

Did you know most business owners don't take advantage of all of the tax deductions they're eligible for as a small business? Not taking full advantage of all your potential deductions on your business taxes will end up costing you more money than necessary.

## What is a Tax Deduction?

A tax deduction (otherwise referred to as a "tax-write-off") is an expense that you can deduct from your taxable income. Essentially, tax deductions allow you to pay a smaller tax bill, but the expense has to fit the IRS criteria of a legal tax deduction.

As you prepare to file your taxes this upcoming year, keep this list of the top 20 tax deductions\* for small businesses in mind.

\*Note: this list is not intended to provide a complete list of deductions.

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## The Top 20 Tax Deductions for Small Businesses

### Cost of Goods Sold

If you are making or selling something and rely on those goods to make a profit, this deduction is for you. To calculate your deduction you add the cost of your inventory at the beginning of the tax year and subtract the cost of goods sold at the end of the tax year. The number remaining can be deducted for unused inventory.

### Office Supplies & Furniture

Office supply items like pens and printer paper purchased for your small business are tax-deductible. Even larger items like office furniture and computers are also eligible. Just

remember to keep track of your receipts!

## Utilities

Things like electricity, water, and heating used to keep your business running are 100% tax-deductible.

## Employee Wages

Payroll costs can be a large expense, but thankfully employee wages are fully deductible. This even includes any bonuses given to employees.

## Employee Benefit Programs

Do you provide your employees with additional benefits such as education assistance, dependent care assistant, life insurance, or a qualified retirement plan? You can claim these benefits as deductions on your taxes.

## Employee Gifts

Any gifts purchased for your employees are also 100% deductible (up to \$25 per year, per employee).

## Contract Labor

If your business uses contract labor or freelancers, these expenses qualify as a tax deduction.

## Depreciation

If your business needs machinery or tools then you would be eligible to write off the depreciation. Calculating depreciation can get tricky as a lot depends on when the item was acquired if it was leased or bought in full, and the expected lifespan of the item. It is best to [consult with a tax preparer](#) to discuss how your business could fully benefit from this deduction.

## Business Related Shipping/Postage

If your business requires frequent trips to the post office, don't forget to write off any business-related shipping or postage.

Refer to [Publication 463](#) regarding travel, entertainment, gift, and car expenses for more detailed information.

## Auto Expenses

If you have a car for business purposes, you can usually deduct anything considered a car expense. However, you keep records that prove the business usage, as well as keep track of your miles to deduct them as an expense. You also have the option to use the IRS standard mileage rate instead of the itemized deduction.

If you use your car for both business and personal, you may only deduct the actual mileage expenses used for business and not personal.

## Office or Retail Rental Space

If you rent out an office or retail space for your business your rent payments are deductible. If you own the retail or office space you use, consult with a tax preparer to see if you qualify for any deductions. Additionally, if you run your business out of your home you can check out our article *10 Tax Write-Offs for Self Employed* on how to determine which deduction method would better suit your business.

## Business Insurance

Different types of insurances that are deductible include but are not limited to:

- General & Professional Liability Insurance
- Workers Compensation Insurance
- Commercial Property Insurance

## Software Subscriptions

If you've purchased software for your business, these can also be deducted.

## Advertising and Marketing

Any expenses for advertising and marketing your business can be claimed as a deduction. This includes things like business cards, website design, development, and hosting, Facebook advertising, Google Pay Per Click (PPC) Advertising, TV advertisements, etc.

## Business Entertainment

Do you entertain clients with outings and events? Entertainment is considered 50% deductible as long as the main purpose of the meeting is business-related, just make sure to save those receipts.

## Business Meals

Business meals are typically 50% deductible, however, for 2021, deductions for meals have changed to 100% deductible for the year. Read more about it in our blog post [here](#). It is important to document the cost, date, and reason for the meeting. This is a commonly missed deduction that would be great for businesses that often meet with prospective clients over dinner or coffee.

## Travel Expenses

If you travel to conduct business, you should definitely look into deducting your travel expenses. For your business travel expenses to qualify for deduction it must be away from the city or area that you conduct business and you must be away from your place of business for more than one full workday. Items you can deduct are airfare, tolls, taxis, and lodging.

## Interest

If you've taken a small-business loan and you make interest payments on what you've borrowed, you can deduct the interest. To claim your interest as deductible, the business owner must be legally liable for the debt, and the business owner and the lender must have a

“debtor/creditor” relationship.

## Taxes

Taxes that you pay on real estate, payroll, and sales are fully deductible.

## Legal and Professional Fees

If you have an accountant or legal professional helping you with your business, you can deduct 100% of their fees.

## Wrapping Up

Tax deductions are a great way to minimize the amount of tax you pay in. Good record-keeping is essential to making sure you don't miss the deductions you're eligible for.

If you feel overwhelmed navigating your business taxes, [please visit our services](#), [contact us](#), or call (608) 356-7733.

As trained certified public accountants, we are here to make tax season more manageable for you.