Tax deductions add up to savings for business operations

by Lorna Rothanzl

Watching the pennies and letting the dollars take care of themselves holds true when businesses are seeking tax deductions.

Most companies have a handle on major tax deductions. but small items may bring substantial savings on taxes. Companies also can save on accounting fees if their records are in proper condition.

"Business owners and their employees must keep good records," said Stephen "Bill" Schumacher, tax partner with Dutton & Associates in Omaha. "Every business must be aware of its eligibility for tax credits that could slip through the cracks."

Baas

For instance, businesses employing low income workers or hiring a certain number of employees are eligible for additional tax credits, so deductions change as a business changes.

"An accountant will know the value of new equipment that has been purchased but may not be aware of the hiring of four or five new employees," Schumacher said. "I suspect many business people have expenses they don't realize are reimbursable."

The majority of purchases required to operate a company, from one paper clip to the newest software package, is deductible. Most benefits provided to employees are deductible. All promotional purchases including advertising may be deducted.

Other deductions include rent, lease payments, debt interest, business transaction fees, magazine subscriptions and dues to organizations.

The Internal Revenue Service Code describes a deductible business expense as anything ordinary and necessary to operate a company.

Business travel is a major deduction.

"The primary purpose of a trip must be business-related, but you can have days for personal enjoyment, as long as the number of personal days doesn't exceed the business days," Schumacher said.

"Clients keep different types of records. Some people keep mileage for every trip, and some don't keep anything at all. There is no standard format, but we suggest people keep a daytimer book for mileage and auto logs to record expenses. Credit card statements are a good source of documentation. Credit card statements are a good source of documentation."

The only travel expense that must be accompanied by a receipt is lodging.

Gifts for clients are deductible only up to $25 per person per year, Schumacher said. Events designed to boost employees' morale, such as pizza for those who are working late, may be written off. Company picnics and holiday parties are deductible.

"Keep a list of all your purchases, and if something turns out not to be deductible, it can be removed." Schumacher said. "Hundreds if not thousands of dollars fall through the cracks if you don't make a list."

Some companies have a simple incentive to get employees to track expenses properly.

"If they don't have a receipt, they don't get repaid," said Thomas Green, president of AAA Business Services in Omaha. "That catches their attention. As an employer, I want receipts so I can make sure to write a check for the money that was spent."

Weekly rather than monthly expense reports are preferred because the paperwork will be more accurate and employees can be reimbursed sooner.

"If an employee turns in a trip report right after he or she has been out of town, all the information and documentation needed is more likely to be included," Green said.

For bigger purchases, business owners must decide whether to write the item off durring the year of acquisition or depreciate it over its fixed life under IRS guidelines.

For instance, a company car may be depreciated, or a mileage rate deduction may be more beneficial.

"Unless you are doing an extraordinary amount of travel, normally the mileage is a better deal," Green said.

Green advises clients to remember all the small stuff.

"If you are the host of a sales meeting and serve coffee and doughnuts, those are fully deductible, but often they are buried in the room cost," Green said. "Deductions add up to a lot of money. Correct documentation can save a company a lot of time and a lot of money."

Accountants encourage clients to avoid bringing in boxes of receipts at the end of the year.

"Spending time going through all that results in a sizable bill," Green said. "Instead. we give our clients a list to fill out if they travel and pay their own expenses on the road. They make notations of hotel and motel bills, tolls and other expenses. Some will fill out the forms and staple the receipts to the back of the form in case they are needed for an audit."

Other deductions commonly overlooked by business owners are auto taxes and state income tax paid the previous year.

"People will remember the donations they made or the amount of money paid for medical bills, which in most cases are not deductible, but forget the taxes, "Greensaid. "If so, we review our clients' paperwork and ask for those missing items."

The owners of new businesses tend to rely on accountants to manage their money and offer instruction.

Hayes & Associates in Omaha gives clients procedural outlines for tracking deductions.

"The sophistication of controls to keep track of expenses depends on the size of the company," said Tom Meister, tax manager with Hayes & Associates.

Meister said benefits that attract and retain employees also may be tax deductible.

"Health insurance sometimes is overlooked as a deduction," Meister said. "Companies may be able to increase their deductions by providing a pension plan to employees. Any contribution the company makes to the plan is deductible and also will help to retain employees."

Other tools to attract employees, such as hiring bonuses, are deductible.

Once the tax form is sent to the IRS, companies should keep original receipts for seven years and the tax returns forever, Meister said.

The expense fixed asset amount has been increased from $18,500 in 1998 to $19,000 in 1999. Another change is a drop in the mile agerate from 32.5 cents to 31 cents a mile that took effect April 1.

"Cash is a priority, and maintaining a good cash level is important to survival during slow periods in any business," Meister said. "Businesses need to analyze the benefits of expending cash and avoid spending money just to get tax deductions. They must make sure the expenditure is worthwhile, or at the end of the year they may realize they have spent money on things that are not relevant to the business."

Companies spending money to train employees can take a deduction, said David W. Baas, president of Baas & Associates in Omaha.

A new deduction for individuals in 1998 was for interest paid on student loans. The maximum deduction for 1999 is $1,500.

There has been a change in computer software depreciation. Companies are given a three-year straight line depreciation for software, compared to the five-year depreciation of computer equipment.

People who are updating their computer software because of Y2K will receive a deduction, Baas said. The cost of hiring system analysts also is deductible.

Companies upgrading computer systems are offered an increased deduction for their old equipment.

"The donation of computer equipment to elementary or secondary schools for 1998-99 will be deductible at its cost plus one-half the gain on the property if it had been sold," Baas said. "Typically. only the basis of the property would be the deduction, but the IRS is making an exception if the equipment is worth more than its depreciated value."

Timing is important.

"Credit card purchases of supplies or office equipment are deductible in the year the card was used, not in the year the charges were paid," Baas said. "Purchases of supplies in December will count for the 1999 return, even through you won't pay the bill until January 2000."

Baas & Associates is training its clients to use several simple systems to keep track of their deductions so they can save on fees when their tax returns are prepared, Baas said.

"If we can teach them how to do it during our less busy season, they can prepare information throughout the year to save time when the tax return is being prepared," he said.