

Now's the time to review your business expenses

As we approach the end of the year, it's a good idea to review your business's expenses for deductibility. At the same time, consider whether your business would benefit from accelerating certain expenses into this year.

Be sure to evaluate the impact of the Tax Cuts and Jobs Act (TCJA), which reduces or eliminates many deductions. In some cases, it may be necessary or desirable to change your expense and reimbursement policies.



What's deductible, anyway? There's no master list of deductible business expenses in the Internal Revenue Code (IRC). Although some deductions are expressly authorized or excluded, most are governed by the general rule of IRC Sec. 162, which permits businesses to deduct their "ordinary and necessary" expenses.

An ordinary expense is one that is common and accepted in your industry. A necessary expense is one that is helpful and appropriate for your business. (It need not be indispensable.) Even if an expense is ordinary and necessary, it may not be deductible if the IRS considers it lavish or extravagant.

What did the TCJA change? The TCJA contains many provisions that affect the deductibility of business expenses. Significant changes include these deductions:

Meals and entertainment. The act eliminates most deductions for entertainment expenses, but retains the 50% deduction for business meals. What about business meals provided in connection with nondeductible entertainment? In a recent notice, the IRS clarified that such meals continue to be 50% deductible, provided they're purchased separately from the entertainment or their cost is separately stated on invoices or receipts.

Transportation. The act eliminates most deductions for qualified transportation fringe benefits, such as parking, vanpooling and transit passes. This change may lead some employers to discontinue these benefits, although others will continue to provide them because 1) they're a valuable employee benefit (they're still tax-free to employees) or 2) they're required by local law.

Employee expenses. The act suspends employee deductions for unreimbursed job expenses — previously treated as miscellaneous itemized deductions — through 2025. Some businesses may want to implement a reimbursement plan for these expenses. So long as the plan meets IRS requirements, reimbursements are deductible by the business and tax-free to employees.

Need help? The deductibility of certain expenses, such as employee wages or office supplies, is obvious. In other cases, it may be necessary to consult IRS rulings or court cases for guidance. For assistance, please contact us.