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Small Business Tax Advice: 5 Common Mistakes

By Shaneta Mosley

1. **Not saving receipts of less than $75.** For meals and entertainment you may not need the receipt, but you still need to have some sort of record documenting where you went, when you went there, who you were with, the business purpose of the meal or entertainment and the business relationship between you and the people you were with.

2. **Lumping equipment with supplies.** Equipment is a capital expenditure, and capital expenditures have to be depreciated.

   Special rules do allow most small businesses to write off up to $24,000 in capital expenditures for tangible personal property (such as computers and office furnishings) in the year it is purchased. However, you still have to report these purchases as capital expenditures and elect to use this special method of expensing the costs.

3. **Forgetting to track reimbursable expenses.** Many small-business owners pay for some business expenses with cash out of their own pocket or through a personal credit card.

   That's fine. The mistake is if they don't track those costs and submit the expenses to their company for reimbursement. Also, the company must have an established plan that does deduct the expenses and enables reimbursements to be nontaxable to employees.

4. **Miscalculating automobile deductions.** Part of the problem here is that there are many ways to calculate deductions for business use of a car. Here are some brief guidelines that can help you:
   - You can take a standard mileage deduction per business mile, or you can take a deduction for actual expenses, including depreciation of the car. But you cannot claim the standard mileage deduction and the depreciation for actual expenses.

   - You can switch between the two methods. However, if you go from standard mileage to actual expenses, you cannot take depreciation using the MACRS (modified accelerated cost recovery system) depreciation system. You have to take a straight-line depreciation, which typically yields a smaller initial deduction.

5. **Giving more than you can receive, tax-wise.** It seems like every year I see at least one small business saying that it had a couple thousand dollars in deductible business gifts in the previous year.

Now, I have no problem with gifts to clients and business associates. But a four-figure deduction for gifts gets my attention, because the IRS allows us to deduct only up to $25 worth of gifts to any individual per year. So $2,000 in deductions would mean that gifts were given at least 80 different people. That's a lot of gifts.

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