paid \$2,400 in points. You refinanced again on June 1, 2006. You can deduct all the remaining points on the 2004 loan. That's \$2,160 plus the \$50 you could deduct for January through May 2006.

29. Health Insurance Premiums

Any health insurance premiums you pay, including some long-term care premiums based on your age, are potentially deductible. You have to add these, however, to your medical expense pot. Medical expenses have to exceed 7.5% of your adjusted gross income before they give you any benefit. But if you're self-employed and not covered by any other employer-paid plan, you can deduct 100% of your health insurance premiums above the line. Above the line means the expense is included in adjusted gross income and doesn't get lumped in with itemized deductions. That means that you not only don't have to exceed the 7.5% floor, you don't even have to itemize!

30. Retirement Tax Credit

This one is even better than a deduction. It's a credit – a dollar for dollar reduction in your tax – not just in your taxable income. And, it also can come with a deduction. The deduction is designed to give moderate and low-income taxpayers an incentive to save for retirement. Make a contribution into your retirement account. That money isn't taxed currently. So, it's like you got a deduction off your income. In addition, you get a credit of as much as 50% of the first \$2,000 investment. moreover, if you qualify, you can deduct as much as \$5,000 in contributions to an IRA. The tax credit disappears as your adjusted gross income increases. But singles with AGIs up to \$25,000 and joint filers with AGIs up to \$50,000 will qualify. Contributions to your 401(k), 403(b), SEP, traditional or Roth IRAs will qualify as well.