

# PITFALLS IN DEDUCTING BUSINESS COSTS

In computing income tax deductions, one area in which there is widespread misunderstanding is unreimbursed business expenses, according to The Michigan Association of Certified Public Accountants.

"Many taxpayers," says Robert N. DenBraber, MACPA President, "overlook valid business deductions entirely, while others have an exaggerated idea of what is deductible."

It is not just businessmen who are affected. People in almost any line of work can incur expenses simply to hold their jobs. Among these are dues paid to a union or professional society, subscriptions to technical publications, tools, and uniforms or special work clothes worn only on the job. Such items are usually deductible. The costs of commuting to and from the job are not.

Educational or training courses taken in order to stay abreast of recent developments in one's line or to enhance skills may be deductible, but only if they are needed to retain present salary or employment status. If the course prepares the individual for a new, different job it doesn't qualify.

If the nature of one's work requires an office or other work area in the home, a percentage of household maintenance costs and depreciation may be deductible. The percentage is usually based on the ratio of floor space or number of rooms used for

business to the total floor space or number of rooms in the residence.

This ratio applies only if the area is used exclusively for business. If the space is used for business only a part of the time, the deduction must be reduced accordingly.

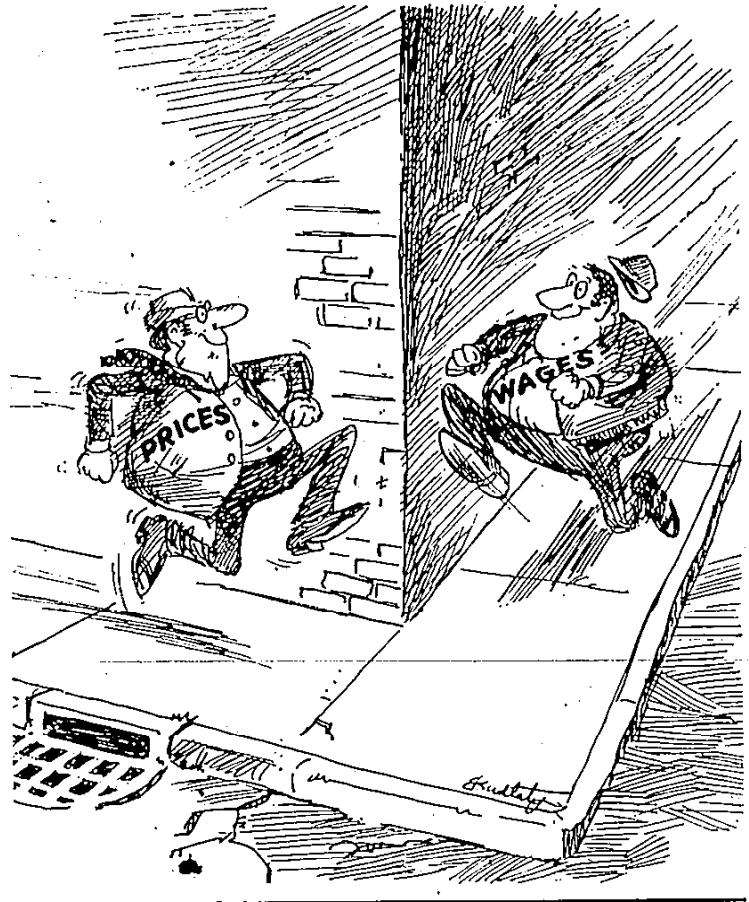
Deductions for business entertainment are closely watched by the Internal Revenue Service. DenBraber points out, Business lunches with customers or valuable contacts are not as likely to be questioned as are dinner parties, sports events, fishing trips and other forms of entertainment. If there is more than just a meal and conversation, it is necessary that business be discussed before, during, or after the entertainment.

"The presence at such affairs of non-business friends other than wives increases the likelihood that the deduction will be questioned," said DenBraber.

If a taxpayer plans to take a deduction for a trip that was partly for business and partly for pleasure, he must be ready to prove that it was not just a vacation in disguise. Evidence of attendance at meetings or convention sessions or of calls on business contacts must show that most of the time was spent on such activities and not on golf or sightseeing.

All personal deductions for unreimbursed business expenses are likely to be questioned or disallowed if the taxpayer is a principal in a closely-held business firm.

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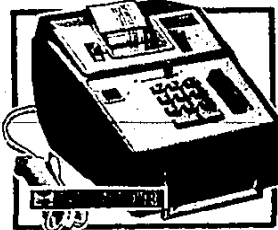


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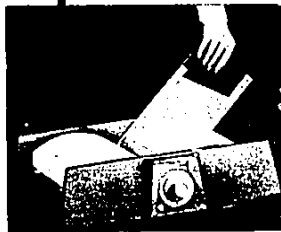
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