

36 Business Expense Categories for Small Businesses and Startups

[Scott Beaver](#) | Senior Product Marketing Manager - Oracle NetSuite

Adapted by: Clario Consulting

Attention to expense deductions may not play a prominent role in the financial planning process for small businesses and startups, costing them. You're focused on customer service and improving your products and services. But some easy moves could significantly lessen your tax bill.

For example, say you're putting 250 miles per week on your private vehicle to get products out to customers. Keeping a log separating business and personal use may seem time-consuming, but you're losing close to \$600 in deductions. Or maybe you shuttered your office and started running your company from a spare room. If the space is exclusively used for business, you can deduct \$5 for every square foot, up to \$1,500.

Business expenses are the costs of running a company and generating sales. Given that broad mandate, the IRS doesn't provide a master list of allowable small-business and startup deductions. If an expense is "ordinary and necessary" to running a business in your industry, it's deductible. That makes organizing your spending well worth it, so your business takes all legitimate write-offs, creates an effective financial plan, pays the proper quarterly taxes—and doesn't need to sweat an audit.

What Are Business Expense Categories?

By developing expense categories that fit your business and recording and organizing expenditures as you go, you'll find it easier to get all the deductions you're due.

You'll also save significant headaches for your bookkeeper or tax preparer. It's worth spending time with a financial adviser to understand the types of expenses you can and can't include in a specific category.

Below is an example small-business expense category list that applies to most companies, outlining what's included and how to qualify for a deduction.

1. Advertising:

This covers the cost of items and services **to promote or market your business** directly. Examples include fees paid to advertising or marketing companies to produce promotional materials, billboards, brochures, posters, websites, and social media images. You may even deduct spending on a PR campaign.

2. Continuing education:

This can include courses for continuing education or seminars **to stay current on industry trends**. You and your employees' relevant materials, books, and registration fees are tax-deductible. You can also deduct employee payments to reimburse them for relevant educational expenses.

3. Credit and collection fees:

Businesses that use accrual basis accounting, where revenue and expenses are recorded when they're earned or incurred even if no money changes hands at that point, can deduct unpaid invoices as business bad debt. Any fees spent trying to **collect on the debt**, such as hiring an outside company to collect what's owed, also count—a better bet: Minimize lousy debt and increase cash flow by optimizing your billing processes.

4. Bank fees:

Interest paid on business loans, ongoing credit lines, and business credit cards are tax-deductible expenses. Bank fees, such as **monthly maintenance or overdraft fees**, also count.

5. Dues and subscriptions:

Subscriptions to industry magazines or journals related to your business can be deducted from your taxes. **Membership fees** include those paid to professionals or trade associations that can help promote your business and even to your local Chamber of Commerce.

6. Employee benefit programs:

Payments for benefits such as **disability insurance, life insurance, dependent care assistance, health plans for you and your employees, and adoption assistance** are **tax-deductible**. Note that this is one area, along with workers' compensation insurance, where companies tend to spend more than they need to.

7. Insurance:

Besides workers' compensation insurance, you can deduct premiums for business-related insurance, including **liability, malpractice, and real estate**. Auto insurance premiums on a personal vehicle are a bit more complicated: If you deduct a flat mileage rate, you can't itemize and must use the actual expense method, where you determine what it costs to operate the car for the portion of the overall use of the car that's business use.

8. Maintenance and repairs:

Companies that use fleet vehicles as part of their operations can deduct the portion used for business. Deductible expenses include parking fees and gas. Otherwise, you can choose to utilize the standard mileage rate. **Repair and maintenance** of other equipment and machinery used in your business can also count.

Under actual vehicle expense calculations, you may include gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation (or lease payments) prorated to the total business miles driven.

9. Legal and professional expenses:

These can include fees paid to certified public accountants (CPAs), financial planners, lawyers, or other professionals.

10. Office expenses and supplies:

Items such as cleaning products, paper, notebooks, stationery, and even employee snacks and beverages can be deducted as supplies. The expenses category includes **costs related to operating your business**, such as website hosting and software.

11. Telephone:

Monthly telecommunications fees in a commercial space can be deducted, as can **phone lines** in a home office and cell phone contracts as a subcategory of office expenses.

12. Commercial Rent Utilities:

Utilities such as electricity, internet, sewage, and trash pickup fees are fully deductible for commercial space. For a home office, you can deduct utilities in proportion to how much your home is used for business.

13. Postage and shipping:

Stamps, freight, and postage fees to **mail business-related items**, including products to customers and return shipping labels, count. Envelopes and packaging materials are included in office supplies.

14. Printing:

Items such as ink cartridges, printers, or payments for printing services can be included under this business expense category. Note that if you decide to do some direct-mail marketing, you can deduct the cost of producing the materials here, but postage must be listed separately, even if the printer handles mailings.

15. Rent:

Any rental payments to occupy a warehouse for inventory or office space to conduct business are tax deductible. Your business structure—C corporation (C-Corp) or S corporation (S-Corp)—dictates whether you can pay a reasonable amount to rent property from shareholders.

16. Salaries and other compensation:

Employee salaries, gross wages, commissions, bonuses, and other types of compensation count as tax-deductible expenses. **Compensation can even extend to salaries paid to children and spouses, provided payments were made through payroll and those individuals performed services for your business.** The amount paid does need to be considered reasonable.

17. Travel:

Business-related travel expenses include flights, hotels, and meals—but note that **only 50% of the cost of meals for employees and customers is deductible.** Costs for candidates who are traveling for an interview are deductible. Examples include parking fees and flights.

18. Owner Utilities:

Costs include cell phone and internet.

19. Business meals:

You can deduct 50% of qualifying food and drink purchases. It must be related to business, such as work **conferences and meals on business trips.** As a small business, you can deduct 50% from qualifying food and drink purchases.

20. Business use of your car:

You may be able to write off the costs of maintaining and operating your vehicle if it's strictly for business use. However, if mixed, you can claim mileage related to the business use.

21. Moving expenses:

For work-related moving expenses, you may be able to deduct 100% of the costs related to your move. You must pass the distance test, such as your new job location is at least 50 miles from your former location.

22. Depreciation:

These are costs for big-ticket items like machinery or a vehicle over its lifetime use instead of over one tax year.

23. Charitable contributions:

You can deduct charitable contributions **made to qualifying organizations**—you may need to itemize these deductions.

24. Child and dependent care:

Qualifying child or dependent care costs can be written off, though you must meet the IRS requirements.

25. Startup expenses:

Businesses that launch a new venture may be able to **deduct up to \$5,000** in startup expenses leading up to your launch. Examples include marketing and employee training costs.

26. Mortgage interest:

If you're purchasing a building or taking out a loan to build or improve your home for business purposes, you can deduct the interest incurred.

27. Software:

Ones, such as bookkeeping software or recurring subscriptions with SaaS companies, used for business-related purposes may be fully tax deductible.

28. Books and magazine subscriptions:

Magazines, books, and journals that are specialized and directly to your business may be tax-deductible. For instance, newspapers may not be, but industry-specific magazines would.

29. Foreign earned income:

If you have a business based abroad, you may be able to leave out any foreign income earned off your tax return, known as foreign earned income exclusion. You'll need to meet specific requirements, such as being under a certain income threshold.

30. Medical expenses:

Self-employed individuals who pay for their medical care expenses or insurance premiums can deduct them on their tax return. Examples include doctor's fees and prescription drugs.

31. Licenses and permits:

Any required **licenses and permits can be tax deductible**. Examples include building permits and licenses to practice law in your state.

32. Manufacturing or raw materials:

These are directly related to **the cost of goods sold** or items and storage paid to sell your products.

33. Retirement contributions:

Contributing to a tax-advantaged account, such as an **IRA or 401k**, can reduce your taxable income—an excellent way for self-employed people to save on taxes.

34. Real estate taxes:

If you have a home office and itemize your taxes, you may be able to deduct some of the taxes you pay.

35. Client gifts:

Gifts for employees, clients, or vendors may be fully tax deductible. For example, you give your employees **gift baskets or send gift cards** to vendors during the holiday season.

36.Employee loans:

If you pay an advance to an employee and expect them to pay you back (as in, they didn't do any extra work to earn this "extra" income), you can deduct this amount. However, any interest paid may count as business income.

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