

Claiming Tax Deductions for START-UP COSTS for a New Business

“Costs incurred during the START-UP PHASE of a business are generally deductible over a 15 year period” (i.e., each \$1,500 in start-up costs would be deducted at a rate of \$100 per year for 15 years). [[IRC Sec 195\(c\)\(1\)\(A\)](#)]

WHAT IS THE “SPECIAL DEDUCTION” FOR 2011?

Any taxpayer who begins operation of a new business in 2011, may deduct ALL start-up costs (up to \$5,000 maximum) on their 2011 tax returns -- no need to spread the deduction over a 15 year period. [[IRC Sec 195\(b\)](#)]

EX: \$5,000 in Start-Up Cost deductions, for a person in a 28% tax bracket, would generate a \$1,400 tax Refund.

If Start-Up Cost deductions exceed the amount of money earned this year in the home-based business itself, most or all of the additional deductions may be applied against any other source of income such as a W-2 job, which could possibly even drop the taxpayer into a lower tax bracket. This one-time write-off provision in the tax law is valid only during 2011, and therefore will set to expire permanently at midnight, December 31, 2011. Even IF Congress reinstates this provision in 2012, a business begun after Jan. 1, 2012 will not be able to claim those deductions until April 2013 – when 2012 Tax Returns are filed. Not activating a new home-based business by December 31, 2011, will delay tax-deductions for Start-Up Costs by at least 15 months.

WHAT ARE “START-UP COSTS?”

The term includes business related costs you incur prior to actually beginning to offer goods or services for sale # i.e., the costs of getting ready to open your business. They are generally the same types of expenses that will be called “business operating costs” once you are actually operating a business. [[IRC Sec 195\(c\)\(1\)\(B\)](#)]

Q: When does the start-up period begin?

A: When you begin thinking about starting a business.

Q: What are some examples of tax-deductible “start-up costs?” [[IRC Sec 195\(c\)\(1\)\(A\)](#)]

A: Seminars, Workshops, Courses and Books on how to run the business, investigating or researching one or more business opportunities, travel for meetings, conventions or interviews or to obtain education from experts, telephone and cellular phone costs related to new business start-up, office supplies and some business tools (briefcase, iPad, business cards, etc.)

DOES NOT INCLUDE vehicles, furniture, computers and other depreciable assets [[IRC Sec 167\(a\)](#)]

Caveat: Money spent qualifying to begin a certain type of business, general are not deductible. This includes getting a degree, obtaining a license to practice (doctors, real estate...), etc.

The IRS “default setting” for start-up expenses is to deem that the taxpayer made a decision to amortize the amounts over a 15 year period. [[Reg Sec 1.195-1T\(b\)](#)]

To keep that from happening, and claim your deductions immediately, you should take 2 actions: [[Reg Sec 1.195-1T\(b\)](#)]

1. Claim your Start-Up Expenses on IRS Form 4562 (“Depreciation and Amortization”)

2. Attach an “election statement” to your tax return, stating specifically that you wish to claim all (or the first \$5,000) of your Start-Up Expenses in 2011, “the year in which your business became active.”

By the way, since Start-Up Expenses are deductible in the year in which the business begins active operation, if the business you are investigating never gets off the ground, you will not get any deductions. [[IRC Sec. 165](#)]

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