

TRANSCRIPT

On Your Terms



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It's a Write Off, You Just Write It Off! (Or Is It)

Sam Vander Wielen:

Hey, welcome back to On Your Terms. I'm your host, Sam Vander Wielen. I'm an attorney turned entrepreneur who helps you legally protect your online business.

And when it comes to legal protection, we've got to talk business expenses because I want to make sure you're doing things right. So, last episode we talked about getting prepped for tax season because you've got to do that before December 31st. You've got to make any of those financial moves before the end of the year. And a key part of that, and one that causes a lot of confusion for many entrepreneurs, is expense tracking and what counts as a business expense, what can be written off. If any of you watch Schitt's Creek, you're like, "It's a write off. It's just a write off. You just write it off." You know what I mean?

So, if you started your business this year, when do you need to start tracking expenses? What counts? What doesn't? What kind of things could you be capturing that might save you money? Don't worry, in this episode, I'll make sure you're not leaving anything on the table when it comes to tax deductions or doing anything that could land you in legal hot water.

I hope you like this episode, and if you really do like this episode, text a link to it to a friend real quick. Otherwise, thanks so much for listening, and I'll see you on the other side.

So, I feel like business expenses are one of those things that there's just so much confusion around them, and also like a lot of what I do in the legal space, there are a lot of myths around business expenses because of a couple of bad apples, you know, not many, but a couple of bad apples who kind of put on a bad example in terms of what they might think are business expenses or what they're at least letting people believe.

So, people, in my experience, often they're kind of confused about what really qualifies as a business expense, when you can start charging things as a business expense if you're in the startup phase of your business, whether or not all those startup expenses that you have incurred before you ever registered are able to be captured now even five, six, ten months down the line. People are also really confused about what isn't a business expense but a lot of people think is, and how you just avoid messing this whole thing up so that you don't accidentally end up in any trouble or accidentally using personal money for business stuff or what happens if you do, do that by accident.

I still do that by accident from time to time. It's easy to do. I use American Express for both my personal and business card and just sometimes I am not thinking and I use Apple Pay or something and I'm like, "Whoops. That was not right."

There are ways to rectify this stuff. It's all just about knowing what's what and being really clear about it. So, hopefully, I am going to clear all of this up for you. So, let's just get into business expense tips, business expenses 101 for your online business.

So, let's break it down at the most basic level. Expenses are just costs that you incur in the ordinary course of your business. That sounds like a lot of technical language. So, really, what our goal here is, is to see if an expense that you have incurred is actually deductible. Because you might have an expense in your life or in your business that doesn't turn out to either be at all deductible or deductible in its entirety.

And when we say deductible, we're talking about looking at the amount your business makes in revenue total, whether that's \$2,000, \$20,000, \$200,000, the total amount. We then want to reduce that number, that number that you bring in as your revenue, we want to reduce that taxable income so that you pay less in taxes or, essentially, that you only pay taxes on what you actually made because what you actually made is just your profits. So, our profits are looking at our total revenue minus our expenses. Not all of those expenses are always going to be business deductions or entirely accepted as business deductions, at least in the eyes of the IRS. So,

something that you might have thought was an expense, wasn't, and vice versa. That's why we're just going to break it down today.

So, really, like I said, we're just looking to see if an expense is deductible, that's how I want you to think of business expenses, Is this a deductible business expense? In order for it to be deductible in the eyes of the IRS, the expense itself has to be what they call ordinary and necessary. So, necessary - it's kind of funny - the way that the IRS defines necessary is one that is helpful and appropriate for your trade or business. So, helpful and appropriate doesn't necessarily mean necessary, that to me and the IRS even says that, but that you find it helpful and appropriate to run your business.

So, I have lots and lots of business expenses if you ever want to talk about it. I pay for Facebook Ads, that's advertising and marketing expenses. I have full time employees. I have contractors. I pay for different software. I send people gifts, like client gifts or partner gifts and stuff like this. I have tools, like computers and tech equipment and all that kind of stuff. So, there are all kinds of different business expenses.

One of the biggest categories, though, I want to talk about because this is a question I get so often and people are always so surprised to learn this, is that your startup costs can count as business expenses even before you've ever registered your business. So, if you're listening to this and you're in the earlier phases, the kind of startup idea phase and you haven't registered your business yet, or maybe you've registered your business but you haven't even gotten a business bank account or business credit or debit card yet, I want you to pay attention because I want to make sure that you're capturing everything along the way.

It's really easy to think like, "Oh, yeah. I'll remember that" or "I'll just go back in my credit card later and I'll remember what all these were." But you'd be surprised, the stuff adds up really fast and so I really want you to start a separate document or a Google sheet or some kind of spreadsheet so that you keep track of this right away. So, I would have a category for the type of expense and then the amount, and then if you

could link to the receipt, whether it's an invoice or if you're scanning them in and saving them, then maybe save them all in a Google Drive and then link to them or something like that, just so that you know what they were.

So, in terms of startup costs, like what are some costs that you can incur before you even start your business or before you at least legally legitimize it? So, you could start by buying a domain name, that's an expense that you're going to incur. Maybe you even buy or start a website, or like when I started my business, I bought the domain name and then I bought a website template from somebody and then started filling that out and that was a few hundred dollars. You might also, if you register for an LLC or a sole proprietor or any other kind of business entity, you're going to have a business expense, like that's going to cost money, a few hundred dollars or something to register, and you want to be able to capture that expense.

So, a lot of times people are really shocked to learn that they can count any of these kinds of business expenses before they've actually registered their business. And I'm like, "Yeah. Of course, you're going to have expenses before you register, because you've got to pay for the registration." So, there's always going to be a few expenses. Also getting into legal stuff, you might decide to invest in either hiring a lawyer services to help you with this or invest in stuff, like my stuff, buying any of my legal templates, getting in the Ultimate Bundle, that is all stuff that can be counted as a business expense. Yes, the Ultimate Bundle and my legal templates are legitimate business expenses for you. And, yes, you can get them before you've registered your business and then count it. So, that's good news, right?

You might also hire an accountant or get somebody to take your photos or hire a copywriter, a designer, graphics designer. I remember I bought a logo back in the day. And you're going to get software set up, so you might be paying a few software fees. That's not the full list of things that you could capture, but those are just some things I thought of to, hopefully, jog your memory if you've already done these. Also, if you incurred these

expenses and forgot to claim them, talk to your accountant about whether you still can, it might not be too late.

So, how do you capture these expenses if you haven't started your business yet and then make sure that they can count later? So, you pay with your personal credit card, or I suppose you could pay in cash, but I assume you're going to be paying by credit card if you're buying things online. So, you would pay however you pay, with your personal PayPal account or your personal credit card or Zelle or Venmo or whatever it is that you're using. And then, you just keep track of it, and you need to get receipts for every single thing that you buy.

What I did the first year before I had registered and I had a lot of expenses to start up all the ones I just listed for you, I kept track of them as I went along in an Excel sheet, because I just knew I would forget. And then, what I did is when I went to my accountant, I gave her the link to my Excel sheet. And when we sat down and did my taxes, I just gave her the total of what I had tallied that up to be. And then, I had access digitally to the receipts, they don't all have to be paper receipts or they don't have to be paper receipts at all. So, I just gave her access to that and if she needed to see it or verify it or for auditing purposes in the future, if they ever needed to prove it, she had access to it and was able to save it to my file. So, I just brought her that amount, showed her where all of the receipts were, and we just put that in on my tax return that year and got to reduce my taxable income.

Which was especially cool that first year, and this might be the case for you, too, because I still had income from my lawyer job. So, I had left in that tax year, and so I still had to report my salary from the law firm. And I also had started to make a little bit of money in the business. And so, it was cool because anything I could do to bring down that taxable income from either my law firm job or the business was really helpful, so that's what you want to do.

So, it's totally okay to pay on a personal card. The point is that you just want to change that moving forward. Like once you've got your business registered, you go and you get a business bank account. With that business

bank account should, at the very least, come with a free business debit card that you can use as a credit card online. Of course, you can only charge up to the amount you have in the account, but you can put it in as a credit card. And so, you want to start using that right away.

I know that when I got - I will admit I have not opened a business bank account in a long time, but when I did, it took six months of, essentially, establishing credit as a business in order for me to apply to get a credit card. So, for the first six months, I just used my business debit card from my business bank account and I charged everything from there then on out.

Just remember, if you've signed up for any of the things that I just mentioned, like if you buy my Ultimate Bundle and you get the monthly payment plan, you pay for it over the installments, you can go into the portal and you can update your payment methods so that you switch it over to your business card. So, we have a lot of people do that who buy the Ultimate Bundle in the first month, they put it on their personal card, then they get everything set up legally. And for the second month and moving forward, they change the credit card so that they can put it on their business card. You also want to go and do that for any other software that you've set up or recurring subscription fees or anything like that. That's why this like list is really important because you could even put in the notes, like made this recurring subscription, or we'll get charged on the fifth of every month, or something like that, and you know when you have to go in and change it.

So, I think one of the next best things that you can do when it comes to business expenses is to set up an account with something like QuickBooks or any of the other FreshBooks, Xero, any of those other kinds of online programs. Bonsai, I know people really like. I'm not really plugging anyone in particular. I personally use QuickBooks, so I will share a link down below for getting 50 percent off if you want to get started. It's an affiliate link from me. But I don't feel super duper passionately about this. I just feel super duper passionate about you getting something and getting it set up.

So, it would be really great for you to get some sort of bookkeeping software set up so that as your business expenses are coming in now, and we have a more legitimate system set up where we have a business bank account and you maybe even have a business PayPal or something like that, we can connect this to that and the expenses will just automatically start appearing in there.

What I really like about QuickBooks or the way that these kinds of softwares work, and I've never personally used any of the others, but the way that I like that this works is that it's - what do you call it? - a smart tool. So, over time it gets smarter so it starts learning. Like if I go in there and there's a recurring, let's say, charge from Kajabi or something like that that I pay every single month, I can go in there and tag that as a website software expense. And then, every month from now on, when Kajabi's charge come through, it automatically labels it as that. Or if you pay a coach every single month, it'll automatically label that as business development or consulting or something. So, that's kind of cool.

And then, you also can connect it to your bank account so that it can see money coming in as well. So, it gives you a nice little financial picture of your business. So, I think that's something that's nice to get set up earlier than later. It was a part of the business that I just never really wanted to deal with myself, to be honest, so I found it really helpful to hire a bookkeeper early on, so you could always do that. I work with Megan Naasz. I'm happy to share her information down below. She's fantastic. We've also had Little Fish Accounting on the podcast before, and they're fantastic and can help with these kinds of things. So, there are services available to you if you don't want to do it yourself and can swing that at this time.

Okay. So, what are some business expenses then that people don't really consider as business expenses, even though they should? So, one of the things is a home office. Like on the one hand, I actually think a lot of people misuse or overuse the home office deduction. And then, on the other hand, I think people miss it because they think that it has to be a literal room or it has to be a certain size or something like this. Really, it's

that it has to be a place that's only dedicated to you running your business out of it.

If, for example, you like working at your dining room table – which I understand. I do too. But I can't claim my dining room as a business expense because I sometimes work in it as my office, but also because the dining room itself is not solely dedicated to my business and to running my business. It's also used for eating, hosting, entertaining. So, even if you have though a corner of a room, sometimes I know people will set up a little desk in a corner of a bedroom or something like that, you can even do creative things like that where you can figure out how much space that is, how many square feet that is, that's really the calculation that you need to make – that's going to be really important in a sec – and that you can claim as your home office, so that's really important to know.

One of the reasons why it's so important to know where in your home you can properly qualify as a home office – and I'm going to share with you, by the way, in the show notes, the link to the very thorough IRS publication about business expenses. And it really breaks it down, it gives you all the technical specs. And I didn't want to get into it in this episode. It would turn into, first of all, the longest but also the most boring episode of all time. But you can go there and you can read all the tech specs about what needs to count for a home office and all of that. But the reason that that's so important to know is because then you can take your home utilities, you can take the portion of your home utilities that are dedicated to your business as well.

So, let's say just for sake of math, that your home office is 10 percent of your home. So, we would know this because you would take the square footage of the space you're using for your business, solely dedicated to your business that properly qualifies as a home office and we would look at that relative to the full size of your home or apartment, so is it 5 percent, is it 10 percent, whatever it is. Then, what we do is we look at all of your home utilities, like your heat and AC and your electric and sewer and phone and internet and water and whatever else. We look at all of that and we take the percentage of all of that to claim as a business expense.

When it comes to your cell phone, so I was thinking phone more of house phone even though many of us do not have that anymore, I do not have one. But if you have a cell phone, that's a different story. So, this is another business expense that people don't consider because people will think I use that for myself. It's not necessarily all a business expense. But if you're using it half the time, 25 percent of the time, whatever percentage of the time that you can confidently and truthfully say that you use your cell phone for, then you can claim that amount of your expense for your cell phone. I want you to remember, too, with your cell phone, that you're probably using it more than you think.

I mean, if you're like me, my cell phone is my primary content creation driver. I'm filming all videos, all reels, all that. I use it for constant communication with my team using Slack and email. I'm on Instagram trying to do content and all kinds of social media stuff, so there are all kinds of things. I edit my reels in InShot on my phone. There's so many apps even that I use for my business that I can only access through my phone. So, make sure you give a good honest look as to how much you're using your cell phone.

Like all of these, you want to be honest about it because you will not be happy later if you don't. So, we don't want to like bloat these things, but we also want to give ourselves credit where credit is due.

The other thing that counts as a business expense that sometimes people don't consider is your car. So, again, I'll link to that very boring but very helpful IRS publication below about your car and how you can calculate your car. Really for all of these, I'm mentioning them so that you bring them up to your accountant, because really this should be a conversation between you and your own accountant. I don't expect you to be calculating all this and you don't need to. So, you can communicate with your accountant or a CPA to say, "Hey, I've been using my car for business. I understand that that's something that could be a qualified business expense." And they will say, "Sure. How often are you using your car for business? How often are you using your car for personal?" And you, again, can be honest and truthful about this and you can take percentages of your

car and some expenses for that as well, including gas mileage and travel and all that kind of stuff.

Another one is education, because a lot of times people don't know that if you're investing in upleveling a skill, taking a course, or working with a business coach, or even investing in a skill to your actual profession like if you're learning more about leadership skills or you're studying more about finances so that you can be a better money coach, that stuff should all count towards business expenses. As well as consulting and professional development, whether that's something that you're doing as a mastermind or working directly with a coach. I work with a mindset coach. I've worked with business coaches in the past. That kind of stuff all counts as business expenses.

What are some of the things, on the other hand, that do not count as businesses expenses that maybe people think they do? So, one of the biggest ones that comes to mind for me is that sometimes, I think, in the online business industry, people think that if they have an online business and they go and do anything and they're working or creating content or just posting about it on social media, then whatever they're doing and however they got their accounts as a business expense.

So, this one person I can think of in particular was always posting online about how she wanted to write content for the week, so she flew to Paris and stayed in a super fancy hotel and flew first class, and did all this so that she could just be in a fun place to write the content that she had to write that week, and was - I don't know - bragging, I guess, on social media about how this counted as a business expense. That is not a business expense. So, remember, going back to the beginning of the episode, a business expense is ordinary and necessary. You don't have to go to Paris in order for you to be writing content. You can write content from your home office or from your home or from a coffee shop. It's not that great. It's not that necessary or ordinary, I mean.

So, we would just want to keep that in mind that just because we have online businesses or we can work from anywhere, it doesn't mean that our travel to that place necessarily counts as a business expense. Now, if you

flew to Paris because you are actually going to attend a business conference, then that's something that's helpful and appropriate for your business. That makes sense. So, that's something that would be a completely different story.

The other reason I wanted to mention this is because something that, I think, a lot of people don't know in our industry is that if you have an LLC, for example, something that you have to be really careful of is really acting in what we call your fiduciary capacity, your fiduciary duty as the owner, the managing member, probably, of your LLC, you're required to do what's best on behalf of your company. And part of what that includes is managing and spending the money on the business and the furtherance of the business and the business's best interests and not misusing the funds for personal use.

So, it always makes me a little nervous when I see people kind of toting that and being like, "Oh, I flew to Paris first class and I stayed in this hotel so I could write content. I can't believe this is a business expense." It's not and it actually could be putting your business at legal risk because you are not treating your business's money like business money, you're treating it like play money. And if you've heard me ever talk about LLCs in the past, you've heard me talk about how you have to actually act like an LLC once you've got one in order to maintain the protection that you think you're getting from it, this is one of those examples. You have to treat the business's money for business expenses, not for personal.

You could, in that scenario, in the Paris scenario - just to play this out - let's say, you wanted to do that, you wanted to fly to Paris - I want to go with you. I don't blame you - but what you would do is actually take an owner's draw for the amount of the trip. Let's say it was \$4,000 - I don't know - and you would take that amount out and you would then go to Paris on your personal money, that's essentially how you would do it, you pay yourself. Of course, that's not that \$4,000 payment that you would make yourself as a personal draw, it would not be a business expense itself, but that's how we would do it and not legally expose your business. Either way, if you paid for something like that with your business money, it's still not going to be a business expense. So, when it comes tax time, your

accountant is going to be like, we can't count that if they're responsible. But something to think about. It's not like you can't go, you just have to do it a little bit differently.

Okay. A couple of other things that are not business expenses that sometimes people think are, are some of the more personal stuff, like getting your hair and makeup done for a photo shoot or clothing or clothing for a photo shoot because you can wear that stuff outside. Even hiring a personal trainer or wellness, I've heard people be like, "Oh, I have to pay for my personal trainer because that's how I stay in good shape to have the energy to show up in my business." That's, again, not helpful and appropriate for your business itself. It's helpful and appropriate for you as a person. And, again, that would just be something I'd encourage you to pay yourself a little bit extra so that you can cover that cost personally. Just don't pay for it with your business's money because it's not going to count as a business expense anyway.

So, I hope that this was helpful. I'm going to drop a bunch of helpful tools and resources down below. I have the IRS document for you that has all these resources in it. I'm going to give you my QuickBooks links with 50 percent off, that's my affiliate link. I also have a blog post on this topic on Can I Charge Business Expenses On My Personal Credit Card? So, I'll drop the link to that post below.

And I actually have two former podcast episodes for you that you can listen to. I have Episode 77 on small business taxes with Little Fish Accounting with Keila of Little Fish Accounting - it's super helpful - so you can go back and listen to that. We talked about business expenses. We talked about paying quarterly taxes though as well, paying yourself, all kinds of stuff. So, you can go back and listen to that. And then, way back in the day, I did Episode 17, six legal must haves for online businesses, so I talk about some of the things you've got to get in place and what to do in what order. So, if you're relatively new to my community and you're like, "Wait, I have to register and then get a business bank account? What are you talking about?" Go back and listen to Episode 17. I'll hope that that is helpful for you.

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