

TAXES

What Are Business Expenses?

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RAMSEY SOLUTIONS



There's an old cliché that you have to spend money to make money. It's the kind of thing your broke finance professor says over his glasses as he tries to tell you how smart it is to take out a huge small-business loan. (Note: Do *not* do this.) But, like all clichés, it does have some basis in fact. As it turns out, it's not *free* to run a business. If you have a business, you will have business expenses.

So, what are business expenses? They're a little bit of everything: start-up costs, equipment you have to buy or rent, the money you spend on a place to do business (like an office or a storefront), and a bunch of other little things you never would've thought about before you ventured out into the wild world of business.

So, let's talk about them.

What Are Business Expenses?

Business expenses are the costs of running your business day to day. On your income statement, your business expenses are subtracted from your revenue. What's left is your net taxable income.



[Business taxes can be confusing. Get the help you need.](#)

These “ordinary and necessary” expenses (nutshell: things you and others in your industry have to spend money on to run your business—but let's be honest, it's all really [determined by the IRS](#)) that keep your business running can be [deducted from your taxes](#).

Three Basic Types of Business Expenses

When you're reporting business expenses for deduction purposes, the IRS is going to ask you to categorize them into these types:

Fixed Expenses

Like a fixed mortgage, a fixed business cost is the same, or **almost the same every time** you pay it. Think rent, internet service or a subscription fee.

Variable Expenses

As the name implies, variable expenses **vary from month to month** and are also commonly your biggest expense. Payroll expenses may jump around if you use freelancers or offer overtime pay, and equipment rental frequently shows up as a variable expense too.

Periodic Expenses

Periodic expenses are your **pop-up expenses**, like replacing equipment or getting repairs. But these can also be expenses that are just infrequent and not on your radar—annual expenses like vehicle registration or license renewals. Just so they don't catch you off guard, look back at your reported periodic expenses from year to year to try and estimate how much you spent and what to expect.

Okay, those are the categories of expenses—but the bigger question most business owners have is, “Which expenses can I *actually* deduct?”

What Are Some Examples of Deductible Business Expenses?

If an expense meets the “ordinary and necessary” rule set by the IRS, it’s generally tax-deductible. But certain expenses like meals and gifts are only *partially* deductible.

Here are some of the business expenses you can fully deduct from your taxes:

Office Supplies

This could be anything from your 20-pack of rollerball pens to a laptop and a subscription to payroll software.

Rent

If you pay rent on a building used for your business (could be an office, storefront or warehouse) and it’s not your home, you can fully write this off. Read on if you work from home.

Insurance Costs

When a particular type of insurance (liability, malpractice, etc.) is needed in your line of work, that could be considered an “ordinary and necessary” business expense.

Wages Paid to Employees

Employee wages (including independent contractors) will typically take a big bite out of your revenue, so don’t miss this as a deductible business expense.

Employee Benefit Programs

If your company offers employee benefit programs like wellness incentives and health care coverage, the cost of those programs is considered a business expense.

Equipment Rentals

Whether it’s a large screen for an event presentation or a drill to get through bedrock, if it’s necessary for you to do business, it’s a deductible business expense.

Bank Fees

If you’re paying credit card fees, a subscription fee for point-of-sale software, or bank fees for your business accounts—deduct ‘em.

Accounting Expenses (Including Tax Preparation)

If you don’t have a bookkeeper on the payroll, there are times and situations that are big enough and important enough for a [professional number cruncher](#). Professional number crunchers cost money. Business expense.

Utility Expenses

Your power, internet, water/sewer and phone systems are a necessity at your work site—pretty cut and dried. If you work primarily from a home office, though, it's best not to try to write off your entire electric bill when you also have a Clark Griswold Christmas light display and an energy guzzling hot tub. These expenses are only deductible if you use them regularly and exclusively for work purposes.

Legal Fees

Attorney and court fees add up quickly. If the fees you're incurring are directly related to your business and are necessary for continued daily operation, that's a business expense.

Membership Dues (Such as to a Professional Organization)

Maintaining licensure or membership in organizations that help you to earn continuing education credits or more credibility in your industry—those are deductible.

Printing and Copying Expenses

Keep your receipts from the local shop or online printing service. If you have employees who charge things to the company account and you want to be sure you can deduct it, make it standard operating procedure to save invoices.

Marketing and Advertising Expenses

They call it “paid media” because you have to pay to get your ads noticed on social media. And if you run radio or TV spots or take out ad space in local mailings, deduct those as business expenses too.

Payroll Taxes

Some payroll taxes, like Social Security and Medicare taxes, require the employer to match the amount that's withheld from the employees' wages. That portion you pay out is a deductible expense.

Interest Paid

If you've taken out any kind of loan for your business, you can deduct the interest portion of that as a business expense.

Okay, about this last one: We would *never* recommend you go into debt to start or run your business. Debt increases your risk exponentially and causes nothing but stress. But if you already have a business loan, you can and *should* deduct the interest payments. Then make sure you pay off that sucker and never borrow again. Okay?

What Types of Things Are *Not* Deductible?

So, there are a couple of things you might consider to be business expenses that you actually can't deduct when it's time to do your taxes. Things in this category include:

- Donations to political campaigns or political action committees
- Memberships to social clubs or country clubs (even if you take clients for dinner or the occasional round of golf)

- Anything illegal like bribes or kickbacks (which, of course, you wouldn't do anyway)
- Gifts over \$25 in value
- Tickets to sporting events or concerts

This is where it's really important to consult a tax pro like one of our small-business tax Endorsed Local Providers (ELPs) to help you sort out which expenses are kosher. It can save you a ton of money and hassle.

Can I Deduct Personal Expenses?

The short answer is no. But often, there is at least some overlap in business and personal expenses. If you drive your own vehicle in the course of doing business, you can deduct that as a business expense (just be sure to keep detailed records of mileage and fuel costs). Cars are one of the most common areas of personal/business overlap—treat any others the same way: keep records and receipts, note how they're directly related to your business, and deduct only those portions related to the business.

How to Keep Track of Business Expenses

A successful business owner knows how much money is going out and coming in. That's how you know if your business is profitable or not. Here are some basic ways to start keeping tabs on your cash.

Set up a separate bank account for your business.

Something far too many entrepreneurs fall into is mixing personal money with business money. Keep it separate so you don't end up overestimating how much the business is bringing in or, worse, borrowing from your personal account to pay for business expenses. Let your bank know the account is for a business and you might get some perks.

Keep a file for receipts and invoices.

The manila folder lives! Keep one for your paper receipts and invoices and set up a digital folder for any receipts and payment confirmations that come online. Pick one day every month to go through and organize them by date or category so it's not as overwhelming when it's tax time.

Get a system for logging your “overlap” expenses.

If you do have some expenses that are shared between business and personal use, track your business use. Whether it's a lined notepad in your car, a spreadsheet or an app (of course there's an app), it's a heckuva lot easier tracking mileage or hours of internet use daily than it is to calculate it in your head at the end of a week (or month!).

Organize your systems regularly.

Even if you have systems in place, you're bound to miss a receipt here or there. Set monthly or quarterly reminders to go through and organize to see what's missing or what might be duplicated. It's a lot easier to deal with a few months' worth of bills than it is to dig through a year's worth.

Get Help With Your Business Tax Expenses

Of course, the absolute *best* way to keep track of your business expenses is to get a small-business tax expert to help you. Our small-business tax **Endorsed Local Providers (ELPs)** can help you with everything from bookkeeping to filing your taxes when it's that time of year. They can help keep you on track with your quarterly tax estimates, and if there are ever changes to the tax code, your pro can be there to make sure you don't mess anything up.

[Find your tax pro today!](#)