Small Business Tax Deduction Strategies:

13 tips on Section 179 depreciation, home office write-offs for the self-employed, tax deductions for business vehicles, rental property depreciation and real estate capital gains tax

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Small Business

Tax Deduction Strategies

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Small Business Tax Deduction Strategies

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Savvy small business owners take a proactive approach to seizing all the business tax deductions they're legally entitled to under current tax law. Don't add to your tax bill by overlooking crucial write-offs.

Small Business Tax Deduction Strategies lays out 13 shrewd tax-planning moves you can make to reap the biggest tax savings. Learn how recent tax law changes affect the Section 179 deduction and bonus depreciation, and how to maximize home office write-offs, tax deductions for business vehicles and business travel, and tax shelters in investment property.

Small Business Tax Deduction Strategies #1

Section 179 depreciation: Tap into major tax savings

Over the past few years, Congress has enacted extremely favorable rules that expand first-year depreciation write-offs for small businesses.

For most small businesses, the best tax law change in recent years is the huge increase in the Section 179 first-year depreciation allowance. A business can immediately deduct 100% of the cost of most new and used business personal property.

The maximum Section 179 was gradually increased from $25,000 to $250,000 for 2009. Then the Small Business Jobs Act of 2010 doubled this amount to $500,000 for 2010. Under the 2010 Tax Relief Act, the maximum deduction was set at $125,000 (subject to inflation indexing). But after 2012, the allowance was scheduled to revert to $25,000. But then, the American Taxpayer Relief Act of 2012 (ATRA) came to the rescue. It preserved the maximum $500,000 deduction for two years, retroactive to Jan. 1, 2012, and through Dec. 31, 2013.

Bottom line: As long as the Section 179 allowance remains at least six figures, those complicated multiyear depreciation schedules are virtually a thing of the past. Instead, small business owners can simply write off the entire cost of most business equipment in Year One.

Advisory 1: The Section 179 deduction can't exceed the aggregate business income before the deduction. This limitation prevents one from using the Section 179 break to generate an overall tax loss for the year. When the Section 179 allowance was relatively modest, this wasn't much of an issue. But the robust six-figure allowance makes it an issue now. *The good news:* A self-employed individual (sole proprietor, LLC member or partner) can count wages, including a spouse's if the couple files jointly, as business income for this purpose.

Advisory 2: The Section 179 allowance is phased out dollar-for-dollar to the extent otherwise qualifying assets costing more than a "specified threshold" are placed in service during the year. This threshold was gradually increased from $200,000 in conjunction with the increases for the maximum deduction. It was $2 million in 2010 and 2011. Under the 2010 Tax Relief Act, the threshold was set at $500,000 (subject to inflation indexing for 2012). But then the threshold was scheduled to revert to $200,000 after 2012. But one again, ATRA came to the rescue. In conjunction with the maximum $500,000 deduction, ATRA preserves the $2 million threshold for two years, retroactive to Jan. 1, 2012, and through Dec. 31, 2013.

Say that a business adds $2.1 million of equipment during its calendar 2013 tax year. The Section 179 allowance is cut back to $400,000 ($500,000 minus the $100,000 excess over the threshold). While this limitation will have a negligible effect on most small businesses, you still should be aware of it.

Immediate deduction for software costs

The 2003 Tax Act also made most computer software eligible for the Section 179 allowance, which means a business can deduct the entire cost in Year One. Previously, most software had to be depreciated over 36 months.

After several previous extensions, the Section 179 deduction for computer software has now been extended again through 2013 by ATRA, retroactive to Jan. 1, 2012.

Small Business Tax Deduction Strategies #2

Claim bonus depreciation for qualified assets

In addition to the enhanced Section 179 deduction, a business may claim "bonus depreciation" for qualified assets placed in service during the year. This tax break applies to:

- Property with a cost recovery period of 20 years or less.
- Depreciable software that is not amortized over 15 years.
- Qualified leasehold improvements.
- Water utility property.

Bonus depreciation has been implemented several times in the past. The Small Business Jobs Act of 2010 retained 50% bonus depreciation for qualified assets placed in service from Jan. 1, 2010, through Dec. 31, 2010 (through Dec. 31, 2011, for property with a recovery period of 10 years and longer and certain aircraft and transportation property).

Then the 2010 Tax Relief Act allowed a 100% bonus depreciation deduction for qualified assets placed in service from Sept. 9, 2010, through Dec. 31, 2011 (through Dec. 31, 2012, for property with a recovery period of 10 years and longer and certain aircraft and transportation property). It also allowed 50% bonus depreciation for qualified assets placed in service from Jan. 1, 2012, through Dec. 31, 2012. Now, ATRA extends 50% bonus depreciation through Dec. 31, 2013 (through Dec. 31, 2014, for property with a recovery period of 10 years and longer and certain aircraft and transportation property).

Small Business Tax Deduction Strategies #3

Section 179 depreciation: 4 ways to trigger quicker write-offs

You can maximize the Section 179 expensing deduction with some shrewd tax planning. Here are four ways to get more bang for your buck:

1. Put the company in the black. The tax law limits your annual deduction to the amount of your taxable income. If your company typically zeroes out its taxable income through compensation payments, give yourself some leeway to claim the allowance.

For example, you might postpone any bonuses to company officers until next year to show a positive figure for 2013. (Plus, the bonuses won't be taxable until you file your 2014 return.)

2. Boost your business income limit. Don't forget that your business income includes all income from businesses in which you actively participate. If you pull down a salary, either part time or full time, in addition to running a business, the extra income increases the amount of the allowance.

Similarly, if you're married and file a joint return, you can add on your spouse's income. Income from passive activities such as real estate investments doesn't count.

3. "Log in when you log on." If you're claiming the allowance for assets used partially for non-business reasons, maximize the business percentage. Suppose you buy a PC to work at home, but your kids also use it to instant-message their friends. If you use the computer 90% for business, you can deduct that percentage of the cost under Section 179. If the business use drops below 50%, you can't claim the allowance.

4. "Gentlemen (and ladies), start your engines." You can claim the Section 179 allowance only for the year that equipment is "placed in service." You get no deduction for 2013 if you buy a machine in 2013 but don't take it out of the box until 2014.

Small Business Tax Deduction Strategies # 4

Section 179: Bigger deductions for 'heavy' SUVs

If you choose to deduct actual expenses rather than use the standard mileage allowance, you should be aware of a potentially huge tax advantage for owning "heavy" SUVs, vans and pickups. As long as these vehicles have a manufacturer's gross vehicle weight rating (GVWR) above 6,000 pounds, they're considered "trucks" for tax purposes.

Examples of popular SUVs with GVWRs above 6,000 pounds include the Chevy Tahoe, GMC Arcadia, Ford Explorer, Toyota Sequoia and Mercedes.

When these "heavy" vehicles are used more than 50% for business, they can be depreciated much more rapidly than other passenger vehicles.

In fact, you can probably deduct a large percentage of the cost of a heavy SUV used in your business in Year One, thanks to the Section 179 first-year depreciation allowance. This valuable break allows you to deduct immediately up to $25,000 as long as the SUV is up and running by year-end. The SUV can be new or pre-owned.

The American Jobs Creation Act of 2004 imposed a reduced $25,000 limit on Section 179 deductions for heavy SUVs placed in service after Oct. 22, 2004. Even so, the idea of buying a heavy SUV still saves taxes compared to buying a comparably priced car, light truck or van.
This is particularly beneficial for vehicles eligible for an enhanced Section 179 deduction and "bonus depreciation."

Example: Ben buys a qualified heavy vehicle in 2013 for $50,000 and uses it 80% for business. That means its tax basis is $40,000 (80% of $50,000). Ben is eligible to claim both the Section 179 deduction and 50% bonus depreciation for 2013. Here's the breakdown:

- **Section 179** deduction of $25,000
- **Bonus depreciation** deduction of $7,500 (50% of $15,000 balance)
- **Regular depreciation** deduction of $1,500 (20% of $7,500 balance).

The total write-off comes to $34,000. Ben can write off the remaining $16,000 cost over the following few years under the regular depreciation rules.

Note: The bonus depreciation tax break was increased to 100% for qualified property placed in service from Sept. 9, 2010, through Dec. 31, 2011. It was generally reduced to 50% for qualified property placed in service in 2012. Now ATRA extends the 50% bonus depreciation break through 2013.

Small Business Tax Deduction Strategies # 5

Business vehicles: Fuel tax deductions for business driving

You can deduct auto expenses using a standard mileage rate, which the IRS sets each year. For 2013, the standard mileage rate for business drivers is 56.5 cents per mile, up from 55.5 cents per mile in 2012.

With the standard mileage rate, you don't have to account for the actual expenses incurred. *But you can probably do better.*

Strategy: Crunch the numbers. If you switch to the actual expense method late in the year, you still may come out way ahead, despite the latest increase in the standard mileage rate.

But there's a potential downside to a switch. Once you begin using the actual expense method, you can't change back to the standard mileage deduction later. And, if you started using the standard mileage rate for a leased car, you must continue to use it for the entire lease period.

Here's the whole story: If you use your vehicle for business driving, you may deduct actual out-of-pocket expenditures—gas, oil, repairs, insurance, registration fees, tires, etc.—attributable to business use, plus a depreciation allowance based on the percentage of business use. *Note:* Depreciation deductions generally are limited by the "luxury car" tax rules.

Similarly, if you lease a vehicle, you can write off the portion of the lease payments attributable to business use. The tax law requires you to report an "inclusion amount" reflecting the luxury car limits.

Tax shortcut: In lieu of deducting actual expenses, you can claim the standard mileage deduction. You don't have to keep track of all your operating expenses, but you still must document the date, place, business relationship and business purpose of each trip.

With the high cost of gas nowadays, the actual expense method will generally produce a bigger deduction, especially if you own a gas-guzzler.

It's generally a no-brainer if you're going to buy a new business vehicle between now and the end of the year. *Reason:* You can use the actual expense method and usually claim the full depreciation deduction for 2013 even if you only use the vehicle for business a short time this year. Alternatively, you may be able to write off a good chunk of the car's cost under Section 179.

Small Business Tax Deduction Strategies # 6

Deductions for business vehicles: Tax-free cars for the family

The cost of operating and maintaining a car used for business purposes, including depreciation, is deductible. If you own a business, the firm can provide cars for the entire family.

As long as they're employees who use the cars exclusively for business purposes, the company can deduct the entire cost of operating them. Deductible car expenses include the cost of gasoline, oil, repairs, insurance, depreciation, interest on loans used to purchase the car, taxes, licenses, garage rents, parking fees and tolls.

If you or a family member uses the car for both personal and business use, the value of the personal use is taxed to the user (unless the personal use is negligible).

You can deduct auto expenses using the standard mileage rate, which the IRS sets each year. The rate for 2013 is 56.5 cents per mile (up from 55.5 cents per mile in 2012). Use of the standard mileage allowance is limited to individuals using passenger cars (including pickups or vans) who:

- **Own the car.**
- **Don't use** the car for hire.
- **Don't use more than** four cars for business simultaneously.
- **Haven't claimed** accelerated depreciation on the car in a prior year.
- **Haven't claimed** Section 179 first-year depreciation on the car.

If you use more than one car for business on an alternating basis, the standard mileage rate is available if both cars otherwise qualify.

For example, if Heather uses her spouse's car while hers is in the shop, she can add the mileage and use the standard rate.

Remember: To use the standard mileage rate, taxpayers must maintain adequate records to show how many business miles they drove. Estimates won't satisfy the IRS. Remember to keep a log and make entries every day to show where you drove on business and how many miles you put on the car.

Small Business Tax Deduction Strategies # 7

Self-employed tax deductions: Write off home computer, furniture

Many self-employed taxpayers can deduct equipment purchases, rather than capitalizing them, under Section 179 of the tax code. The Section 179 deduction applies to most business assets, including home office computers and furniture.

For example, if you spend $25,000 on such items and they're used strictly for business, you can take an immediate $25,000 deduction. If those items were used 60% for business, you can take a $15,000 deduction.

Note: Other special rules may apply to deductions for home computers.

(As noted earlier, the maximum Section 179 deduction has been raised several times in recent years. Recently, under the Small Business Jobs Act of 2010, the maximum deduction was increased from $250,000 to $500,000 for tax years beginning in 2010 and 2011. After 2011, the maximum was scheduled to be cut in half (with an inflation adjustment) for 2012 and reduced again to $25,000 for 2013. But the American Taxpayer Relief Act of 2012 has preserved a maximum $500,000 deduction for 2012 and 2013.)

Small Business Tax Deduction Strategies # 8

Should you own or rent your business premises?

Once your company's profits begin growing and your business stabilizes, you might want to consider owning your quarters rather than renting.

To evaluate the comparative costs, consider a reasonable length of time, such as 10 years. Include in your calculations the purchase price of a desirable building at the location you want. You can depreciate the cost of the building ("improvements") but not the cost of the land. Add together the cost of financing 100% of your purchase price at the prevailing interest rate, maintenance costs, straight-line depreciation and property taxes. The total of these items is your "rent equivalent."

Compare this cost figure with your projected rental costs for 10 years and factor in expected rent increases (4% per year is realistic). Don't overlook your company's future expansion needs. Whether you buy or rent, you must be able to expand or contract space as needed. If you plan to own your space, you may want to consider buying a larger building and renting out part of your space on a short-term basis.

How a 'private arrangement' can slash your taxes

Suppose you decide to own rather than rent your business property. In that case, you have another decision to make: Who should own the real estate: you or the corporation?

Usually, you would be better off owning the real estate and leasing it to the company if it's a C corporation. The corporation probably can get a full deduction for the lease payments it makes to you. This will reduce the corporate income tax it has to pay.

At the same time, if you own the building, you can depreciate it. The depreciation deductions can offset all or part of the rental income you receive. If you wind up with a net loss from the property, it might be deductible; even if that's not possible, you might be able to deduct your payments for real estate taxes and mortgage interest.

Plus, if the building appreciates, it's easier to cash in on gains (refinancing, property sale) without adverse tax results if you hold it personally rather than through a corporation.

Small Business Tax Deduction Strategies # 9

Shelter up to $25,000 per year in investment property

Real estate prices are down in many areas of the country, so some excellent buying opportunities are out there. In addition, investors still have some real estate tax shelters:

Directly owned real estate

From a house or condo that you rent out to a shopping center that you own with a few associates, you can find tax shelter in investment property. However, you must clear a row of obstacles before you can take deductions.

You must own at least 10% of the property, and you generally can't own the property through a limited partnership interest. Also, you have to "actively manage" the property. That doesn't mean you have to replace faulty fuses or switches. You can hire a property manager and a rental agent, but you must participate in management decisions, such as tenant selection and capital improvements, and must keep records to show your participation.

More obstacles relate to your income. Say your adjusted gross income is lower than $100,000 per year; you can deduct up to $25,000 worth of losses per year. However, if your AGI is more than $100,000, the allowable deduction declines to zero at $150,000.

For example, with an AGI of $125,000, Melissa can deduct $12,500 worth of losses from directly owned real estate. (Even if her AGI is more than $150,000, she still may deduct some losses if they're used to offset "passive income," perhaps those from another real estate venture.)

In depressed real estate markets, you may well find sound real estate at bargain prices. The tax break will help you hold on until the market turns up.

Historic rehabs

You can earn a 10% tax credit for fixing up old buildings, 20% if the building is "historic." The income limits here are less restrictive. As long as your AGI is below $200,000, you're entitled to credits as great as a $25,000 "deduction equivalent."

Say you're in the 35% bracket: 35% of $25,000 is $8,750. That's the upper limit of credits you can take each year unless you have passive income. The allowable tax credit declines until your AGI hits $250,000.

What if you qualify for both the rehab credit and the tax deduction for directly owned real estate? Taken together, the deduction and the "deduction equivalent" tax credit can't exceed the amount you're entitled to, by virtue of your AGI.

Again, look at an old building as a profit-making opportunity, with the tax credit serving to cut your upfront costs.

Small Business Tax Deduction Strategies # 10

Rental property: Turn your child's college lodging into a tax shelter

Let's assume you have a child in college who wants to live off campus, and at the same time you could be looking to buy real estate to shelter your income. Here's how to kill two birds with one stone:

Strategy: Buy real estate property near the school, and rent a unit to your child. For your child, this provides reliable off-campus housing. For you, it's a tax shelter that will probably appreciate in value.

You can even write off the cost of visiting your child at college.

When you eventually sell the property, any long-term gain will be favorably taxed at the long-term capital gains rate, currently 15% in 2013 (20% for single filers with incomes above $400,000 and joint filers with incomes above $450,000). The maximum federal rate on gain attributable to depreciation deductions is 25%.

Offset rental real estate income

Don't wait any longer if this strategy meets your needs.

As with other rental real estate investments, the rent you receive from your tenants, including your child, is included in your taxable income.

But you can offset the income with deductions for mortgage interest, property taxes, maintenance, insurance, etc., as well as claiming a big depreciation deduction on the property's purchase price. (It takes 27.5 years to fully recover the cost of residential rental real estate.)

Best of all, you may be able to use losses from the rental activity to shelter highly taxed ordinary income *(see example on page 12).*

Get in touch with a PAL

Also, be aware of a potential tax trap if you end up claiming a loss. Under the rules for "passive activities," your deductions from rental activities generally can't be more than the amount of your annual passive income from the activities.

Key exception: Under a special tax law provision, you can use passive activity losses (PALs) to offset up to $25,000 of rental real estate income if you actively participate in the rental activity. In other words, you make management decisions, lease the units to other tenants, supervise the repairs and so on.

But be aware that this exception for PALs phases out for an adjusted gross income (AGI) between $100,000 and $150,000. It disappears completely once your AGI exceeds $150,000.

Example: How to structure the tax benefits

Let's say you bought a two-family house located a few blocks from campus for $300,000 (excluding the cost of land) in January. The first-year depreciation write-off is $10,455 under the depreciation tables. Suppose you also have $15,000 in other deductible expenses on the house in the first year.

Since the going rent in the neighborhood is $800 a month, you receive $19,200 in rental income for the two units ($800 per month times 12 months times 2 units). Half of the rental income (the amount paid by your child) goes from one of your pockets into the other.

On those facts, you show a $6,255 rental loss ($25,455 expenses minus $19,200 income) that you can use to offset other highly taxed income on your tax return. This assumes that you're not limited by the passive activity loss tax rules.

Small Business Tax Deduction Strategies # 11

Self-employed tax deductions: your home office

While some view the home office deduction as audit bait, you'll withstand any IRS scrutiny if you know and follow the home office deduction rules.

Here's how to earn bigger and better deductions without getting off the living room couch.

Home office rules: the basics

Whether you're a butcher, a baker or a candlestick maker, you can deduct your home office expenses if you use part of your home **"regularly and exclusively"** as either:

1. Your **principal place of conducting business**.
2. A place to meet or deal with clients, customers or patients in the normal course of business.

Also, you can deduct expenses attributable to a detached structure—such as a garage or shed—that's used in connection with your business (e.g., to store inventory).

If you're an employee, you must use the home office for the **convenience of the employer**, not yourself.

These basic rules are simple enough, but the key terms *(boldfaced above)* require further explanation.

What's 'regular and exclusive use'?

To meet the requirement for "regular and exclusive use," you must use a specific area of your home for business purposes only. That area can be a room or even a separate space within a room. The space doesn't have to be permanently enclosed, but doing so strengthens your tax position.

If you occasionally use the office portion of the home for personal reasons, it will taint the "exclusivity" of the home office. Therefore, you won't be able to take the deductions.

Advice: Buy a separate PC or laptop for your personal use. Otherwise, if you spend personal time on the home office PC, this will technically eliminate your chance at a deduction.

Note that certain exceptions for the "regular and exclusive use" requirement apply to day care centers and facilities for the aged or disabled.

And if a home is the principal place of a business and a specific area is used for inventory or product storage, the area qualifies for depreciation deductions if you use it regularly—but not necessarily exclusively—for business.

What's a 'principal place of business'?

If you're self-employed and work exclusively from home, it's obvious that your home office is your principal place of business. But this determination isn't so clear-cut in other cases.

For instance, you may perform some business functions at home, but spend most of your time visiting clients at other locations.

The IRS says that you will qualify for home office deductions if you perform administrative and management functions at the home office and use no other fixed business location for these functions. Administrative and managerial activities may include billing, keeping records, ordering supplies, setting up appointments, and researching and writing reports.

However, you aren't disqualified if you arrange to have administrative or managerial duties performed at other locations. For example, you might outsource payroll duties or handle customer inquiries on your laptop in hotels or airports. Similarly, you won't incur penalties if you spend more time on the road than at home.

Strategy: Use your home office even if another place has been set aside for your administrative activities. The tax law test isn't based on the *most suitable* location; it's where these functions are actually performed.

What's 'employer's convenience'?

Employees can deduct home office expenses only if their employer requires them to maintain a home office.

So, an industrious worker who brings work home nights and weekends usually doesn't qualify. It doesn't matter if the work at home results in a benefit to the employer; it must be a condition of employment.

Strategy: To secure the write-off, employees should make sure the home-office requirement is spelled out in a contract or company manual.

Expand home office write-offs

Which home office expenses can you deduct (and how much)? For starters, you can write off all your "direct" costs, such as a separate business phone line and dedicated fax line.

Plus, you can deduct a proportionate share of your "indirect costs." Those include mortgage insurance, property taxes, utilities, repairs, insurance fees, plus a tidy depreciation deduction for the portion of the home used as an office.

To figure out the percentage of your indirect costs to deduct, the IRS generally expects you to use a percentage based on the home's square footage. For example, if the home is 3,000 square feet and you use a 240-square-foot room for the office, you can write off 8% of your indirect expenses.

But don't stop there. The IRS also allows you to use any other "reasonable method" to figure deductions.

Strategy: Count the main rooms in the home. Then divide the number of rooms used regularly and exclusively for business by the total number of rooms. If that

Selling your home? Sidestep a capital gains tax pitfall

The home office deductions you claim can cut your current tax bill, but there's a catch: If you sell your home in the future, your allowable home-sale exclusion from real estate capital gains tax is reduced by the allowable depreciation deductions attributable to home office use after May 6, 1997.

Generally, unmarried people don't have to pay federal income tax on the first $250,000 in gain from their home sale. Married people can usually shelter up to $500,000 of gain from federal income tax. To qualify, you must have owned and used the home at least two of the previous five years.

Example: Let's say you and your spouse are selling your home at a $400,000 gain. You've used one room in the home as an office for your self-employed business and claimed $5,000 in depreciation. As a result, the maximum amount eligible for the home-sale exclusion is $395,000. You must pay tax on $5,000 of your gain.

For most people, it's still worthwhile to claim home office deductions. The current tax benefits generally outweigh the future considerations involving a small portion of the overall-gain shelter.

Note: The exclusion is reduced by "allowable" depreciation, so you can't avoid the tax trap by simply choosing to bypass these deductions.

calculation produces a bigger percentage than the square-foot method, use it on your return. The IRS accepts the per-rooms method.

Looking at the previous example, say your 3,000-square-foot home has eight main rooms. If you use one room as an office, you can deduct 12.5% of the qualified expenses (1 divided by 8) instead of only 8%.

But there's one limit to contend with: Your annual home office deduction with either method can't exceed the gross income from the business minus any other expenses (other than the home office expenses). You must carry over any excess.

Final tip: Take photos as proof of the space you used for business, and keep them in your tax return folder in case you're ever audited.

Small Business Tax Deduction Strategies # 12

Can't sell your home? Turn it into rental property

The real estate slump is still hurting many home sellers. To make matters worse, you can't deduct a loss from the sale of your principal residence.

Strategy: Turn your home into a rental property. Hold it out for rent while you relocate. Then you can deduct a loss when you sell the place. This tax move takes advantage of a key distinction for **investment or business property**.

Basic rules: No loss is allowed on the sale of a personal residence. However, if you rent out a home, you're generally entitled to the same tax benefits as any other landlord. So you can claim deductions for depreciation, utilities, insurance, etc. to offset the tax on rental income.

Best of all, when you finally sell the home, you may deduct a loss in full (*see box on page 17*).

Do you actually have to rent out your home to qualify for this tax break? The IRS may challenge the setup if you can't find a tenant. But it's not unprecedented. Keep detailed records to support your claims.

Suggestion: Rent out the home for at least two years before selling it. That should be long enough to convince the IRS you're legit.

Suppose your home rebounds in value sometime down the road. In that case, you might re-convert the home to a personal residence.

Reason: After two years, you could qualify for the home sale exclusion on the real estate capital gains tax.

Tip: The home sale exclusion ($250,000 for singles/$500,000 for joint filers) is available if you've owned and used the home as your principal residence for two of the past five years.

How to figure your loss

When you convert your home to rental property, the amount used to determine your gain or loss is the lesser of your basis in the property or the value of the home at the time of conversion.

Example: You bought your home for $600,000 before the bottom fell out of the real estate market. When you convert the home to rental property, the value has declined to $550,000. If you eventually sell it for $500,000 when the adjusted basis (after depreciation deductions) is $575,000, the amount of your loss is $50,000 ($550,000 conversion price less $500,000 sale price).

Therefore, if you decide to convert in a declining market, do it sooner rather than later. That way you can lock in a higher conversion value.

Small Business Tax Deduction Strategies # 13

Self-employed tax deductions on business travel

So long as the "primary reason" for a trip is business-related, a sole proprietor, partner or LLC member can write off 100% of the transportation costs within the United States. But if a vacation is your primary motivation, you can't deduct a dime.

Strategy: Mix a few vacation days into your business trips. That way, you can deduct all transportation costs, including airfare, travel to and from airports, cab fare between lodgings and business meetings, etc.—with the IRS's blessing.

How can you prove that your trip is primarily for business? Typically, you need to show only that the number of business days exceeds personal days.

Example: If you're away a week and spend four days on business, you can deduct 100% of your transportation costs even if you spend the other three days poolside or touring the sights.

Good news: You can count your travel days as business days. Even better: You can also count weekends and holidays if they fall between business days and it's not practical for you to return home on those days.

Also, standby days—when the client requests that you stick around in case you're needed—count as business days. Similarly, days you intended to work but couldn't for reasons beyond your control (client illness, etc.) count as business days.

Note: You can deduct out-of-pocket expenses for business days during your trips. So, you can write off hotel bills, cab fares and seminar fees in full. You can deduct only 50% of meals for business days, and you can't deduct expenses for personal side trips at all.

Tip: Log all your business activities, including the amount of time spent on each. If you're ever audited, you'll need this record to prove that business was the primary purpose of your trip.

Reap reimbursement rewards

Let's say your client or your company reimburses you for travel costs. In either case, the reimbursements are tax-free to you so long as you could deduct the travel expenses under the rules explained above. Any excess reimbursements represent taxable income. Generally, the client or your company can deduct the reimbursements (subject to the 50% deduction rule for business meals).

If you're self-employed, deduct any unreimbursed business travel costs on your Schedule C (for sole proprietors or single-member LLC owners) or Schedule E (for partners or members of multi-member LLCs).

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Learn how to manage employee conflict and improve office communication and team productivity. Disputes between employees are inevitable…left unresolved, they can disrupt your department's productivity, sap morale and even cause some good employees to quit. Learn 6 steps for managing "difficult" employees, what to do when employees resent another's promotion, learn when and how to step in to referee disputes, and much more.

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Maternity Leave Laws: 7 guidelines on pregnancy discrimination law, state maternity regulations, pregnancy disability leave, plus a sample maternity leave policy

It's important to know what you must do—and what you can't do (or say)—under federal anti-discrimination and maternity leave laws. And it's vital to double-check state maternity leave statutes, which may provide more liberal leave benefits. While no federal law requires you to provide paid maternity leave, most employers must comply with the pregnancy discrimination law and FMLA maternity leave regulations. Here are 7 guidelines on how best to comply with maternity leave laws, plus a sample leave policy you can adapt for your own organization.

www.businessmanagementdaily.com/MaternityLeaveLaws

The Office Organizer: 10 tips on file organizing, clutter control, document management, business shredding policy, record retention guidelines and how to organize office emails

Learn how to keep your office operations running smoothly—and ward off chaos and legal trouble—with practical document management techniques for administrative professionals, office managers and HR professionals.

www.businessmanagementdaily.com/OfficeOrganizer

Best-Practices Leadership: Team management tips and fun team-building activities to boost team performance, collaboration and morale

Learn new team management tips and team-building activities to boost team performance, collaboration and morale. Take our leadership assessment exercise to gauge your own performance as a team manager. See how businesses of all sizes are getting creative with team-building icebreakers and activities. Fight off team complacency with 5 strategies for making team-building exercises part of your daily routine.

www.businessmanagementdaily.com/LeadershipTeamManagement

Employment Background Check Guidelines: Complying with the Fair Credit Reporting Act, conducting credit background checks and running a criminal check to avoid negligent-hiring lawsuits

Employment Background Check Guidelines shows employers and HR professionals how to properly conduct reference/background checks, select third-party background firms and why screening candidates online on social networking sites is legally risky business. Don't allow your organization to risk being held liable for "negligent hiring" or "failure to warn" should an employee turn violent on the job.

www.businessmanagementdaily.com/BackgroundCheckGuidelines

Salary Negotiating 101: 7 secrets to boosting career earnings, negotiating a raise and striking the best deal in a job offer negotiation

Think you deserve a raise, but are afraid to walk into your boss's office and ask? Don't let ineffective negotiation skills hold you back. Employees at all levels can boost their career earnings by following the rules on negotiating a raise, hashing out the best pay package in a job offer negotiation and knowing their market value.

www.businessmanagementdaily.com/SalaryNegotiating101

FMLA Intermittent Leave: 5 guidelines to managing intermittent leave and curbing leave abuse under the new FMLA regulations

One of the biggest employer complaints about the Family and Medical Leave Act (FMLA) is the productivity problems caused by employees' use—and abuse—of FMLA intermittent leave. The problem: Employees with chronic health problems often take FMLA leave in short increments of an hour or less. The Department of Labor took steps to help minimize workplace disruptions due to unscheduled FMLA absences by saying that, in most cases, employees who take FMLA intermittent leave must follow their employers' call-in procedures for reporting an absence. Amend your organization's policies, update your employee handbook and revisit how you track FMLA intermittent leave with these 5 guidelines.

www.businessmanagementdaily.com/FMLAIntermittentLeave

Overtime Labor Law: 6 compliance tips to avoid overtime lawsuits, wage-and-hour Labor audits and FLSA exemption mistakes

Employers, beware: The Department of Labor's Wage and Hour Division reports that wage-and-hour labor litigation continues to increase exponentially. Federal class actions brought under the Fair Labor Standards Act (FLSA) outnumber all other types of private class actions in employment-related cases. Use this special report, Overtime Labor Law: 6 compliance tips to avoid overtime lawsuits, wage-and-hour Labor audits and FLSA exemption mistakes, to review your overtime pay policy and double-check your FLSA exempt employees' status. Expecting a visit from a DOL auditor? Get prepared by taking the self-audit at the end of this report.

www.businessmanagementdaily.com/OvertimeLaborLaw

Office Communication Toolkit: 10 tips for managers on active listening skills, motivating employees, workplace productivity, employee retention strategies and change management techniques

A manager's job is 100 times easier and more rewarding when his or her employees are performing like a well-oiled machine. But when that machine runs slowly or breaks down entirely, a manager's job becomes exponentially harder. The best managers are the best listeners … listen to our 10 tips and maximize office communication skills and bolster workplace productivity.

www.businessmanagementdaily.com/OfficeCommunicationToolkit

Workplace Violence Prevention Toolkit: HR advice, guidelines and policies to keep your workplace safe

Unfortunately, in the wake of a spate of workplace shootings, HR professionals and managers nationwide must consider the horrific possibility of violence erupting at their own facilities and events. To help employers prevent tragedy, this toolkit offers business advice, guidelines and policies aimed at keeping workplaces safe from employee violence. Learn prevention strategies, tips on identifying potentially violent workers, managerial advice on maintaining a safe workplace. It includes two sample anti-violence policies, adaptable for use in any company, plus checklists to use in case violence erupts.

www.businessmanagementdaily.com/WorkplaceViolencePrevention

14 Tips on Business Etiquette: Setting a professional tone with co-workers, clients and customers

For organizations and employees alike, recognizing the critical link between business protocol and profit is key to your success. Learn how to confidently interact with colleagues in ways that make you and your whole organization shine. Discover best practices on making proper introductions; cubicle etiquette; "casual dress" rules; handshake protocol; guest etiquette; workplace behavior faux pas; business dining etiquette, office wedding invites and other co-worker special occasions; business letter and email protocol—and even how your office decorations may affect your professional image.

www.businessmanagementdaily.com/BusinessEtiquette101

12 Ways to Optimize Your Employee Benefits Program: Low-cost employee incentives, recognition programs and employee rewards

If you've had to cut pay and staff and now expect more from those who remain, it's vital to revamp your employee recognition and rewards program. Employers can double their rewards and recognition efforts in innovative, cost-efficient ways with employee-of-the-month awards, employee incentive pay, employee appreciation luncheons, more time off, shopping sprees, wellness incentive contests, plus employee rewards customized to motivate Millennials, Gen Xers, Baby Boomers and the Matures. Now is the time to get clever with your employee recognition programs. This report shows you how with great ideas offered up from our Business Management Daily readers.

www.businessmanagementdaily.com/EmployeeBenefitsProgram

The Case in Point Yearbook: Real-Life Employment Law Advice … from Mindy Chapman's Case in Point blog

Mindy Chapman, Esq., has been providing sound employment law advice in her Case in Point blog since 2007. In her trademark entertaining style, she dissects an important employment law court ruling and provides essential employment law advice via three "Lessons Learned." Topics include: ADA guidelines, age discrimination cases, sexual harassment laws, EEOC cases, FMLA requirements and more.

www.businessmanagementdaily.com/CIPYearbook

The Bully Boss Strikes Again! How to deal with bosses who make crazy requests

And you thought your boss was unreasonable? Bet he never asked you to perform oral surgery or fill in for the bomb squad. Talk about "other duties as assigned!" Even if your direct supervisor swamps you with petty tasks and doesn't appreciate all you do, you can always "manage up" to make sure the boss's boss knows your worth. This report includes practical advice on how to manage a toxic boss along with dozens of outrageous stories about bully bosses.

http://www.businessmanagementdaily.com/BullyBoss

Microsoft Email: Outlook Tips & Training: How to improve productivity by effectively employing under-used features already at your fingertips

We all use Outlook. It's easy. You can answer email, keep your appointments and your calendar, and save your files in various folders. But are you using it to manage your entire workflow? You can. Melissa P. Esquibel combines her 25+ years of experience in information technology with a background in training, technical writing and business risk analysis to move beyond email and help you understand Outlook's amazing workflow benefits. You'll discover how to get more out of Outlook than you ever dreamed possible with this hands-on road map to Outlook that can send your productivity skyrocketing.

http://www.businessmanagementdaily.com/MicrosoftEmailOutlook

17 Team Building Ideas: The team building kit for managers with team building exercises, activities and games to build winning teams today!

With employees still reeling from workplace budget cuts, now's a great time for new team building ideas. No, you don't need an expensive round of paintball to gain the benefits of team building exercises, but you do need to squeeze the most out of them. This report provides teamwork examples, exercises and tips for leading winning teams. Go from being a manager who oversees people to a leader who molds them into winning teams with these 17 team building ideas.

www.businessmanagementdaily.com/TeamBuildingIdeas

10 Time Management Tips: A how-to guide on efficiently managing your time through effective delegating, calendar management and using productivity tools

In this era of downsizing and the quest for efficiency, businesses of all sizes are asking employees to take on extra tasks to boost productivity. Has your job turned into one of those "stretch jobs"? If so, you may be looking for a better way to get more done in less time, reduce stress and stop burning the midnight oil. Read about calendar management, keyboard shortcuts, running productive meetings, setting up agenda templates and using tech tools for project management with these 10 time management tips. Learn to prioritize your tasks and stop working in a crisis mode all the time

www.businessmanagementdaily.com/TimeManagementTips

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At Business Management Daily, we're driven to help organizations and individuals succeed. That's why we deliver plain-English, actionable advice to high-performers at over 80,000 companies of all sizes across hundreds of different industries.

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