

# Nolo's Top Ten Deductions for Professionals

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If you're a professional, no one needs to tell you that taxes are one of your largest expenses. The IRS doesn't make a point of advertising ways to lower your taxes and it certainly won't complain if you don't take all the tax deductions you're entitled to. In fact, many professionals miss out on all kinds of deductions every year simply because they aren't aware of them – or because they neglect to keep the records necessary to back them up.

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Here are the top ten tax deductions that every professional business owner should know about.

1. **Business operating expenses:** This includes all your ordinary and necessary business expenses – the bread-and-butter costs virtually every professional incurs for things like rent, supplies, and salaries. If you don't maintain an inventory or buy expensive equipment, these day-to-day costs will probably be your largest category of business expenses – and your largest source of deductions.
2. **Business entertainment:** Many important business meetings, client contacts, and marketing efforts take place at restaurants, golf courses, or sporting events. The tax law recognizes this and allows professionals to deduct half of the cost of business-related entertainment. However, because taxpayers have abused this deduction in the past, the IRS imposes strict rules limiting the types and amount of entertainment costs you can deduct.
3. **Local travel:** Professionals can deduct the costs of local transportation expenses if they are ordinary and necessary for their business. It makes no difference how you travel – by car, van, SUV, limousine, motorcycle, taxi, bus, or train – or whether the vehicle you use is owned or leased.

But, beware: Transportation expenses are a red flag for the IRS. They are the number one item that IRS auditors look at when they examine small businesses, partly because most people use the same car for business and personal driving.

4. **Long distance travel:** Professionals who travel overnight for business can deduct their airfare, hotel bills, and other expenses. If you plan your trip right, you can even mix business with pleasure and still get a deduction. However, IRS auditors closely scrutinize this deduction. To avoid unwanted attention, you need to keep proper records and understand the limitations on this deduction.

5. **Long-term assets:** A long-term asset is business property that you reasonably expect to last for more than one year. For professionals, this typically includes items such as office furniture, computer equipment, medical, dental, or other specialized equipment, buildings, automobiles, and books. The cost of many such assets, other than real estate, can be deducted in a single year using the de minimis safe harbor (allowing assets that cost up to \$5,000 to be currently deducted) or Internal Revenue Code Section 179 expensing. Assets that can't be fully deducted in one year must be depreciated over several years--anywhere from 3 years to 39 years for commercial real estate.
6. **Home office deduction:** If, like many professionals, you regularly work at home, you may be able to claim the home office deduction. (Sometimes you can use this deduction even if you have an outside office where you do the bulk of your work.) However, if you want to use this deduction, you must learn to do it properly. There are strict requirements you must follow. How you claim the deduction will depend in part on what type of business entity you have.
7. **Outside office:** The great majority of professionals have outside offices where they do their work. An outside office – that you rent or own – presents many opportunities for tax deductions. Virtually all of your outside office expenses are deductible, including rent, utilities, insurance, repairs, improvements, and maintenance.
8. **Health insurance:** As business owners, professionals have an advantage that most others don't have with regard to health care costs – they can deduct many of their health insurance costs from their taxes. In addition, professionals can deduct a wide variety of uninsured medical expenses, including nonprescription medications, acupuncture, and eyeglasses.
9. **Retirement plans:** When it comes to saving for retirement, professional small business owners are better off than employees of most companies. This is because the federal government allows small businesses to set up retirement accounts specifically designed for small business owners. These accounts provide enormous tax benefits that are intended to maximize the amount of money you can put away in tax-deferred accounts during your working years.
10. **Hiring workers:** You may deduct most or all of what you pay someone you hire as a business expense. For example, if you pay an employee \$50,000 per year in salary and benefits, you'll ordinarily get a \$50,000 tax deduction. If you hire an independent contractor to perform services for your practice, you can deduct the amount you pay as a business operating expense.