

Eleven Tax Tips for Small Businesses

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By smart planning and claiming the deductions you deserve, you will decrease your business' taxable income—and increase your tax savings. Here are some deductions or practices you may have overlooked:

1. AUTO EXPENSES

You may be able to depreciate the costs of owning your car or deduct the cost of operating and maintaining it. Here's how:

- Keep track of the miles you drive for business and multiply your total by the IRS standard mileage rate (37.5 cents per mile in 2004); or
- Deduct the business portion of depreciation and the actual expenses allocated toward the car.

2. HOME OFFICE

If you use your home office exclusively on a regular basis, you can deduct depreciation allocated to the business use of this area in your home. You also can deduct indirect expenses of operating your home office.

3. LEGAL AND PROFESSIONAL FEES

Fees paid to lawyers, consultants or CPAs can be deducted in that same year.

4. MEALS AND ENTERTAINMENT EXPENSES

When you entertain present or prospective customers, you may deduct 50 percent of the related cost if it is "directly related" to business.

5. TRAVEL EXPENSES

When traveling for business, you can deduct the cost of plane fare, taxis, lodging and 50 percent of meals and entertainment costs. Expenses such as dry cleaning and telephone calls qualify for a deduction as well.

6. EXPENSING DEDUCTION

If desired, you can immediately deduct 100 percent of the cost of qualified business property up to \$100,000 instead of depreciating it over several years.

7. INSURANCE PREMIUMS

Your company may be able to deduct—as a business expense—insurance premiums paid for a variety of coverage, including fire, theft, flood and casualty; employee group medical insurance; business liability insurance; professional malpractice insurance; business interruption insurance; life insurance provided for the benefit of employees; auto insurance used for business; and credit insurance. Self-employed individuals also can deduct as an adjustment to gross income 100 percent of health insurance premiums.

8. BAD DEBTS

You can claim a deduction for a business debt related to accounts or notes receivable. However, you must have included the amount owed in your gross income for the year.

9. RETIREMENT PLAN CONTRIBUTIONS

Establish an employer-sponsored retirement plan, which can provide a number of tax and non-tax benefits. By putting funds into a retirement plan, you not only ensure a secure retirement for yourself and your employees, but reduce your taxable income.

10. INTEREST PAYMENTS

Interest and carrying charges are fully tax-deductible if you use credit to finance business purchases.

11. HIRE A FAMILY MEMBER

Hiring a family member to work for your business can create tax savings for you. Your business can take a deduction for reasonable compensation paid to an employee, which in turn reduces the amount of taxable business income.

Remember, it's always smart to keep good records in the event that you need to confirm your expenses and deductions.

