

Legal Deductions Allowable If you are Engaged In a Trade, Business or Profession

- ❖ AAA Penalties: paid by farmers as result of exceeding farm marketing quotas
- ❖ Abandonment of property used for business purposes
- ❖ Accounting and auditing expenses paid as follows:
 - Auditing of your books and accounts
 - Cost of special audit involving business transactions
 - Cost of books and bookkeeping
 - Cost of preparing and filing of any tax returns
 - Cost of investigation of any returns
- ❖ Accounts receivable: worthless (either through purchase or exchange)
- ❖ Advances made to employees cancelled as bonus
- ❖ Advertising expenses such as:
 - Premiums given away for coupons, etc.
 - Newspaper, magazine and other advertising
 - Credit given customers to be used for advertising purposes
 - Prizes and other expenses in holding contests or exhibitions
 - Contributions to various organizations for advertising purposes
 - Costs of displays, posters, etc. to attract customers
 - Publicity, generally speaking, all costs including entertainment, music, hall, printing, etc.
 - Christmas presents to customers or prospects (Limit \$25)
- ❖ Alterations of business property, if minor
- ❖ Amortization
- ❖ Attorneys' fees and other legal expenses involving law suit brought against you in connection with your business, for carelessness, fraud, etc.
- ❖ Auto expense for business purposes such as:
 - Damage to auto not covered by insurance
 - Gasoline
 - Oil
 - Repairs and Replacements
 - Washing and Waxing
 - Garage rent
 - Insurance premiums such as fire, theft, collision, public liability, etc.
 - License plate
 - Driver's License Fee
 - Depreciation
 - Wages of Chauffeur
 - Uniform of Chauffeur
 - If entire use of auto is for business purposes, then entire expenses of operating auto are deductible, otherwise apportionment must be made. (DOME auto mileage log required)
- ❖ Bad debts from sale of merchandise – previously reported as income
- ❖ Bad debts from services rendered – previously reported as income
- ❖ Baseball team equipment for business publicity
- ❖ Black-out, screen-out, dim-out expenses
- ❖ Board and room costs for employees
- ❖ Bond losses
- ❖ Bonuses as additional compensation to employees
- ❖ Books currently expended if the useful life is short
- ❖ Bookkeeping services costs
- ❖ Building expenses used for business such as:
 - Repairs to building
 - Janitorial service
 - Painting
 - Interest on mortgage
 - Taxes on property
 - Water

- Cleaning
- Rubbish removal
- Depreciation of building
- Heating
- Lighting
- Landscaping
- ❖ Burglary losses, not covered by insurance
- ❖ Business cost of operating office
- ❖ Business taxes, except federal income taxes
- ❖ Capital assets, losses from sale or exchange (see Losses)
- ❖ Car and taxi fares
- ❖ Carrying charges or interest
- ❖ Charitable contributions or donations (see Contributions)
- ❖ Casualty damages such as:
 - Bombardment
 - Fire
 - Shipwreck
 - Storm
 - Hurricane
 - Drought
 - Forest Fire
 - Freezing of property
 - Impairment or collapse of property
 - Ice
 - Heat
 - Wind
 - Rain
- ❖ Chauffeur's salary, if car is used for business
- ❖ Chauffeur's uniform, if car is used for business
- ❖ Christmas presents to employees, customers and prospects for advertising or publicity purposes, or goodwill, or if customary in trade (Limit \$25)
- ❖ Closed bank, loss of investment in
- ❖ Club dues and expenses, provided purpose for business reasons
- ❖ Collection expense including attorney's charges
- ❖ Commissions on sale of securities by dealers in securities
- ❖ Commissions paid to salesmen
- ❖ Commissions paid to agents
- ❖ Commissions paid to employees for business purposes
- ❖ Compromise costs due to settlement of accounts, or through litigation
- ❖ Condemnation expenses, cost of legal expense in contesting condemnation proceedings of business property
- ❖ Contact expenses, including entertainment expenses to promote, increase or advertise your business or to increase sales (Expense account record required)
- ❖ Contributions: Deduction is unlimited if it can be shown that expenditure is for business purposes and is ordinary and necessary. Illustration:
 - Contributions to institutions, like colleges, schools, hospitals, provided they are connected with your business
 - Contributions to churches, educational and recreational organizations whose facilities are available to your employees
 - Contributions to hospitals, clinics, etc. to provide for the welfare and care of your employees
- ❖ Contributions are deductible if made to organizations founded for the following purposes: (Individuals may have to itemize.)
 - Religious
 - Charitable
 - Scientific
 - Literary
 - Educational

- Prevention of cruelty to children and animals or to United States, State, Territory or a municipality, if the money is to be used for a public purpose or to an organization of war veterans
- ❖ Contributions or taxes paid by employer to State Unemployment Compensation Fund and for Federal Social Security Taxes
- ❖ Convention Expenses: cost of attending conventions (DOME expense account record required)
- ❖ Cost of:
 - Obtaining credit reports of customers
 - Obtaining financial data regarding your own business or profession
 - Furniture, instruments, equipment and books, currently expended if the useful life is short (1 year or less)
 - Collecting overdue accounts, including legal fees
 - Defending suit brought against you for alleged malpractice
 - Make-up, wigs, etc. of actors and professional entertainers
 - Redecorating the office
- ❖ Custom Duties: part of cost of merchandise
- ❖ Damages to property, not covered by insurance, due to theft or casualty (see Casualty Damages)
- ❖ Damages from suit against you
- ❖ Depletion
- ❖ Depreciation:
 - In general the Accelerated Cost Recovery System (ACRS) replaces the general depreciation rules for most property placed in service after 1980. The ACRS deduction is referred to as a depreciation deduction. On January 1, 1987 the Modified Accelerated Cost Recovery System (MACRS) became effective.
- ❖ **EFFECTIVE JANUARY 1, 1987 MACRS PROPERTY IS CLASSIFIED AS FOLLOWS:**
- ❖ Three (3) – year class: Asset Depreciation Range (ADR) of 4 years or less, except automobiles and light trucks, etc.
- ❖ Five (5) – year class: ADR of more than 4 and less than 10 years, and adding automobiles, light trucks, qualified technological equipment, etc.
- ❖ Seven (7) – year class: ADR of 10 years and less than 16 years, etc. and property with no ADR midpoint that is not classified elsewhere. This includes most machinery & equipment and furniture & fixtures, etc.
- ❖ Ten (10) – year class:
- ❖ Fifteen (15) – year class: } Not generally
- ❖ Twenty (20) – year class: } applicable
- ❖ Twenty-seven and one half (27.5) – year class: Residential rental property, etc.
- ❖ Thirty-one and one-half (31.5) – year class: Non-residential real property, etc.
- ❖ **For a complete discussion regarding depreciation or Accelerated Cost Recovery System (ACRS) (MACRS) see IRS Publications 534, 17, 334.**
- ❖ Discounts allowed to customers
- ❖ Donation to U.S.O., Navy Relief Society, Army Relief Society, etc.
- ❖ Dues paid to:
 - ❖ Better Business Bureau
 - ❖ Chamber of Commerce
 - ❖ Trade Associations
 - ❖ Professional Societies
 - ❖ Technical Societies
 - ❖ Protective Service Associations
 - ❖ Club – if for business purposes
 - ❖ Efficiency engineers to reduce costs of business operations
 - ❖ Embezzlement, loss due to and not covered by insurance
- ❖ Employees welfare expenses such as:
 - Dances
 - Entertainment
 - Outings
 - Christmas Parties
 - Shows or Plays
- ❖ Endorser's loss

- ❖ Entertainment expenses (may be subject to limitation)
 - Employee's welfare
 - Securing new business
 - Keeping old customers
 - Meeting prospects
 - Advertising and publicity purpose:
- ❖ Equipment repairs
- ❖ Equipment, minor replacements
- ❖ Exhibits and displays to publicize your product
- ❖ Expenses of any kind directly chargeable to business Required has:
 - Renting of storage or extra space
 - Public stenographer's service
 - Safe deposit boxes to store business property or papers
 - Upkeep of real estate or rented property
 - Books to record income and expenses of investment income
- ❖ Experimental and research expenses
- ❖ Fan mail expenses
- ❖ Farmers' costs, provided farm is operated for profit
- ❖ Fees for passports necessary while traveling on business
- ❖ Fees to accountants
- ❖ Fees to brokers
- ❖ Fees to lawyer
- ❖ Fees to agents
- ❖ Fees to technicians
- ❖ Fees to professionals for services rendered
- ❖ Fees to investment counsel
- ❖ Fidelity bond
- ❖ Fire loss
- ❖ Forfeited stock
- ❖ Forfeited down-payment on purchases
- ❖ Freight charges
- ❖ Futures Account loss
- ❖ Gifts to customers (Limit \$25)
- ❖ Gifts to organized institutions such as:
 - Charitable
 - Literary
 - Educational
 - Religious
 - Scientific
- ❖ Group insurance on employees' lives
- ❖ Guarantor's loss
- ❖ Heating expense
- ❖ Hospitals – contributions to
- ❖ Improvements, provided they are minor (Major improvements must be capitalized.)
- ❖ Insurance premiums paid
- ❖ Interest on loans of all kinds for business purposes such as:
 - Loans such as, life insurance, bank, personal, etc.
 - Notes
 - Mortgages
 - Bonds
 - Tax deficiencies
 - F.H.A. mortgage loans
 - Installment payments of auto, furniture, etc.
 - Margin accounts with brokers
 - Bank discount on note is deductible as interest
- ❖ Inventory loss due to damages, evaporation, waste, etc.

}

DOME
TRAVEL
and
Entertain-
ment
Record

- ❖ Investment counsel fees paid
- ❖ Joint venture loss, if motive was profit
- ❖ Lawsuit expenses
- ❖ Legal Costs:
 - In defense of your business
 - In settlement of cases against your profession or business
 - Payment of damages
- ❖ License fees
- ❖ Lighting
- ❖ Living quarters furnished employees for your benefit
- ❖ Lobbying costs, if legal and in connection with your business
- ❖ Losses, deductible if connected with your business or profession such as:
 - Abandoned property
 - Accounts receivable – purchased and found worthless
 - Auto damage caused by fire, theft, heat, storm, collision, icy roads, etc.
 - Bad debts
 - Bank closed, deposits in
 - Blizzards or Ice Storms
 - Bombardments
 - Bonds
 - Buildings – damager
 - Burglary
 - Business ventures, operations or associations
 - Capital assets, exchange or sale of
 - Casualties, fire, theft, heat, storm, etc.
 - Damager to property or assets
 - Deposit forfeiture, on purchase of property
 - Drought
 - Embezzlements
 - Endorser, payments as
 - Equipment abandoned
 - Exchange or sale of property
 - Flood
 - Forced sale or exchange
 - Foreclosure
 - Forfeitures
 - Freezing
 - Goodwill, cost of, if abandoned or sold
 - Hurricane, deductible only in year of loss
 - Ice Storms or Blizzards
 - Joint ventures for profit
 - Loans not collectible
 - Machinery abandoned
 - Mortgaged property, sale of
 - Partnership – business operations
 - Securities – exchanged or sold
 - Securities – worthless
 - Seizures by federal or state authorities
 - Short sales
 - Storm damager not compensated by insurance
 - Theft
 - Transactions, all transactions entered into for profit, whether connected with business or profession or not
 - Useful value of assets loss
 - Wash sales, if deducted by a dealer in securities
 - Worthless real estate
- ❖ Maintenance of business property

- ❖ Maintenance of office, store, warehouse, showroom, etc.
- ❖ Maintenance of rented premises
- ❖ Management costs
- ❖ Materials
- ❖ Meals of employees (may be subject to limitation)
- ❖ Membership dues (see Dues)
- ❖ Merchandise
- ❖ Messenger service
- ❖ Moving, cost of
- ❖ Musician's expenses such as agent's fees, sheet music, repairs, traveling, etc.
- ❖ Net operating loss: may be carried back three years and forward fifteen years
- ❖ Newspapers used for business purposes
- ❖ Nurse's wages
- ❖ Nurses expenses such as drugs, medical bag, tools, etc.
- ❖ Obsolescence
- ❖ Office expenses, including:
 - Wages
 - Supplies
 - Towel Service
 - Heating and lighting
 - Telephone and telegraph
 - Repairs
 - Refurnishing, minor items
 - Decorating
 - Painting
- ❖ Office rent paid
- ❖ Office rent, portion of home used for business
- ❖ Office stationary and supplies, including printing of all kinds
- ❖ Overdrawn salesmen's drawing accounts not collectible
- ❖ Overdrawn allowances to employees cancelled as bonus
- ❖ Passport fees
- ❖ Payments – workmen's compensation funds
- ❖ Pension trust, payments, if properly and legally drawn
- ❖ Pensions
- ❖ Periodicals
- ❖ Plotting of land for sale
- ❖ Postage is an expense (not a tax)
- ❖ Premiums given away for advertising purposes (Limit \$25)
- ❖ Professional society dues
- ❖ Professional entertainer's cost of sheet music, agent's fees, repairs to instruments, etc.
- ❖ Property damages (see Casualties)
- ❖ Property maintenance
- ❖ Property, repairs to
- ❖ Property depreciation (see Depreciation)
- ❖ Protection expenses, such as, membership fees in Better Business Bureau
- ❖ Publicity expenses
- ❖ Real estate expenses of rental or investment property including:
 - Taxes on property
 - Insurance
 - Janitorial service
 - Repairing
 - Redecorating
 - Painting
 - Depreciation
 - Supplies
 - Tools

- Legal expenses involving leases, tenants or property
- Social Security taxes
- Water
- Commissions to secure tenants
- Maintenance: heating, lighting etc.
- Advertising for tenants
- ❖ Rebates on sales
- ❖ Refunds on sales
- ❖ Receiver's fees
- ❖ Rents paid, such as:
 - Business property
 - Parking facilities
 - Safe deposit boxes
 - Taxes paid by tenant for landlord
 - Warehouse and storage charges
- ❖ Rent settlement – cancel lease
- ❖ Rent collection expense
- ❖ Rental property expense, such as:
 - Advertising of vacant premises
 - Commissions to secure tenant
 - Billboards and signs
- ❖ Repairing of business property, such as:
 - Alterations, provided they are not capital additions
 - Casualty damages, replaced, provided they are not capital additions
 - Cleaning
 - Minor improvements
 - Painting
 - Redecoration
 - Repairing of furniture, fixtures, equipment, machinery, and buildings
 - Roof repairs
- ❖ Restitution under Fair Labor Standards Act
- ❖ Royalties
- ❖ Safe deposit box rental
- ❖ Safe of storage rental
- ❖ Salaries, including bonuses, commissions, pensions, and management fees
- ❖ Sample room, hotel
- ❖ Self insurers, actual loss, deductible only in year of loss
- ❖ Selling expenses, such as:
 - Commissions and bonuses prizes
 - Discounts
 - Entertainment of customers and prospects (DOME expense account record required) Subject to limitation
 - Prizes offered in contests
 - Publicity and promotion costs
 - Rebates
 - Sample room, cost of maintaining
- ❖ Services, professional or otherwise necessary for conduct of business
- ❖ Shipwreck damages not covered by insurance
- ❖ Social Security taxes paid by employer
- ❖ Stationery and all other office supplies used
- ❖ Stock forfeited, loss from
- ❖ Storm losses not covered by insurance
- ❖ Subscriptions to all trade, business or professional periodicals
- ❖ Substitution expenses paid, due to your absence
- ❖ Supplies, office or laboratory
- ❖ Taxes, all taxes paid except federal income taxes, such as:
 - City gross receipts tax

- City sales tax, if included in sales
- State gross receipts tax
- State sales tax, if included in sales
- State Unemployment Insurance Tax
- Federal Social Security Tax
- State Income Tax
- State Unincorporated Business Tax
- Real Estate Tax
- Tangible Property Tax
- Intangible Property Tax
- Custom, Import or Tariff Tax
- License Tax
- Stamp Taxes
- Any business tax, as a rule
- Auto registration tax
- Safe deposit tax
- Membership dues tax
- Gasoline Tax
- Admission Tax
- ❖ Taxes paid by tenant for landlord is deductible as rent
- ❖ Telephone and telegraphs: portion of residence phone used for business or profession is deductible
- ❖ Tenants, all payments for taxes, interest, repairs made for landlord is deductible as rent
- ❖ Theatre tickets, if connected with business or profession (DOME expense account record required.)
- ❖ Theft losses, if not covered by insurance
- ❖ Traveling expenses, includes: meals, taxi-fare, rail fare, tips, telephone, telegrams, laundry and cleaning, entertainment for business purposes (DOME expense account record required.)
- ❖ Unemployment compensation taxes paid by employer
- ❖ Uniforms furnished employees
- ❖ Unsalable or deteriorated merchandise
- ❖ Wages
- ❖ Welfare of employees, expenses covering
- ❖ Workmen's Compensation Fund contributions
- ❖ Worthless stock
- ❖ Worthless bonds
- ❖ Worthless real estate