

Keeping Track of Your At-Home Business Expenses

If you are new to working at home, then you might not be aware that you can legally deduct many types of valid business expenses, such as paper supplies or the second phone line you install for your business, on your self-employment income tax return (and thereby reduce your taxable self-employment income). This article concerns only general expenses and will not deal with how to determine and deduct expenses that relate to your in-home office space or depreciable office furnishings/equipment. That is a conversation for another day.

First, let me congratulate you on the fact that you are working at home! Whether it is part-time, full-time, or just a little something you do on the side for extra money, working at home and being your own boss is the lifelong dream of many people. Be proud that you have achieved what so many do not.

Second, let me be very clear that this article is written on the assumption that you report your self-employment income---*all* your income---and that you pay the self-employment taxes that are due on that income. This article is also based on tracking and recording legitimate business expenses. Even if you have very modest income and are using your kitchen table a few nights a week as your office space, there are still legitimate business expenses that you can use to help reduce your self-employment taxable income. The purpose of this article is not to help you find ways to pad your deductions or to dodge paying your taxes.

Last, this article is aimed at those who are either new to working at home or who need a simple explanation of a subject that may seem twisted and tangled. Business expenses and tax deductions don't need to be scary monsters that live with the dust bunnies beneath the box spring of your bed. You don't even need a complicated method of data storage in order to track your expenses and have quick and easy numbers ready when it comes time to file your taxes. In fact, you don't really need much more than a notepad and a nice box. Of course, if you live for spreadsheets and bar graphs, you can get as high-tech as you like. Personally, I have a very simple Excel spreadsheet and four large file folders (one for each quarter of the year).

OK, let's get started.

It is important to know what qualifies as a "business expense." Well, that's simple. A business *expense* is money that you pay out of your pocket in order to maintain your at-home business. An easy example would be a business phone line. If you had a second phone line installed as your business line, then you can legally deduct 100% of the cost of that phone line as a business expense. You can also deduct the cost of equipment, installation, and hook-up (for the tax year during which you installed the line). Business expenses do not have to be related to office equipment or furniture, or even the actual



work that you do. Legitimate business expenses also include office supplies like computer paper, ink cartridges, pens, notepads, paperclips---literally anything that you buy specifically for conducting your business.

I use this rule of thumb: If I wouldn't have purchased it otherwise, then it is a business expense.

Now, I do understand that at some time during your life, you would probably have some reason to pick up a package of paperclips or buy a couple of ink pens. What I'm talking about are the things that you find that you use regularly in the course of your business. As an example, I have two clients for whom I must send back-up floppy disks containing files of work that I transmit to them via email. This means that I regularly purchase floppy disks. Since we have a second computer (that my husband fiercely regards as "his"), it could be argued that we might have purchased floppy disks any way. However, since I routinely buy floppy disks in large quantity, the cost of those disks is a business expense. We have a small supply of blank disks for our personal use that is separate from my business supplies.

Once again, my thumb-rule applies: If you buy it specifically for business use and you use it during the course of doing business, then it is a business expense.

Depending on the type of at-home business you have, you may be well beyond the "paperclips and pens" type of expenses. If you have an in-home office (used specifically for your business and nothing else), and you have expensive business equipment (let's say a high-tech copier that can handle blueprints), then your need to track business expenses and the manner in which you are going to report these on your self-employment income tax forms is a little bit more complicated and may even require having an accountant. This article does not address that situation.

At the time of this article, the IRS allows business expense deductions up to \$2,500.00 without requiring you to itemize your expenses into pre-set categories. That is, you can simply report a lump sum of \$1,879.32 without having to explain it. The IRS "trusts" you. If your business expenses exceed \$2,500.00, then you must file a "long form" and categorize your expenses as specified by the IRS. Although it is relatively easy, it does mean that you have to track your business expenses a little more closely (And is subject matter for another article). So, for the moment, let's just concentrate on getting you accustomed to following a few simple steps to track your business expenses.

#1---Always pay separately for your business expense items, regardless of whether by cash, check, debit card, or credit card, and *save the receipt*. If you are able (and are disciplined enough), then get a credit card with a reasonable credit limit and use it exclusively for business purposes. When the statement comes in each month, staple your saved receipts to the statement and pay off the balance (unless you are temporarily "floating" the purchase of an expensive item). The goal here is to learn the habit of paying separately for anything you purchase for business purposes and to save the receipt.



#2---Designate a file folder, storage box, or some other specific place in which to accumulate your receipts. I find it easy to have four “pocket-type” file folders (the kind with the fold-over flap and elastic bands at the bottom). These folders are labeled for the four quarters of the calendar year (Jan-Mar, Apr-Jun, Jul-Sep, Oct-Dec). During the quarter, I just toss my receipts in the proper folder. If the receipt is not self-explanatory (or does not print out a description of the item), then I make a short note to myself (“presentation folder for Flamingo Publishing proposal”) on the receipt.

#3---At the end of the quarter, organize your receipts (I put mine in date order), and record the dollar amounts. Calculate your total quarterly business expenses. (Please note here that if by the end of the second quarter [June 30th] you have accumulated more than \$1,125.00, then it is likely that you will exceed the \$2,500.00 limit for non-itemized deduction purposes. If that is the case, you will need to track your expenses by the categories that are pre-set by the IRS so that you can show total amounts in each category.)

#4---At the end of the year, and after you have calculated your expenses for the 4th quarter, add the four quarters to determine your net business expenses. Voila! You have just tracked your business expense for the entire year!

Eventually, you will need this dollar amount in order to calculate your net taxable income from self-employment. If you are not planning on filing your taxes early in January, then bundle up the receipts and save the printout (or penciled in figure) of your total business expenses. You should establish another file folder/box/storage area for this information and whatever other self-employment forms you are accumulating for Filing Day.

Tracking your business expenses doesn't have to be hard or complicated. Make the system suit your style---and just remember: pay for the item(s) separately and keep the receipt!

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