SAVILLE

List of Common Tax Deductions for Self-Employed Individuals

Ordinary Business Deductions:

- **Advertising Expense** – Expenses related to marketing or business promotion.
- **Depreciation Expense** – Deduction of the cost of a fixed asset over its useful life.
  - A fixed asset is typically an item purchased for use in the business that has a useful life of more than one year (e.g. computers, cell phones, office furniture, fax machine, etc.)
  - Full deduction may be available in the year of purchase. Consult your tax advisor on availability and for the useful life of the asset according to the IRS.
- **Health Insurance Expense** – Health insurance for the self-employed individual and their family.
- **Interest Expense** – Interest charged on business loans or business credit cards.
- **Legal and Professional Fees** – Fees paid for professional services such as bookkeeping, tax preparation, and legal work.
- **Office Expense** – Expense for office supplies, postage, and other necessary expenses to maintain an office.
- **Rent or Lease** – Rent paid for an office, storage, or for the use of equipment (excluding autos – see below).
- **Supplies** – Cost of supplies not included in cost of goods sold above that are necessary to maintain a business.
- **Taxes and Licenses** – Business related taxes and license fees (does not include federal income taxes).
- **Travel** – Business travel other than meals and entertainment.
- **Meals and Entertainment** – Business related meals and entertainment, including meals while traveling away from home. Deduction limited to 50%.
- **Utilities** – Mobile telephones, internet, and other business related utility expenses.
  - Home telephone expense can only be deducted if there is a second line at the home, even if the home telephone is used for the business.
  - Home office utilities are deducted with the home office (see below).

Auto Business Deductions (one of two methods available):

- **Actual Cost** - Deduct the business-use percentage times the actual cost of operating the vehicle.
  - Actual costs include gas, oil, repairs, insurance, tires, license, etc.
  - A business-use percentage of depreciation (if you own the vehicle) or lease payments (if you lease the vehicle) is also available.
- **Standard Mileage** – Deduct the number of business miles driven by the standard business mileage rate.
  - The rate is $0.505 per mile for the period 1/1/08 – 6/30/08 and $0.585 for the period 7/1/08 – 12/31/08.
- **Business-use Percentage** – Determined by dividing the number of business miles driven by the total miles driven during the year. IRS recommends that a mileage log book be maintained.
- **Parking, Tolls, and Interest** – Parking, tolls, and the business-use percentage of interest on an auto that is financed are deductible regardless of which method is chosen.

Home Office Deductions:

- **Business Use Test** – To qualify a home office for deductions, the area in the home used for business must be used regularly and exclusively:
  - As the principal place of business (including administrative use),
  - As a place to meet with clients in the normal course of business or
  - In connection with the business if it is a separate structure not attached to the taxpayer's personal residence.
- **Administrative Use** - Will qualify a home office if it is used regularly and exclusively for administrative and management activities of the business and there are no other fixed locations where the taxpayer conducts these activities.
- **Deductions** – A business-use percentage of the following expenses are deductible: mortgage interest, real estate taxes, casualty losses, home repairs/maintenance, rent, utilities, house insurance, security system, depreciation, and other expenses such as garbage removal, pest service, HOA dues, etc.
- **Business-use Percentage** – Determined by dividing the square footage of the business portion of the home by the total square footage of the home.

Please consult your tax advisor as to the pros/cons of claiming and deducting a home office.