



BUSINESS OWNERS: OFTEN-OVERLOOKED BUSINESS TAX DEDUCTIONS



INTRODUCTION

As business owners, we all know that when it comes to taxes, every opportunity to save matters. Our guide below on often-overlooked business tax deductions empowers closely-held businesses to make deductions strategically to **preserve earnings, optimize cash flow, and fuel growth.**

Unlock the power of smart tax strategies with this essential guide **tailored for business owners**, and discover hidden gems like Section 179 and bonus depreciation under Section 168(k) that can potentially slash your tax liabilities significantly. From home offices to employee benefits, **seize every opportunity to optimize your finances and minimize your tax liabilities.**



SECTION 179

Section 179 of the IRS tax code allows business owners to deduct the full cost of some types of tangible business property as soon as it is placed in service, rather than depreciating the cost over a period of years.

Eligible business assets include:

- Office equipment
- Certain vehicles
- Computers, printers, scanners
- Other machinery used for the business
- Capital improvements to business-owned real estate

The above represents a sampling of Section 179-eligible property; it is by no means a comprehensive list.

It's important to note that the purchase price of used as well as new qualified assets can be deducted from a business's taxable income, up to the deductible expense limit.

For 2024, the Section 179 expense limit has increased to \$1,220,000; however, there are limits to the deduction that can be taken for specific items – e.g., for 2024 the Section 179 limit for a business-purchased SUV is \$30,500.

But be careful – if you purchase more than \$3,050,000 (for 2024) in business property which by its nature would be eligible for Section 179 deductions, the amount of that overage will be deducted from your \$1,220,000 expense limit – consult your CPA or virtual CFO when contemplating Section 179-eligible purchases to ensure you and your business get the maximum benefit available.



BONUS DEPRECIATION – SECTION 168(K)

Section 168(k) of the tax code was retooled via the 2017 Tax Cuts and Jobs Act to allow for deducting 100% of the cost of certain business property which would otherwise depreciate within 20 years or less for the tax years 2017 through 2022. For subsequent years, absent Congressional action, the write-off percentage decreases by 20% annually – i.e., the allowable write off for 2023 was 80% of the cost, and for 2024 the write off is 60% of the cost.

For 2027, there will be no such write off available, as the program will have phased out – and all formerly Section 168(k) eligible properties will need to be depreciated! Take advantage of this opportunity while you still can!

There is some overlap with Section 179-eligible business property, such as computer equipment and vehicles (with a useful life of 20 years or less). **Also eligible are:**

- Office furniture
- Depreciable computer software
- Certain film and theatrical productions
- Certain real estate purchases and improvements (if made after the property has been in service for at least 3 years)

Again, these are examples, not a comprehensive list of 168(k) bonus depreciation-eligible assets. Consult your CPA or virtual CFO to ensure you avail yourself of the greatest possible benefits – while they last.



HOME OFFICE EXPENSES

Many business owners have an office at home as well as at their places of business. It's advisable to segregate a room specifically for this purchase. Deductible home office expenses include:

- Mortgage or rental payment for that portion of your home (percentage of total square footage) reserved for business use only.
- Proportional costs of property insurance (e.g., homeowners or rental insurance).
- Proportional or space-specific repairs and maintenance.
- Business-related portion of utilities

But it's important to carefully and thoroughly document your home office – its precise square footage and its use solely for business purposes. If a repair, improvement, or other expenses pertain *only* to your home office, have the contractor specify this on his/her invoices.



BUSINESS USE OF PERSONAL VEHICLES

This can be deducted via the standard mileage rate – \$0.67 per mile for 2024. Keep accurate and detailed records of the mileage driven for each business trip you take.

As an alternative, you can use the actual expense method – keeping records of gas and oil purchases, tune-ups, repairs and maintenance, insurance, registration fees and licenses, lease payments or depreciation. Calculate what percentage of the vehicle's use was for business purposes, and then apply this percentage to your expenses.

Also deductible are parking fees and tolls related to business trips - whether you use the standard mileage or actual expense deductions, these expenses remain tax-deductible.



QUALIFIED BUSINESS INCOME

Qualified Business Income (QBI) is defined by the IRS as “the net amount of qualified items of income, gain, deduction and loss from any qualified trade or business.” The QBI deduction allows small business owners and self-employed people to deduct up to 20% of their qualified business income from their overall taxable income. The business must provide the owner with “pass-through” income – e.g. business income reported on Schedule C of one’s individual tax return (Form 1040), rather than a business tax return, or reported via Form(s) K-1.

Eligible Business Entities Include:

- Sole proprietorships
- Partnerships
- S Corporations
- Limited Liability Corporations (LLCs)

Excluded from QBI-Deductible Income:

- Capital gains and losses
- Dividends
- Interest income
- Income earned outside the United States
- Certain wage and/or guaranteed payments to partners and shareholders

To qualify for the QBI deduction, an individual’s total income from all sources cannot exceed \$191,950 for single filers, and \$383,900 for joint filers.



EMPLOYEE BENEFITS

Deductible employee benefits include:

- Health insurance costs
- Health savings account (HSA) employer contributions
- Company paid meals
- Employee continuing education
- Gifts, such as for birthdays or work anniversaries, or “get well soon” situations – e.g., cakes, flowers.

RETIREMENT PLAN EXPENSES

You can deduct employer contributions to SEP-IRAs and other retirement plans such as 401(k), 403(b), and various 457 plans.



BUSINESS MEALS AND ENTERTAINMENT

Per the provisions of the TCJA, client entertainment expenses (sports tickets, golf outings, etc.) are no longer tax deductible even in part.

However, business meals remain 50% tax deductible. This category can include:

- Taking a client or prospective client out to lunch or dinner (or even coffee)
- Lunches or dinners with your own team members – these are mentoring and team-building opportunities – legitimate business expenses.
- Meetings over meals or coffee with other professionals in your field or related fields – these are business networking opportunities which may provide referrals. But keep detailed notes demonstrating their business purpose.

BUSINESS TRAVEL

If you travel for business purposes, whether it's connected with client or potential client relations, professional conferences and other networking events, continuing professional education, or if you pay for any such travel for your employees, the following may be deductible, so long as an overnight stay is a reasonable requirement:

- Airfare and other transportation expenses
- Lodging
- Meals of reasonable cost are deductible at a rate of 50%

Not included are such expenses as your spouse's travel expenses, if s/he comes too, and boarding a pet while you are away.



ARE YOU LEAVING MONEY ON THE TABLE?

One of the biggest drivers of business value is having a Virtual CFO who acts as your trusted business advisor.

Not all CPAs think like strategic business partners, but many businesses aren't positioned for a full-scale CFO. That's where a Virtual CFO who acts as an integrated business ally can ensure your business thrives with profitability, financial security, and better risk and financial controls.

Don't miss out on tax savings by failing to take advantage of every possible way to reduce your tax liabilities! Seize every opportunity to minimize your tax burden and maximize your savings.

Reach out to our team of experienced Virtual CFOs for expert guidance in meticulously uncovering every tax-saving strategy hidden within your financial records.

We are masters of fine-combing your books to find every tax-saving strategy possible!

