



51A Middle Street Newburyport, MA 01950

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

contact@bhfe.com

www.bhfe.com

Course Information

Course Title: *Tax Guide to Business Expenses #493522*

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 (Accepted in 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 (for ethics): 002146

Ohio State Board of Accountancy: M0021

Pennsylvania Board of Accountancy: PX178025

Texas State Board of Accountancy: 009349

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

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.

Course Content

Publication/Revision Date: 3/23/2022.

Author: Danny Santucci, J.D.

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

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

Instructions for Taking This Course

- **Log in to your secure account at www.bhfe.com. Go to "My Account."**
- **You must complete this course within one year** of purchase (If the course is "Expired," contact us and we will add the latest edition of the course to your account (no charge).
- **To retain the course-PDF after completion (for future reference) and to enable enhanced navigation:** From "My Account," Download and save the course-PDF to your computer. This will enable the search function (Menu: Edit>Find) and bookmarks (icon on left side of document window).
- **Complete the course by** following the learning objectives listed for the course, studying the text, and, if included, 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 Online Exam

- **Log in to your secure account at www.bhfe.com. Go to "My Account."**
- A passing grade of at least **70%** is required on the exam for this course.
- You will have three attempts to pass the exam (call or email us after three unsuccessful attempts for instructions).
- The exam is not timed, and it does not need to be completed in one session.
- For a printed copy of the exam questions, open the exam and press "Print Exam."
- Once you pass the exam, the results (correct/incorrect answers) and certificate of completion appear in "My Account." A confirmation email is also sent.
- CFP Board and IRS credit hours, if applicable, are reported on Tuesdays and at the end of the month.

Have a question? Call us at 800-588-7039 or email us at 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 §162 and the limitations imposed by the not-for-profit provisions stating 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 March 2022

Danny Santucci

Table of Contents

| | |
|---|----|
| 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 an NOL..... | 4 |
| Individual NOLs..... | 4 |
| Carryovers..... | 4 |
| Farming..... | 5 |
| Corporate NOLs..... | 5 |
| Timing of Expense Deduction..... | 6 |
| Economic Performance - §461..... | 6 |
| Prepayment of Expenses..... | 6 |
| Contested Liability..... | 6 |
| Related Person - §267..... | 7 |
| Expenses of Not-for-Profit Activities - §183..... | 7 |
| Presumption of Profit..... | 8 |
| Using the Presumption Later..... | 8 |
| Limit on Deductions..... | 9 |
| Partnerships & S Corporations..... | 9 |
| More Than One Activity..... | 9 |
| Rent Expenses..... | 10 |
| Rent Paid In Advance..... | 10 |
| Lease vs. Sale..... | 11 |
| Leveraged Leases..... | 11 |
| Leveraged Leases of Limited-Use Property..... | 12 |
| Leases Over \$250,000 - §467..... | 12 |
| Taxes on Leased Property..... | 12 |
| Cost of Getting a Lease..... | 13 |
| Options to Renew..... | 13 |
| Cost of a Modification Agreement..... | 13 |
| Commissions, Bonuses, & Fees..... | 14 |
| Loss on Merchandise & Fixtures..... | 14 |
| Leasehold Improvements - §168..... | 14 |
| Assignment of a Lease..... | 14 |
| Capitalizing Rent Expenses - §263A..... | 15 |
| Interest Expense - §163..... | 15 |
| Business Interest - §162..... | 15 |
| Interest Paid In Advance..... | 16 |
| Mortgage Interest..... | 16 |
| Prepayment Penalty..... | 16 |
| Points - §461..... | 16 |
| Interest on Installment Purchases - §483 & §1271..... | 17 |

| | |
|---|----|
| Nondeductible Interest..... | 17 |
| Interest on Income Tax Owed | 17 |
| Penalties | 17 |
| Commitment Fees & Service Charges | 17 |
| Capitalized Interest..... | 18 |
| Production Period | 18 |
| Traced Debt | 18 |
| Avoided Cost Debt..... | 19 |
| When Interest Is Paid or Incurred | 19 |
| Partnerships & S Corporations..... | 19 |
| Interest on Insurance Policy Loans - §264..... | 19 |
| Single Premium Life Insurance | 19 |
| Systematic Plan of Borrowing | 20 |
| Key Person Insurance | 20 |
| Deductibility of Premiums & Interest on Life Insurance..... | 20 |
| Existing Interest on Purchase | 21 |
| Corporate Acquisition Interest | 21 |
| Deductible Taxes | 21 |
| Tax Refunds..... | 21 |
| Change in Date of Tax Accrual..... | 21 |
| Real Estate Taxes..... | 21 |
| Local Benefits | 22 |
| State & Local Income Taxes..... | 22 |
| Foreign Income Taxes | 22 |
| Employment Taxes..... | 22 |
| Unemployment Fund Taxes | 23 |
| Self-employment Tax | 23 |
| Other Taxes..... | 23 |
| Business Casualty & Theft Losses - §165..... | 23 |
| Proof of Loss..... | 23 |
| Amount of Loss..... | 24 |
| Limitations..... | 24 |
| Dividends Received Deduction - §243..... | 24 |
| Dividends from Domestic Corporations | 24 |
| 65% Exception | 25 |
| Ownership..... | 25 |
| Limitation | 25 |
| Other Selected Deductible Costs | 28 |
| Home-Office Deduction - §280A..... | 28 |
| Requirements - §280A..... | 28 |
| Non-Exclusive Use Exceptions | 28 |
| Income Limitation | 28 |
| Home Office Deduction After 1998 | 29 |
| Research & Experimental Cost Deduction - §174(a)..... | 29 |
| Definitions | 29 |
| Product | 30 |
| Costs Not Included..... | 30 |
| When & How to Choose..... | 30 |
| Business Start-Up & Organizational Costs – §195..... | 31 |
| How to Make the Choice | 31 |
| Carrying Charges | 31 |

| | |
|--|----|
| Retired Asset Removal Costs..... | 31 |
| Barrier Removal Costs | 32 |
| Deduction Limit | 32 |
| Amortization | 32 |
| Deducting Amortization | 32 |
| Start-Up Costs - §195..... | 32 |
| Amortization Period | 32 |
| Qualifying Costs..... | 33 |
| Purchasing an Active Trade or Business..... | 33 |
| Corporate Organizational Costs - §248 | 33 |
| Qualifying Costs..... | 33 |
| Nonqualifying Costs..... | 34 |
| Partnership Organizational Costs - §709 | 34 |
| Qualifying Costs..... | 34 |
| Partnership Liquidation | 34 |
| Costs of Obtaining a Lease | 34 |
| Intangibles - §197..... | 35 |
| Section 197 Intangibles Defined | 35 |
| Goodwill..... | 35 |
| Going Concern Value..... | 35 |
| Workforce in Place, Etc..... | 36 |
| Business Books & Records, Etc..... | 36 |
| Patents, Copyrights, Etc. | 36 |
| Customer-Based Intangible | 36 |
| Supplier-Based Intangible | 37 |
| Government-Granted License, Permit, Etc..... | 37 |
| Covenant Not To Compete | 37 |
| Franchise, Trademark, or Trade Name..... | 37 |
| Professional Sports Franchise..... | 37 |
| Contract for the Use of, or a Term Interest in, a §197 Intangible..... | 38 |
| Research & Experimental Cost Amortization - §174(f)..... | 38 |
| Optional write-off method - §59..... | 38 |
| Amortizable Costs - §174 | 38 |
| Election | 38 |
| Depletion - §613..... | 39 |
| Cost Depletion | 39 |
| Basis for Depletion..... | 39 |
| Total Recoverable Units | 40 |
| Number of Units Sold..... | 40 |
| Determining the Cost Depletion Deduction | 40 |
| Percentage Depletion..... | 41 |
| Gross Income | 41 |
| Taxable Income Limit..... | 41 |
| Business Bad Debts - §166..... | 42 |
| Credit Transactions | 42 |
| Income Inclusion | 42 |
| Accrual Method Taxpayers | 43 |
| Cash Method Taxpayers..... | 43 |
| Former Business..... | 43 |
| Debt Acquired from a Decedent..... | 43 |
| Political Debts | 43 |

| | |
|--|----|
| Insolvency of Partner..... | 44 |
| Business Loan Guarantees | 44 |
| Reporting | 44 |
| Methods of Treating Bad Debts | 44 |
| Specific Charge-Off Method..... | 45 |
| Partly Worthless Debts..... | 45 |
| Deduction Disallowed..... | 45 |
| Totally Worthless Debts..... | 45 |
| Recovery of Bad Debt..... | 46 |
| Property Received for a Debt..... | 46 |
| Bankruptcy Claim..... | 46 |
| Sale of Mortgaged Property..... | 46 |
| Net Operating Loss | 46 |
| Nonaccrual-Experience Accounting Method | 47 |
| Performing Services..... | 47 |
| Interest & Late Charges..... | 47 |
| Depreciation - 168 | 48 |
| Personal Property | 48 |
| ACRS - §168..... | 48 |
| Applicable Percentage..... | 48 |
| Straight-line Election | 49 |
| MACRS | 49 |
| Elections..... | 50 |
| Bonus (or Additional First-year) Depreciation - §168(k)..... | 50 |
| MACRS Conventions..... | 51 |
| Mid-quarter Convention Exception..... | 51 |
| Recapture - §1245 | 51 |
| Real Property | 51 |
| ACRS | 51 |
| MACRS | 52 |
| Recapture - §1250 & §1245..... | 52 |
| Section 1245 | 53 |
| Full Recapture..... | 53 |
| Section 1250 | 53 |
| Partial Recapture..... | 53 |
| MACRS Recapture Exception for Real Property | 53 |
| Alternative Depreciation System - §168(g) | 53 |
| Mandatory Application..... | 53 |
| Method..... | 54 |