



Business vs. Personal Checklist

IRS has detailed requirements of what qualifies as business versus personal deductions. It is important that business owners maintain the required business records separate from personal throughout the year, in order to substantiate a valid deduction. Please refer to IRS Publication 535 for details on the rules concerning business related expenses.

General Information

- Does the expense have a valid purpose associated with the business?
- Can the business operate with or without the expense in question?
- Keep all business transactions separate from personal.
- Open separate bank and credit card accounts.
- All lines of credit, loans and property were purchased and recorded in the business name.

Most Common Business-Related Expenses

- Start-up cost that was necessary to get your company going.
- Cost of goods sold: materials/services/labor necessary to manufacture product or provide services.
A cost that cannot be avoided or the product/service would not exist.
- Mileage reimbursements for business use of personal vehicle.
- Home office used for business purposes.
- Supplies, tools and safety gear used specifically for business.
- Uniforms and clothing with specific business purposes; such as scrubs, logo attire, aprons, etc.
- Furniture and equipment for office use.
- Repairs and maintenance specific to office buildings, fixtures, improvements, etc.
- Capital costs used to finance and grow your business.

Most Common Non-Business-Related Expenses

- Personal vehicles and loans associated with them.
- Grooming and everyday attire, not related to business.
- Meals with family or friends with no business purposes.
- Day care for owner/employee's children.
- Voluntary insurance programs, such as life insurance.

Other Items of Interest

- Good business practice: Maintain proper records and documentation clearly defining the purpose.
 - Implement standard operating procedures and workflows.
 - Think like an auditor, does it make sense.
 - Be aware of current regulations: i.e. There are deduction limitations related to cash method vs. accrual method, accrued interest on a loan cannot be deducted under cash method until it's been paid.
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