

## **CLIENT REPORT:**

### **2008 Planning - Misunderstood and Abused Deductions**

Dear Client:

Many business taxpayers fail to fully deduct qualifying business expenses. As a result, they may be paying too much in income tax. Alternatively, they may be deducting such expenses improperly, which could result in taxes owed, plus penalties and interest. Below is a list of commonly misunderstood deductions that you may not be fully utilizing. You may wish to carefully examine your records to determine whether you may be missing any of these deductions.

- **Home Office Deduction:** If you use part of your home as a home office, you may be entitled to deduct expenses related to the home office, including mortgage interest, property taxes, utilities, and repairs, etc.
- **General Business Expenses:** If you use your personal funds for business expenses such as office supplies, these are qualifying business expenses, which you may deduct.
- **[Delete this Paragraph for Taxpayers not Reporting Shareholder Loans.] Imputed Interest on Shareholder Loans:** If you have loaned money to your business, you are required to charge interest on the loan or interest will be imputed to you. While you are required to report the interest as income on your personal return, your business is permitted a deduction for the interest paid. If any of the interest amount is improperly characterized as wage income to you, your business may be overstating its employment tax liability. By recharacterizing these amounts as interest expense, your business may be able to reduce its employment taxes and possibly obtain a refund.
- **Meals and Entertainment Expenses:** If you have used your personal funds to pay for meals and entertainment expenses, these expenses may qualify as a business deduction, subject to limitations.
- **Personal Assets Converted to Business Use:** If you have contributed personal assets, such as a computer, the fair market value of these assets may qualify as a business deduction, subject to depreciation limitations, beginning with the date of conversion.
- **Communications Expenses:** Expenses related to the business use of your personal telephones, cellular phones, and internet connections may be deducted.
- **Automobile Expenses:** Mileage and other related automobile expenses may be deducted when your personal vehicle is used for business purposes.

If after examining your records, you feel that you have missed some qualifying business deductions or if you have any questions about your business deductions or whether certain expenses qualify, please contact our office at your convenience.