

# Tax Deductions for the Self-Employed

Becoming self-employed can be quite an exciting time but also brings more risk and cost that you wouldn't have working for an employer. One of the many benefits of self-employment is business tax deductions. The following list is not all-inclusive but instead highlights the most common tax deductions for the self-employed.

## 1 CAR EXPENSES

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The single most claimed deduction for small businesses is car and truck expenses. This deduction can be calculated by either actual business costs (gas, depreciation, insurance, repairs, etc.) or the standard mileage rate. Either one will require record keeping but the standard mileage rate (54.5 cents/mile in 2018) just requires a driving log to be kept (date, purpose of trip, miles driven).

## 2 OFFICE EXPENSES

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Renting an office for a business and the utilities and repairs to that office are deductible business expenses. If the office is in your home, a few rules need to be met to claim a deduction. The designated office space must be used exclusively and regularly for the business. Like car expenses, the home office deduction can be calculated by either actual cost based on square footage (utilities, mortgage interest, real estate taxes, insurance, depreciation, etc.) or a standard deduction of \$5 per square foot up to 300 square feet, maximum \$1,500 deduction. To take the home office deduction in the current year, business income needs to exceed the deduction otherwise it will roll over to the next tax year.

## 3 INTERNET AND PHONE

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Regardless of whether you claim the home office deduction, business phone, fax and internet expenses may be deducted, but only those expenses directly related to the business. If there is only one phone line in the household, the entire monthly bill should not be deducted as it includes both personal and business use. With a second phone line used exclusively for business, however, 100% of that cost can be deducted. Internet expenses are treated the same and deducted in proportion to how much of the time online is related to business – perhaps 25% to 50%.

## 4 TRAVEL EXPENSES

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Traveling for business is also a deductible expense and covers airline, hotel, rental car, and other necessary expenses in full as well as meals at 50%. If the travel has both personal and business components please consult a tax advisor since specific rules govern what is deductible.

## 5 MEALS & ENTERTAINMENT

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As noted above, a meal is a tax-deductible business expense when traveling for business. Having a business meeting at a restaurant can also potentially be deductible. The meal cannot be lavish or extravagant under the circumstances and you can only deduct 50% of the meal. To claim the deduction, a serious business conversation must occur before, during, or soon afterwards. With the 2018 tax law change, entertainment (sporting event tickets, etc) is no longer a deductible expense.

## 6 DEPRECIATION

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When property is purchased in a business that will last more than one year, the cost can be spread out over many years with depreciation. This includes office furniture, computers, equipment, and cars. Small businesses have the option of deducting the entire cost in the year of purchase under Section 179 of the Internal Revenue Code.

## 7 SUPPLIES

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Supplies are business items generally used up in less than a year. These items include everything from paper to postage stamps.

## 8 LEGAL AND PROFESSIONAL SERVICES

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Amounts paid to lawyers, accountants, consultants, or other professionals fall into this category and are deductible business expenses.

## 9 EDUCATION

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Self-employment often brings the need to pay for additional training or education. These costs are deductible when the training/education is used to maintain or improve skills for the current business. The cost of classes to prepare for a new line of work are not deductible.

## 10 INSURANCE

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Insurance purchased for business needs such as liability or property insurance is deductible as a business expense. Self-employed individuals are also allowed a deduction for health insurance on their personal tax return if they pay for their own health insurance premiums and were not eligible to participate in a plan through their spouse's employer. All health, dental, and qualified long-term care premiums paid to provide coverage for a spouse, dependents, and children younger than 27 at year-end (even if they don't qualify as dependents on your personal tax return) qualify for the self-employed health insurance deduction.

## 11 SELF-EMPLOYED RETIREMENT PLAN

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Contributions to a SEP-IRA are not business expenses per se but can help reduce personal tax liability. An individual can contribute up to 25% of net self-employment income to a SEP-IRA with a maximum amount contributed to all types of retirement accounts of \$55,000 in 2018.

*In summary, most small business tax deductions are more complicated than this brief overview so use this basic question when deciding if an expense is deductible: "Is this an ordinary and necessary expense in my line of work?" If the answer is no, don't take the deduction. If the answer is maybe, consult a tax professional.*