

DISCLOSURE & ACKNOWLEDGMENT REGARDING BUSINESS EXPENSES (2016)

Dear Client,

This disclosure is provided for you in order to clarify what business expenses may be taken in general on the following IRS forms:

- 1120 & 1120S Corporate Tax Returns
- 1065 Partnership (LLC) Tax Returns
- Form 2106 of 1040 Individual Tax Returns
- 1040 Schedule C
- 1040 Schedule E (Supplemental Business Expenses)

Business Expenses – General Overview

To be deductible, a business expense must be both ordinary and necessary. An expense does not need to be indispensable to be considered necessary. An expense must also not be a personal expense (unrelated to the business). If you have expenses that relate to both personal and business, you must make an allocation and be prepared to support the allocation under IRS audit.

Ordinary = common and accepted in the industry

Necessary = helpful and appropriate to your business

Business expenses may include:

- Advertising
- Automobile
- Wages
- Meals & Entertainment
- Travel
- Equipment & Depreciation
- Interest
- Rent or Home Office
- Continuing Education
- Professional Consultations
- Insurance
- Business Licensing
- Taxes
- Pensions & Retirement Plans

Generally, in the event of an audit, you will be required to provide written support for all expenses listed.

Recordkeeping and Transactions

In order to assist with recordkeeping and IRS compliance, we recommend that businesses have their own bank accounts and that all business-related transactions be run through said accounts. We also recommend that there be no commingling of funds (in other words, don't pay for personal items with the business bank account). This helps to establish that the business is being run like a business, again in the event of an IRS audit, in order to minimize disallowed expenses.

Auto Expenses

You may deduct automobile expenses under either one of two methods (you must document the mileage):

- Standard mileage rate is .54 cents (1/1/16 to 12/31/16); (Note: 53.5 cents as of 1/1/17)
- Actual expenses (you must have documents such as receipts, etc.)