



Tracking Your Business Expenses

By Darrell Morris

Effectively tracking your business income and expenses is a vital component of your business success. While income can be easy to figure out, deciding what qualifies as a business-related expense is not always as cut and dry. The IRS guidelines aren't too helpful either in that they define a business expense as "ordinary and necessary" to your trade or profession.

The definition is very vague and sometimes it's difficult for most people to determine what truly is a business related expense. However, most expenses associated with starting up, organizing and operating your business are potentially tax deductible. In fact, did you know that you can even write off up to \$5,000 in startup and another \$5,000 in organizational expenses in the year you start your business? (These deductions are reduced if you have more than \$50,000 of either type of expense.)

Many sole proprietors are often confused as to what is and is not a business expense. The best thing you can do if unsure, is to err on the side of caution. Track all your expenses, even those in doubt, and then let your accountant or tax professional figure it out for you at the end of the year.

There are several great software programs that can assist you such as Quickbooks, Peachtree, Microsoft Accounting, Quicken and Microsoft Money. Depending on your business needs, any of these feature-loaded softwares could get the job done for you. Another option would be to keep a monthly Excel spreadsheet of your expenses. Whichever method you use, consider setting up your expense categories to match those on the Schedule C (Profit or Loss from Business Form) of your tax return. This will save you or your accountant time at the end of the year trying to figure out which expense goes where.

The IRS is strict about not mixing personal and professional write-offs on your taxes. In other words, be careful if you are claiming expenses that are a mixture of both personal and professional expenses. For example, you plan to attend a conference in Florida. While there, you are going to drop in and visit Aunt Mary and Uncle Bob. It's okay to combine business and pleasure, but be careful when you claim those business expenses.

The conference must be geared to your business. Furthermore, the conference also needs to last at least six hours a day, and you must attend a minimum of two-thirds of it in order

for you to be able to consider it a business expense. Also, be sure to extract any expenses related particularly to visiting Aunt Mary and Uncle Bob.

Finally, hang on to your receipts and records. The general recommendation is to retain that information for seven years. The IRS has three years from your filing date to audit your return if it suspects good faith errors and has six years to challenge your return if it thinks you underreported your gross income by 25 percent or more. And, if you failed to file, or filed a fraudulent return, there is no time limit.

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