

Are there business expenses you CAN'T write off?

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You may be surprised to learn that most business deductions aren't specifically listed in the Internal Revenue Code ("Code"). It doesn't explicitly state that you can deduct certain expenses such as office supplies.

There are some expenses that are detailed in the Code, but the general rule is contained in the first sentence of Code Section 162, which states you can deduct "all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business."

Not surprisingly, the IRS and courts don't always agree with taxpayers about what passes muster as ordinary and necessary expenditures.

Key definitions

In general, an expense is ordinary if it's considered common or customary in the particular trade or business. For example, insurance premiums to protect a retail establishment are ordinary business expenses.

A necessary expense is defined as one that's helpful or appropriate. For example, let's say a car dealership purchases an automatic defibrillator. It may not be necessary for the operation of the business, but it might be helpful and appropriate if an employee or customer suffers a heart attack.

It's possible for an ordinary expense to be *unnecessary* — but, to be deductible, an expense must be ordinary and necessary.

Keep it reasonable

In addition, a deductible amount must be reasonable in relation to the benefit expected. For example, if you're attempting to land a \$3,000 deal, a \$55 lunch with a potential client should be OK with the IRS. But taking the same client on a private charter flight to a football game and staying overnight probably wouldn't be considered reasonable.

Generally, if an expense seems like it's not normal in your industry — or if it could be considered fun or personal in nature — you should proceed with caution. Please consult with us for guidance.

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