

THE START-UP COST DEDUCTION

You just started a business, congrats! December 31 is nearing, then it's time to file your business tax return. As with most start-ups, you have incurred a lot of costs and are wondering if you can deduct any of these costs. Here are the rules:

There are two types of costs associated with starting a business: start-up costs and organizational costs. The IRS defines start-up costs as amounts paid or incurred in connection with creating an active trade or business or investigating the creation or acquisition of an active trade or business. Organizational costs include the costs of incorporation such as accounting, legal, and filing fees. These costs are incurred BEFORE you launch and operate your company.

If you incur \$50,000 or less of business start-up or organizational costs, you can elect to deduct up to \$5,000 in the first year of operation. The remaining costs must be amortized over 180 months, beginning the month you opened your business. Any amount of start-up or organizational costs in excess of \$50,000 will reduce the \$5,000 tax deduction you can take during your first year, dollar for dollar. For example, if your total first year start-up and organizational costs were \$52,000, then your eligible deduction is \$3,000 (\$5,000 less \$2,000, amount over the \$50,000). You then amortize \$49,000 (\$52,000 less \$3,000) over 180 months. If your business' first month of operation was August, your amortization expense in the first year would be \$1,361 ($\$49,000 / 180 \text{ month} * 5 \text{ months}$). The first year total start-up deduction would be \$4,361 (\$3,000 + \$1,361).

REMEMBER, you are only allowed to take the deduction in the year that you open your business. So if you had start-up and organizational costs in 2014 but opened your business in 2015, you can only take the deduction in 2015. The election to take the start-up deduction is automatic and an entity may forgo the deemed election by "affirmatively electing" to capitalize the expense on a timely filed federal income tax return.

If you have any other questions on this topic, please contact us.

