



# Tax Guide to Business Expenses



51A Middle Street Newburyport, MA 01950

Phone: 800-588-7039 Fax: 877-902-4284

[contact@bhfe.com](mailto:contact@bhfe.com)

[www.bhfe.com](http://www.bhfe.com)

## Course Information

---

**Course Title:** *Tax Guide to Business Expenses #493517*

### **Recommended CPE credit hours for this course**

In accordance with the standards of the National Registry of CPE Sponsors and the IRS, CPE credits have been granted based on a 50-minute hour.

**CPA 2.5** (All states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration:

Florida Division of Certified Public Accountancy: 4761 (Ethics #11467)

Hawaii Board of Public Accountancy: 14003

New York State Board of Accountancy: 002146

Ohio State Board of Accountancy: M0021

Texas State Board of Accountancy: 009349

**EA/OTRP 2** (All States) IRS: Qualified Sponsor number: *FWKKO*.

### **CLU, ChFC Professional Recertification 2**

#### **Course Description**

Business expenses are the costs of carrying on a trade or business, and they are usually deductible if the business is operated to make a profit. This mini-course reviews various expenses that businesses may deduct and the requirements that must be met for those expenses to qualify for deduction. Furthermore, practitioners can use this as a guide to determine which of their clients' taxes are deductible as business expenses.

**Program Delivery Method:** Self-Study (NASBA QAS Self-Study/interactive)

#### **Subject Codes/Field of Study**

NASBA (CPA): Taxes.

IRS (EA, OTRP): Federal Tax Law.

## **Course Level, Prerequisites, and Advance Preparation Requirements**

Program Level: Overview.

This program is appropriate for professionals at all organizational levels.

Prerequisites: Basic familiarity with federal taxation

Advance Preparation: None

## **Course Content**

Publication/Revision Date: 2/2/2017.

Author: Danny Santucci, J.D.

Final exam (online): Ten questions (multiple-choice).

## **Instructions for taking this course**

You must complete this course within one year of the date of purchase (if you do not complete the course within one year, contact us to determine whether an updated edition of the course is available, in which case we will provide you with a PDF of the updated course and the online exam at no charge).

A passing grade of at least 70% is required on the final exam for this course. You may retake the exam if you do not pass it on the first attempt (no charge).

Complete the course by following the learning objectives listed on the following page, studying the text, and studying the review questions at the end of each major section (or at the end of the course). Once you have completed studying the course and you are confident that the learning objectives have been met, answer the final exam questions (online).

## **Instructions for Taking the Final Exam Online**

- Login to your account online at [www.bhfe.com](http://www.bhfe.com).
- Go to "My Account" and view your course.
- Select "Take Exam" for this course and follow instructions.

### **Additional Information**

- The exam may be started, stopped, then resumed at a later date.
- The exam is "open book," it is not timed, and it may be retaken if not passed on the first attempt (no charge).
- Results (correct, incorrect answers) and certificate appear immediately upon passing the exam.
- CFP® and EA credits are reported weekly.

**Have a question?** Call us at 800-588-7039 or email us at [contact@bhfe.com](mailto:contact@bhfe.com).

# Learning Assignment & Objectives

---

As a result of studying the assigned materials, you should be able to meet the objectives listed below.

## ASSIGNMENT

At the start of the materials, participants should identify the following topics for study:

- \* Section 162
- \* Expenses of not-for-profit activities
- \* Rent expenses
- \* Interest expense
- \* Deductible taxes
- \* Other selected deductible costs
- \* Amortization
- \* Depletion -§613
- \* Business bad debts
- \* Depreciation

## Learning Objectives

After reading the materials, participants will be able to:

1. Cite the elements of the §162 and the limitations imposed by the not-for-profit provisions noting how these elements and restrictions impact business deductions such as cost of goods sold, leases, taxes, loan points, and interest expense.
2. Determine the corporate dividends received deduction, identify the cost allocation on the business use of a residence and specify casualties, thefts and research costs in the context of business deductions under §162.
3. Recognize methods of amortization for business startup, organizational costs, and §179 intangibles with the cost depletion methods used on natural resources.
4. Identify depreciation rules related to ACRS and MACRS, and cite the elements of the business bad debt provisions under §166.

After studying the materials, answer the exam questions 1 to 10.

## Notice

This course and test have been adapted from materials and information contained in the above text and any supplemental material provided. This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.



# Tax Guide to Business Expenses

By

**Danny C. Santucci**

The author is not engaged by this text, any accompanying electronic media, or lecture in the rendering of legal, tax, accounting, or similar professional services. While the legal, tax, and accounting issues discussed in this material have been reviewed with sources believed to be reliable, concepts discussed can be affected by changes in the law or in the interpretation of such laws since this text was printed. For that reason the accuracy and completeness of this information and the author's opinions based thereon cannot be guaranteed. In addition, state or local tax laws and procedural rules may have a material impact on the general discussion. As a result, the strategies suggested may not be suitable for every individual. Before taking any action, all references and citations should be checked and updated accordingly.

*This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert advice is required, the services of a competent professional person should be sought.*

*—From a Declaration of Principles jointly adopted by a committee of the American Bar Association and a Committee of Publishers and Associations.*

**Copyright February 2017**

**Danny Santucci**

# Table of Contents

Course Information	ii
Learning Assignment & Objectives	iv
Section 162	1
Cost of Goods Sold - §61	2
Capital Expenses - §263	3
Cost Recovery Depreciation - §168	3
Personal vs. Business Expenses	3
At-Risk Amounts - §465	3
Passive Losses - §469	4
Net Operating Loss - §172	4
Creation of a NOL	4
Individual NOLs	4
Carrybacks & Carryovers	4
Further Limitations	5
Corporate NOLs	5
Timing of Expense Deduction	5
Economic Performance - §461	6
Prepayment of Expenses	6
Contested Liability	6
Related Person - §267	6
Expenses of Not-for-Profit Activities - §183	6
Presumption of Profit	7
Using the Presumption Later	8
Limit on Deductions	8
Partnerships & S Corporations	9
More Than One Activity	9
Rent Expenses	9
Rent Paid In Advance	10
Lease vs. Sale	10
Leveraged Leases	10
Leveraged Leases of Limited-Use Property	11
Leases Over \$250,000 - §467	11
Taxes on Leased Property	12
Cost of Getting a Lease	12
Options to Renew	12
Cost of a Modification Agreement	12
Commissions, Bonuses, & Fees	13
Loss on Merchandise & Fixtures	13
Leasehold Improvements - §168	13
Assignment of a Lease	13
Capitalizing Rent Expenses - §263A	13
Interest Expense	14
Business Interest - §162	14
Interest Paid In Advance	14
Mortgage Interest	14
Prepayment Penalty	14
Points - §461	15
Interest on Installment Purchases - §483 & §1271	15
Nondeductible Interest	15

Interest on Income Tax Owed	15
Penalties	15
Commitment Fees & Service Charges	15
Capitalized Interest	16
Production Period	16
Traced Debt	16
Avoided Cost Debt	17
When Interest Is Paid or Incurred	17
Partnerships & S Corporations	17
Interest on Insurance Policy Loans - §264	17
Single Premium Life Insurance	17
Systematic Plan of Borrowing	17
Key Person Insurance	18
Deductibility of Premiums & Interest on Life Insurance	18
Existing Interest on Purchase	18
Corporate Acquisition Interest	18
Deductible Taxes	19
Tax Refunds	19
Change in Date of Tax Accrual	19
Real Estate Taxes - §164	19
Local Benefits	19
State & Local Income Taxes	19
Foreign Income Taxes	20
Employment Taxes	20
Unemployment Fund Taxes	20
Self-employment Tax	20
Other Taxes	20
Casualty & Theft Losses - §165	20
Proof of Loss	21
Amount of Loss	21
Insurance & Other Reimbursements	21
Limitations	21
Dividends Received Deduction - §243	22
Dividends from Domestic Corporations	22
80% Exception	22
Ownership	22
Limitation	22
Other Selected Deductible Costs	25
Home-Office Deduction - §280A	25
Requirements - §280A	25
Non-Exclusive Use Exceptions	25
Income Limitation	25
Home Office Deduction After 1998	26
Research & Experimental Costs - §174	26
Definitions	26
Product	26
Costs Not Included	27
When & How to Choose	27
Business Start-Up & Organizational Costs – §195	27
How to Make the Choice	28
Carrying Charges	28

Retired Asset Removal Costs	28
Barrier Removal Costs	28
Deduction Limit	28
Amortization	29
Deducting Amortization	29
Start-Up Costs - §195	29
Amortization Period	29
Qualifying Costs	29
Purchasing an Active Trade or Business	29
Corporate Organizational Costs - §248	30
Qualifying Costs	30
Nonqualifying Costs	30
Partnership Organizational Costs - §709	30
Qualifying Costs	30
Partnership Liquidation	31
Costs of Obtaining a Lease	31
Intangibles - §197	31
Section 197 Intangibles Defined	32
Goodwill	32
Going Concern Value	32
Workforce in Place, Etc.	32
Business Books & Records, Etc.	32
Patents, Copyrights, Etc.	32
Customer-Based Intangible	32
Supplier-Based Intangible	33
Government-Granted License, Permit, Etc.	33
Covenant Not To Compete	33
Franchise, Trademark, or Trade Name	34
Professional Sports Franchise	34
Contract for the Use of, or a Term Interest in, a §197 Intangible	34
Research & Experimental Costs	34
Optional write-off method - §59	34
Amortizable Costs - §174	34
Election	34
Depletion - §613	35
Cost Depletion	35
Basis for Depletion	35
Total Recoverable Units	35
Number of Units Sold	36
Determining the Cost Depletion Deduction	36
Percentage Depletion	37
Gross Income	37
Taxable Income Limit	37
Business Bad Debts - §166	37
Credit Transactions	38
Income Inclusion	38
Accrual Method Taxpayers	38
Cash Method Taxpayers	38
Former Business	39
Debt Acquired from a Decedent	39
Political Debts	39



Insolvency of Partner	39
Business Loan Guarantees	39
Reporting	40
Methods of Treating Bad Debts	40
Specific Charge-Off Method	40
Partly Worthless Debts	40
Deduction Disallowed	41
Totally Worthless Debts	41
Recovery of Bad Debt	41
Property Received for a Debt	41
Bankruptcy Claim	41
Sale of Mortgaged Property	42
Net operating Loss	42
Nonaccrual-Experience Accounting Method	42
Performing Services	42
Interest & Late Charges	42
Depreciation - 168	43
Personal Property	43
ACRS - §168	43
Applicable Percentage	44
Straight-line Election	44
MACRS	44
Elections	45
Bonus (or Additional First-year) Depreciation - §168(k)	45
MACRS Conventions	46
Mid-quarter Convention Exception	46
Recapture - §1245	46
Real Property	46
ACRS	46
MACRS	47
Recapture - §1250 & §1245	47
Section 1245	47
Full Recapture	48
Section 1250	48
Partial Recapture	48
MACRS Recapture Exception for Real Property	48
Alternative Depreciation System - §168(g)	48
Mandatory Application	48
Method	48
Glossary	54
Keywords & Phrases	55