



# 150+ TAX DEDUCTIONS FOR SMALL BUSINESS A TO Z

Revised to reflect changes in  
One Big Beautiful Bill Act

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Big Ideas for Small Business®  
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# 150+ Tax Deduction for Small Business

## Revised to reflect changes by the One Big Beautiful Bill

**“The legal right of a taxpayer to decrease the amount of what otherwise would be his taxes, or altogether to avoid them, by means which the law permits, cannot be doubted.” *George Sutherland (1862-1942), Associate Justice of the U.S. Supreme Court.***

If you pay for an expense related to your business, it’s probably tax deductible.

But deductions are a “matter of legislative grace,” which means it’s up to Congress to create and define them (and for the IRS to clarify them). There may be dollar or percentage limits or timing restrictions that curtail current write-offs for business outlays. For example, some expenses must be “capitalized,” which means they become part of the cost of an asset. Then the cost can be recovered through depreciation or deducted immediately using special write-off options if applicable. Some expenses aren’t deductible, but instead are treated as a tax credit (a dollar-for-dollar reduction on your tax bill). And states that have an income tax may use different rules for deducting business expenses.



### Disclaimer

This e-booklet provides information rather than advice or opinion and is accurate to the best of the author’s knowledge as of the publishing date of July 15, 2025. It is not intended to serve as legal, tax, or other professional advice and should not be viewed as a substitute for consultation with your own professional to apply any information contained here to your situation.

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## ***What's tax deductible?***

The basic rule for deducting business expenses is that they must be 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. An expense doesn't have to be indispensable to be considered necessary. A tax deduction is one that's specifically listed as such in the Internal Revenue Code or is not specifically listed but meets the conditions of being ordinary and necessary and is not otherwise barred by tax law.

## ***How much is a tax deduction worth?***

The value of a tax deduction depends on the tax bracket you're in. For C corporations that pay a flat 21% tax rate for federal income tax purposes, each \$100 deduction saves the corporation \$21 in income taxes. For pass-through entities (sole proprietorships, partnerships, limited liability companies, or S corporations), for which owners pay tax on their share of business income on their personal returns, the value of the deduction depends on the owner's tax bracket. If the owner is in the 15% bracket for federal income tax purposes, then a \$100 deduction saves \$15 in income taxes. An owner in the 37% tax bracket saves \$37 in income taxes for the same deduction.



## ***How to nail down deductions.***

To take a tax deduction, it's up to you to prove you're eligible for it. The IRS says: "The responsibility to prove...deductions...on your tax returns is known as the burden of proof. You must be able to prove (substantiate) certain elements of expenses to deduct them. Generally, taxpayers meet their burden of proof by having the information and receipts (where needed) for the expenses. You should keep adequate records to prove your expenses or have sufficient evidence that will support your own statement. You generally must have documentary evidence, such as receipts, canceled checks, or bills, to support your expenses. Additional evidence is required for travel, gifts, and auto expenses."



## ***How to use this guide.***

Whatever type of business you run—C corporation or a pass-through entity—review these 150+ potential deductions to determine which may apply to you. They're listed in alphabetical order (and not in order of importance, amount, or frequency). For many, you'll see links to IRS publications that explain things further. You'll find a complete discussion of these and other write-offs for your business in [J.K. Lasser's Small Business Taxes](#).

# A

**Achievement awards for employees.** You can deduct the cost of awards given to employees. However, for them to be treated as tax-free benefits which are not subject to payroll taxes, certain restrictions apply. See [IRS Publication 15-B](#).

**Accounting fees.** If you pay a tax return preparer to do your returns or a tax professional to provide your business with tax advice, you can deduct all of the fees.

**Accounting software.** If you use a cloud-based solution, you can deduct your monthly subscription cost. If you use desktop software, you usually must depreciate the cost, but can take a full write off using special rules (see bonus depreciation, de minimis safe harbor, and first-year expensing).

**Adoption assistance.** If you help employees with adoption costs under an adoption assistance plan, you can deduct the reimbursements (and they're not subject to payroll taxes). There's an annual dollar limit on the reimbursement that is tax free to employees.

**Advertising.** Ordinary advertising costs are fully deductible.

**Airfare, train fare, bus fare.** The cost of tickets for business trips—near and far—are fully deductible.

**Amortization of Section 197 intangibles.** If you acquire certain intangibles—trademarks, patents, goodwill, etc.—you can deduct the cost ratably over 15 years, beginning with the month in which the intangible is acquired.

**Apps.** While many apps you get for your smartphones, tablets, and laptops are free, some cost money (e.g., ChatGPT Plus is \$20/month) and can be deducted.

# B

**Bad debts.** Businesses that report on the accrual method of accounting and have unpaid receivables or other debts can take a deduction for anything that's partially or wholly worthless. Businesses using the cash method of accounting are out of luck; no deduction is allowed. Note: Different rules apply to business bad debts versus non-business bad debts.



**Baggage.** Fees paid to airlines to transport luggage and other items on a business trip are deductible.

**Banking fees.** The costs for maintaining your business account, getting checks, paying penalties for bad checks, etc. are fully deductible.

**Barrier removal costs.** The cost of an improvement—a ramp, handicapped parking spaces, etc.—to make your facility more accessible to the elderly or individuals with disabilities can be deducted up to \$15,000 per year (instead of depreciating the cost over a number of years). However, any such costs which are taken into account in claiming the disabled access credit—another write-off option for these expenses—cannot also be deducted.

**Bonus depreciation.** Instead of depreciating the cost of property, you can deduct a percentage of the cost in the first year unless you elect not to. This first-year allowance only applies to eligible property. The percentage is 100% for property placed in service on or after January 19, 2025.

**Bonuses.** If you pay bonuses to your employees, they're fully deductible (and subject to employment taxes).

**Breach of contract damages.** Amounts you have to pay if you've failed to fulfill a contract are deductible.

**Break room snacks and beverages.** If you provide donuts, fruit, coffee, etc. in the break room for the benefit of your employees, you can deduct 50% of the cost. You have to bear the other half with no deduction for it. Note: Starting in 2026, there's no deduction for these items.

**Breeding fees.** If you are a farmer or rancher and pay breeding fees, they're generally deductible. But if the breeder guarantees live offspring, the fees must be capitalized (added to the cost basis of the offspring).

**Business cards, brochures, banners, and other marketing materials.** The cost of these items is fully deductible.

**Business gifts.** You can deduct gifts you give to business associates (e.g., a birthday gift to a vendor). But the deduction is limited to \$25 per gift. That's it.

**Business owner policy (BOP).** The cost of this basic insurance coverage, providing liability for injury to third parties and protection for your business property, is fully deductible.



**Capital losses.** Capital losses in excess of capital gains are deductible. For C corporations, the excess capital loss is carried back to offset capital gains in the 3 prior years and then forward to offset capital gains in the next five years (there's no offset to the corporation's ordinary income). For owners of pass-through entities,

the excess capital loss can offset up to \$3,000 of ordinary income, and any amount over this can be carried forward; there is no carryback.

**Car and truck expenses.** Most small businesses use a vehicle, such as a car, light truck, or van. The cost of operating the vehicle for business is deductible only if there are required records to prove business usage. In deducting costs, the need to keep records of cost (e.g., gasoline, oil changes) is eliminated if you rely on the IRS standard mileage rate (e.g., 70 cents per mile in 2025 instead of deducting your actual outlays. You can use the standard mileage rate whether you own or lease the vehicle. But whether you deduct actual costs or use the standard mileage rate, you still need a [record of the business mileage](#).

**Carryovers.** If you previously had a bad year, you may have a net operating loss carryover that you can use to reduce your income in the carryover year and cut your tax bill. Also check for a home office deduction carryover that was previously barred because of a taxable income limitation. Capital loss carryovers are discussed earlier.

**Casualty losses.** If you suffer damage or destruction to your business property as a result of a casualty event that's greater than your insurance coverage or government-provided reimbursement, you can deduct the payment. As a business casualty loss, there's no dollar limit or other restriction.

**Charitable contributions.** Donations you make in cash or property to an [IRS-recognized charity](#) are deductible, but limits apply. For owners of pass-through entities, the deduction for contributions made by the business is claimed on the owner's personal return.

**Chatbots.** If you use chatbots for customer service, the monthly fee (typically \$12-\$500/month) is fully deductible. Note: Some low-level options are free, so there's nothing to deduct.

**Cleaning services and supplies.** Payments to an outside cleaning service, as well as supplies you use for cleaning that you do, are deductible.

**Collection agency fees.** If you have unpaid receivables that you turn over to a collection agency, the amount the agency keeps from any recovery is fully deductible. For example, say you have an old receivable of \$1,000. The agency charges 25%. If the agency recovers \$700 of the unpaid invoice, it keeps \$175; you deduct \$175 and keep the balance of \$525. Whether you can deduct the remainder (\$300) depends on your method of accounting (see Bad debts).

**Commissions.** Amounts you pay to your salespeople are fully deductible. Commissions to employees are subject to payroll taxes. Commissions paid to independent contractors are also deductible. If they are \$600 or more for the year, you must report them on Form 1099-NEC). However, commissions paid in connection with buying realty are not deductible; they are added to the basis of the property and usually are recovered through depreciation.

**Computers and laptops.** Usually, the cost of these tech items must be depreciated, but the cost may be fully deductible using special write-off options (see bonus depreciation, de minimis safe harbor, and first-year expensing).

**Consulting fees.** If you pay a business consultant or other consulting fees, the payments are fully deductible. If the consultant is an independent contractor and fees are \$600 or more for 2025 (\$2,000 in 2026) report them on Form 1099-NEC.

**Contract labor.** Many small businesses use freelancers or independent contractors to meet their labor needs. The cost of such contract labor is deductible. You must issue Form 1099-NEC to any such contractor receiving \$600 or more from you in 2025 (\$2,000 in 2026). If payment is made to the contractor via credit card, Venmo, or other electronic payment method, it's up to the payment processor to issue them Form 1099-K but you may want to send your own 1099-NEC for personal protection.

**Copyrights.** Registration fees for a copyright in your business are deductible.

**Cost of goods sold (COGS).** Technically, the cost of goods sold (COGS) isn't a deduction; it's a reduction to gross receipts (amounts received from the sale of goods). By subtracting COGS from gross receipts (and adjusting for returns and allowances), you arrive at gross profit.

**Conventions.** If you are an exhibitor, the cost for this is a fully deductible business expense. Similarly, if you are attending a business-related convention, you can deduct your entry fee. Travel costs to and from the convention, including airfare, lodging, and 50% of meals, may also be deductible.

**Credit card fees.** The annual fee for business credits cards is fully deductible.

**Customs duty and import tax.** If you pay duties, import tax, and tariffs on items imported into the U.S. you purchase for retails, you can deduct them. Check your import documentation to determine the amount deductible.

## D

**Depletion.** If you extract natural resources—oil, gas, minerals—you can take a special deduction called depletion. The percentage varies with the type of resource involved.

**Depreciation.** This deduction is an allowance for the cost of buying property (with some exceptions) for your business. Depreciation spreads the deduction for the cost of property over a set period fixed by the tax law. But there are other write-off options to deduct the entire cost upfront (see bonus depreciation, de minimis safe harbor rule, and first-year expensing).



**De minimis safe harbor rule.** Instead of capitalizing the cost of the asset and using these write-offs, an election can be made to treat items as non-incidental materials and supplies up to a set dollar limit (currently \$2,500 per item or invoice for businesses without audited financial statements).

**Demolition costs.** Usually, the cost of demolishing a building is not deductible. But you can deduct demolition costs if 75% or more of the existing external walls and 75% or more of the existing internal framework are retained.

**Directors fees.** If you have a corporation and pay directors a fee to serve on the board and attend meetings, the corporation can deduct the fees. Because directors are not employees, the fees are not subject to payroll taxes.

**Disaster losses.** If you have a casualty loss in an area declared eligible for federal disaster relief and insurance or other reimbursement does not cover your loss, you can deduct the loss in the loss year or the year immediately prior to the year in which the disaster loss occurs; it's your call.

**Dividends-received deduction.** If your business is incorporated, you can deduct part of the dividends received.

**Dues.** Dues paid to business, professional, and civic organizations (e.g., chambers of commerce and realty boards) are deductible. So, too, are dues paid by farmers to cooperatives. However, dues paid for other business-related purposes (e.g., airline clubs, country clubs) are not deductible.

## E

**Education and training costs.** If you pay the cost of education or training for employees, it's tax deductible. However, there are limits on what is tax free to employees (taxable amounts are subject to payroll taxes).

**Employee awards.** Awards given to employees in recognition of accomplishments or length of service are deductible by the business. However, they are tax free to employees (and exempt from payroll taxes) only under certain limited situations.

**Energy-efficient commercial buildings deduction.** A deduction based on square footage for renovations, to improve energy efficiency. The deduction applies only to construction begun on or before June 30, 2026.

**Environmental remediation costs.** While the cost of taking certain actions to comply with Environmental Protection Agency (EPA) requirements (e.g., encapsulating or removing asbestos) must be capitalized, remediation costs (e.g., replacing mold-contaminated drywall) are currently deductible. Thus, the costs to restore property to pre-contamination status are deductible, while the costs to improve property must be capitalized.

**Errors and omissions insurance (malpractice insurance).** Premiums paid for this insurance coverage are fully deductible. There may be limits on current deductions for paying multi-year premiums.

**Excise taxes.** These are fully deductible.



# F

**Farms and ranches.** Many of the costs to run a farm or ranch are deductible, such as insect sprays and dusts, litter and bedding, and livestock fees.

**Fertilizer and lime.** The cost of fertilizer and lime used to enrich, neutralize, or enhance farmland by farming businesses is deductible. There's a choice in when to take the write-off.

**FICA.** The employer's share of Social Security and Medicare taxes (FICA) is deductible.

**Film, television, theatrical production costs.** These costs for productions within the U.S. can be expensed.

**Fines and penalties.** Amounts paid to a government that constitute restitution or to come into compliance with the law are deductible. But parking tickets and tax penalties are not deductible.

**First-year expensing.** Also called the Section 179 deduction, this is a write-off that can be elected for the cost of buying certain property instead of depreciating it over a number of years. There's an annual dollar limit on this deduction and can only be used to the extent you're profitable.

**Franchise taxes.** This tax, which is imposed by states on corporations (and in some states on limited liability companies) and has nothing to do with being a franchise, is a deductible tax for businesses that pay them.

**Freight.** See Postage and shipping.

**Fringe benefits.** The cost of employee benefit programs, such as education assistance and dependent care assistance, is deductible.

**Fulfillment costs.** If you use a fulfillment company to warehouse, pick and pack, and ship your items, as well as handle returns, you can deduct the costs. These may be per item, per box, or on some other basis, depending on the extent of the fulfillment services you use.

**FUTA.** Employer payments for federal unemployment tax (FUTA) are deductible.



**Gifts.** See Business gifts.

**Gross receipts tax.** If your business pays a gross receipts tax at the state or local level, it's deductible for federal income tax purposes.

**Group term life insurance.** If you pay premiums on group-term life insurance for employees, you can deduct the premiums. Only the first \$50,000 of coverage is a tax-free fringe benefit. Additional coverage is taxable compensation according to an age-based table for each \$1,000 of excess coverage (this excess coverage is subject to payroll taxes).



**Handicapped access.** See Barrier removal costs.

**Health insurance.** Premiums paid to cover employees are deductible by the business. Premiums paid for a sole proprietor, partner, or more-than-2% S corporation shareholder are deductible as a personal expense on the owner's personal tax return.

**Health reimbursement arrangements (HRAs).** If your company reimburses employees for their health care premiums or out-of-pocket expenses, the reimbursements are deductible. They're not treated as taxable compensation (and are not subject to payroll taxes) if they meet certain requirements, such as those for qualified small employer health reimbursement arrangements (QSEHRAs) or individual coverage health reimbursement arrangements (ICHRAs).

**Health savings accounts (HSAs).** If your company maintains a high-deductible health plan and puts money into employees' HSAs, you can deduct the contributions (annual limits apply).

**Home office.** A portion of personal expenses of a home are deductible as a business expense if the home is used regularly and exclusively as the principal place of business, a place to meet or deal with clients or customers, or as a separate structure used in the business. The deduction includes both direct costs (e.g., painting a home office) and indirect costs (e.g., the percentage of rent or mortgage interest and real estate taxes that reflect the percentage of business use of the residence). Instead of deducting actual costs, you may rely on a simplified method based on an IRS-set rate for square footage (\$5 per sq. ft. up to 300 sq. ft.).



**Identity theft protection for employees and customers.** If you've been hacked and must pay for this protection to those potentially impacted by exposure of personal information, you can deduct the cost (and it's not subject to payroll taxes for employee coverage). If you merely offer this as a benefit to employees (you weren't hacked), it's taxable compensation, which is deductible and subject to payroll taxes.

**Independent contractors.** The fees you pay to independent contractors are fully deductible. If you pay a contractor \$600 or more in 2025 report it annually on Form 1099-NEC.

**Insurance.** The costs of your business owner's policy, malpractice coverage, flood insurance, cyber liability coverage, and business continuation insurance are all fully deductible. However, there are two rules to note for health coverage. A small business may qualify to claim a tax credit for up to 50% of the premiums paid for employees (a better tax break than a deduction). Also, the cost of health coverage for self-employed individuals and more-than-2% S corporation shareholders is not a business deduction. Instead, the premiums are deducted on the owner's personal tax return.

**Interest on business indebtedness.** Interest on loans that the business takes usually is fully deductible as a business expense (e.g., interest on a line of credit used in a construction business). However, businesses with average annual gross receipts in the three prior years of more than a set amount (e.g., \$31 million in 2025) are subject to an interest deduction limitation. And interest on loans by owners to buy their businesses are treated differently. Distinguish business interest from an owner's investment interest or passive activity interest, which is not a business deduction. For example, an individual who takes a personal loan to buy shares in an S corporation must allocate the debt proceeds to the business assets. If the assets are all used in the business, then the owner's interest is deductible business interest. If some assets are investments, then a portion of the interest is investment interest, which is a personal deduction limited to the extent of net

investment income. If some assets relate to a passive activity, such as rental realty, the allocable interest is passive activity interest subject to the passive activity loss limitation.

**Internet.** You can deduct the cost of internet access.

**Inventory.** The cost of buying or manufacturing items held in inventory is accounted for in the cost of goods sold (see Cost of goods sold).



**Laundry and dry cleaning.** When you are away from home on business, the cost of laundry and dry cleaning is a fully deductible expense. When not away from home, such costs are deductible by self-employed individuals only if they are for uniforms or other clothing not suitable for street wear.

**Lease acquisition costs.** If you pay expenses to obtain a lease, you can amortize the cost over the term of the lease.

**Legal fees.** Some legal fees are immediately deductible, some must be capitalized (added to the cost basis of property), and some are nondeductible. You can immediately deduct legal fees to review contracts and provide tax advice. You must capitalize legal fees related to buying property. You can't deduct legal fees that are personal in nature even though they relate to business (e.g., legal fees during a divorce in which ownership of your business is in contention) or legal fees related to a sexual harassment matter subject to a nondisclosure agreement.

**Licenses and permits.** The cost of licenses and permits to operate a business are fully deductible.

**Loan origination fees.** If you pay such fees or points to obtain a business loan, you capitalize them and deduct them ratably over the term of the loan. For example, in January you obtain a \$50,000 loan repayable over five years that costs you 1%. You deduct \$100 each year for five years (the term of the loan).

**Lodging.** If you travel out of town for business, the cost of lodging is fully deductible. You can deduct the actual cost or use a per diem rate: the federal per diem rate or the IRS high-low substantiation rate. But self-employed individuals cannot use a per diem rate for lodging.



# M

**Meals.** These costs are deductible only up to 50%. This 50% limit applies as well to meals deductible using a standard meal rate, such as the [GSA per diem rates](#) or the [IRS high-low substantiation rates](#). The deduction can only be claimed if you substantiate the expense (see [IRS Publication 463](#)).

**Membership dues.** The cost of dues to a professional, business, or civic organization are deductible. The cost of dues to a country club or other social organization is not deductible.

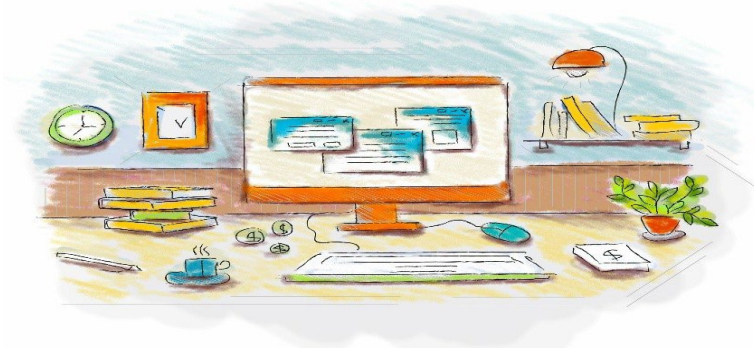
**Miscellaneous business deductions.** Even if an expense doesn't fit neatly into any of the categories listed above, it may still be deductible as long as it's "ordinary and necessary" for the business.

**Mortgage interest.** Small businesses that own realty can fully deduct mortgage interest. Unlike interest on a personal residence, there is no cap on the size of business loans on which interest can be claimed.

**Moving expenses.** Whether you are relocating your business to a new location or simply moving a machine from one place to another, you can deduct all moving costs. If you reimburse employees for their moving expenses, this is treated as taxable compensation to them, which you can also deduct.

# N

**Net operating loss.** If you have a loss from your business that can't be used currently, it is deductible against up to 80% of taxable income in a future year (only farming businesses have a 2-year carryback). There are limits on how much of the loss can be used and the periods it can be used for (depending on when the loss was incurred).





**Occupational tax.** If your locality charges a flat rate for the privilege of working or conducting business within the locality, you can deduct it.

**Office expenses.** Flowers, fish tanks, and magazine subscriptions to spruce up your office are deductible.

**Office furniture.** The cost of desks, chairs, file cabinets, etc. usually must be depreciated over a number of years. But the cost may be deductible in full in the year they're bought and placed in service under a special rule (see bonus depreciation, de minimis safe harbor, and first-year expensing).).

**Organizational costs for corporations or partnerships.** The entity can elect to deduct organizational costs in the same manner as startup costs (see Startup costs).



**Parking.** If you pay to park your vehicle while driving for business, you can deduct parking fees. This expense is in addition to deducting the cost of business driving. Parking related to commuting is not deductible.

**PayPal and Amazon Payment fees.** These fees, which you pay when you make sales, are deductible.

**Payroll services.** If you use an outside company to handle your payroll activities, including figuring withholding, depositing employment taxes, and filing employment tax returns, the cost is fully deductible.

**Payroll taxes.** Payroll taxes include withholding for federal (and, where applicable, state and local) income taxes, Social Security and Medicare taxes (FICA)—the employee and employer share, federal (FUTA) and state unemployment taxes, and the additional 0.9% Medicare tax when an employee's compensation exceeds \$250,000. Of these taxes, you can deduct the employer share of FICA, all FUTA, and employer payments of state unemployment tax.

**Penalties and fines for late performance.** If you are penalized by a contract for being late or nonperformance, you can deduct the payment.

**Performance bonds.** If you're required to furnish a performance bond as required by the terms of a contract, you can deduct the cost.

**Permits and licenses.** The cost of permits and licenses usually is deductible. But the cost of site permit and license fees for a construction project must be capitalized (added to the basis of the building and recovered through depreciation).

**Pest control.** The cost of spraying and other treatments to rid your facility of pests is deductible.

**Pets.** The cost of guard dogs for your business premises, as well as their food and vet bills, is deductible. The same is true for cat food used to attract local stray cats that can chase rats.

**Postage.** The cost of postage and shipping is fully deductible.



**Qualified business income (QBI) deduction.** While this is a personal write-off taken on an owner's income tax return, it's based on business income from a pass-through entity. The QBI deduction lowers the effective tax rate paid on business profits on owners' personal returns. The deduction is 20% of QBI. But there are many limits that may restrict or bar eligibility to claim any write-off. are currently deductible. Thus, the costs to restore property to pre-contamination status are deductible, while the costs to improve property must be capitalized. Starting in 2026, there is a minimum QBI deduction of \$400 if an owner has at least \$1,000 of qualified business income and actively participates in the business.

**Qualified retirement plans.** Employer contributions on behalf of employees are tax deductible (annual limits apply). For self-employed individuals, contributions to their own qualified retirement plan accounts are personal deductions claimed on the owner's personal income tax return.



**Ransomware payment.** If your site is held up and you pay a ransom, it's deductible.

**Real property taxes.** Real estate taxes paid by a business on property it owns is fully deductible.

**Recruitment costs.** The cost of posting jobs openings is fully deductible.

**Reforestation costs.** If you're in the business of cutting trees from your property, you can amortize the cost of reforestation—site preparation, seeds or seedlings, labor, tools—over a period of 84 months.

**Reimbursements for employees.** See accountable plans.

**Rent on business property.** The cost of renting space — an office, boutique, storefront, factory, or other type of facility — is fully deductible.

**Rent on machinery and equipment.** Fees paid to lease or rent items used in your business are fully deductible.

**Repairs.** The cost of ordinary repairs and maintenance are fully deductible, while costs that add to the property's value usually are capitalized and recovered through depreciation. However, there are various safe harbor rules that allow for an immediate deduction in any event.

**Repayments of previously reported income.** If you reported income that you now have to repay, you don't adjust the income previously reported; you deduct the repayment when it's made. If the amount is \$3,000 or more, you may be able to take a tax credit in the year of repayment.

**Research and experimentation costs.** Generally, these costs must be capitalized. Domestic R&D can be expensed.

**Retirement plan contributions.** See Qualified retirement plans.

**Rideshare fees.** Business-related fees are deductible.

**Rotable spare parts.** Items that are removed, repaired, and reinstalled in equipment as needed may be deductible in the year of purchase if a special election is made for this treatment (see the [FAQs on tangible property regulations](#)).



**Safety equipment.** Latex gloves for medical offices, safety goggles provided to employees in certain trades, and other items to protect employees from injuries typically are fully deductible as materials and supplies. Items with a life of more than a year usually must be depreciated but can be deducted in the year of purchase under a special rule (see bonus depreciation, de minimis safe harbor, and first-year expensing).

**Salaries and wages.** Payments to employees—whether salaried or hourly—are deductible business expenses for the business. But payments to sole proprietors, partners, and LLC members are not wages (i.e., they are not deductible business expenses) because these owners aren't employees.

**Section 179 deduction.** See First-year expensing above.

**Security systems.** The cost of a security system usually must be depreciated, but can be deducted in the year of purchase under a special rule (see Bonus depreciation, De minimis safe harbor, and First-year expensing). The cost of monthly monitoring services is fully deductible.

**Self-employment tax.** If you're self-employed, one-half of the Social Security and Medicare taxes paid through the self-employment tax are a personal deduction (not a business deduction) on your Form 1040 or 1040-SR.

**Seminars and conferences.** Entry fees for business-related seminars and conferences are fully deductible. If they are for continuing education requirements, then they are deducted as education costs by an employer or self-employed individual.

**Severance pay.** If you give a termination package to an employee, it's fully deductible. Severance pay is subject to employment taxes (also deductible).

**Shipping.** The cost of shipping is fully deductible.

**Shrinkage.** The difference between inventory items you think you have and what you actually have (after a physical count) is shrinkage. This can result from theft (employees or customers) or mismanagement (you didn't count right). There are two ways to handle shrinkage: adjust the cost of goods sold so you don't overreport inventory (this isn't a deduction) or deduct the loss separately but also reduce beginning inventory.

**Sick pay.** If you give paid leave time for illness, you can deduct the cost (which is subject to employment taxes). If, during this leave time you continue an employee's regular pay as part of a family and medical leave offering you make but aren't required to do, you may be eligible for an income tax credit.

**Smart phones.** The cost of providing these phones for owners and employees ordinarily must be depreciated. However, the cost is fully deductible in the year they're bought and placed in service if special write-off rules are used (see bonus depreciation, de minimis safe harbor, and first-year expensing).

**Software.** Off-the-shelf software expected to have a life of more than one year usually must be depreciated. But special write-off rules enable a full deduction in the year you bought and placed it in service (see bonus depreciation, de minimis safe harbor, and first-year expensing.)

**Standby emergency spare parts.** These spare parts for which a record of consumption is kept are be treated as non-incidental materials and supplies, the cost of which is deductible when first used or consumed by the business. However, an election can be made to capitalize the cost (also see rotatable spare parts).

**Start-up costs.** Certain costs you pay before you open your doors for business can be deducted in your first year. Generally, the deduction is limited to \$5,000, with additional costs deducted ratably over 180 months. But if start-up costs exceed \$50,000, the initial deduction is reduced; all costs must be amortized if start-up costs exceed \$55,000.

**State income taxes.** Corporations can deduct in full their state income taxes. Owners of pass-through entities who pay state income taxes on their share of business income must itemize to take the deduction and there's a cap on their total deduction for state and local taxes ("SALT cap"). Some state-created workarounds, referred to as a pass-through entity tax (PTET), allow for greater deductions by owners of pass-through entities.



**State unemployment insurance.** This cost for employers, which is really a tax, is fully deductible.

**Subscriptions.** The cost of subscriptions to newspapers, magazines, podcasts, and other media is deductible. Limits may restrict upfront deductions for multi-year subscriptions.

**Supplies.** The cost of items used in a business (e.g., cleaning supplies for a cleaning service) as well as postage are fully deductible business expenses. Also, if you opt to use a de minimis safe harbor allowing you to deduct the cost of tangible property (e.g., tablets, vacuum cleaners) rather than depreciating them, the items are treated as non-incidental materials and supplies. They are deductible business expenses when first used or consumed in your operations.

**Surety bonds.** The premiums paid on surety bonds purchased by a business to guarantee performance, obtain a license or permit, or for another business purpose are deductible.



**Tax return preparation fees.** If you pay a tax pro to prepare and file business returns, such as quarterly employer returns, the fees are fully deductible.

**Taxes.** You can't deduct federal income taxes, but you can write off regulatory fees and taxes on real estate and personal property. Your employer taxes—the employer share of FICA, FUTA, and state unemployment taxes—are fully deductible business expenses. However, for self-employed business owners, the deduction for half of your self-employment tax is not a business deduction; it is an adjustment to gross income on your personal income tax return. And owners of pass-through entities cannot treat their state and local income taxes on business income as a business write-off. These are personal taxes deductible only on Schedule A of Form 1040 or 1040-SR (see State Income Taxes above).

**Taxis and rideshare.** If you use taxis, limos, or ride-share options for local business transportation, the cost (including the tip) is fully deductible. However, local commuting costs usually are nondeductible.

**Thefts.** If your business experiences a theft loss that's not covered by insurance, it's deductible. For thefts of inventory, you have a choice: take a separate loss deduction or increase the cost of goods sold.

**Tolls.** If you pay highway and bridge tolls while driving for business, you can deduct the tolls. This expense is in addition to deducting the cost of business driving.

**Tools.** Tools used in your business usually must be depreciated. However, as with other equipment, you can deduct the cost in full in the year you purchase them and place them in service using a special write-off option (see Bonus depreciation, De minimis safe harbor, and First-year expensing).

**Trade show booths.** The cost of the popup display, lighting, and other elements of a booth, as well as the shipping container, can be deductible using a special write-off option (see bonus depreciation, de minimis safe harbor, and first-year expensing) instead of having to depreciate the cost of a number of years.



**Uniforms.** If you pay for uniforms for your staff, such as t-shirts with the company logo, you can deduct the cost.

**Utilities.** Electricity for your facility is fully deductible. Other utility costs include your mobile phone charges. If you claim a home office deduction and have a landline, the cost of the first landline to your home is not deductible.



**Vacation pay.** If you offer vacation pay to employees, you can deduct what you pay out to them. This pay is subject to employment taxes, which are also deductible.

**Vandalism.** The cost of restoring business property that's been damaged by vandalism is deductible.



**Websites.** You can deduct expenses related to your website, including domain registration fees and webmaster consulting costs.

**Workers' compensation.** Whatever you pay for workers' compensation is fully deductible.

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**Zoom, GoToMeeting, and other online services.** Unless you use a free version, you'll pay a monthly fee for using these online audio/video services. The cost is fully deductible.



## What you can't deduct

Even though some of the following costs are business-related and some even make good business sense, you can't take a deduction for them. The tax law prohibits this. Nondeductible expenses include:

- Bribes and kickbacks.
- Charitable contribution for your labor.
- Commuting to and from work.
- Demolition expenses or losses.
- Dividends your corporation pays to shareholders.
- Dues to business, social, athletic, luncheon, sporting, airline, and hotel clubs.
- Entertainment expenses.
- Improvements to real or tangible personal property. Improvements are amounts paid for betterments to your property, restorations of your property, or work that adapts your property to a new or different use.
- Loan repayment. Only interest on a loan is deductible.
- Lobbying expenses.
- Losses from hobby activities.
- Penalties and fines you pay to a governmental agency or instrumentality because you broke the law.
- Personal, living, and family expenses.
- Political contributions.
- Sales tax collected from customers and remitted to states. You only get to deduct sale tax if you report it as part of gross receipts (so that the deduction effectively offsets the income).
- Settlements or payments related to sexual harassment or sexual abuse if such settlement or payment is subject to a nondisclosure agreement. You also cannot deduct attorney fees related to such settlement or payment.
- Transportation fringe benefits for employees.
- Unreimbursed employee business expenses on a personal return, such as business expenses paid personally by an S corporation shareholder.

## Conclusion

To learn more about these business deductions, see [\*J.K. Lasser's Small Business Taxes\*](#). Be sure to consult with your tax adviser to determine which business deductions apply to your situation and what you need to do to be eligible for them.





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Barbara is an attorney and trusted professional advocate for small businesses and entrepreneurs. She is the publisher of Idea of the Day® and monthly e-newsletter, Big Ideas for Small Business,® and a best-selling author. Her books include: *J.K. Lasser's Small Business Taxes*, *J.K. Lasser's 1001 Deductions and Tax Breaks*, *Home-Based Business Owners Start-up Guide*, *500+ Big Ideas for Small Business*, *Smooth Failing*, and [more](#).

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