

Financial, Legal & Tax Advisory

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Small Business Owner Guide: Common Deductions to Take Advantage of

Every year, tax law changes. As business owners, it is important to stay up to date with the latest rules and regulations in your industry. One of the biggest items that business owners rely on is tax deductions. These deductions can lower your taxable income and, therefore, reduce your tax liability. Some deductions have remained the same for ages, while others have changed recently. We will discuss the most common tax deductions for business owners and the corresponding rules for the 2025 tax year. Many small business owners can qualify for the Qualified Business Income (QBI) deduction.

This allows eligible taxpayers to deduct up to 20% of their QBI, plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership income. QBI is the net number of qualified items of income, gain, deduction, and loss from any qualified trade or business, including income from partnerships, S corporations, sole proprietorships, and certain trusts. This generally includes the deductible part of self-employment tax, self-employed health insurance, and deductions or contributions to qualified retirement plans.

A qualified trade or business is any section 162 trade or business, with three exceptions:

1. A trade or business conducted by a C corporation.
2. For taxpayers with taxable income that exceeds the threshold amount, specified services trades or businesses (SSTBs).
 - a. For 2025, the threshold amount is \$394,600 for a married couple filing a joint return, and \$197,300 for all other taxpayers. The SSTB limitations don't apply to taxpayers with taxable income at or below the threshold amount. Limitations are phased in for joint filers with taxable income between \$394,600 and \$494,600, and all other taxpayers with taxable income between \$197,300 and \$247,300. For later years, the threshold amounts and phase-in range will be adjusted for inflation.

3. Performing services as an employee.

Business meals are something that every business owner has run into. Whether it is taking a client out to eat or hosting a holiday party for the office. These business meals for employees and clients can be tax-deductible. There was a temporary 100% deduction for business meals in 2021 and 2022. Since 2023, the meal deduction has moved back to 50% for most situations.

With a massive growth in working remotely, the home office deduction is being utilized now more than ever. Self-employed workers, contractors, freelancers, and telecommuters sometimes require a home office to conduct business duties. Business owners who use a home office for business may be able to deduct expenses tied to the creation and maintenance of the workplace. To qualify, the taxpayer must utilize part of the home "regularly and exclusively" for business.

You can calculate the deduction two different ways: actual expenses or the simplified method. You may also deduct expenses that are indirect or direct. Indirect expenses must be deducted based on the portion of the home being used as a home office. Some examples of these include utility bills, general repairs, and homeowner's insurance. Examples of direct expenses may include designated phone lines, paint, and long-distance calls.

For a vehicle that is used strictly for business purposes, any costs associated with that vehicle are tax-deductible under certain circumstances. You can deduct 100% of the costs of a business vehicle that is a car, SUV, pickup truck, or van. Some examples of deductions can include insurance, maintenance/repair costs, registration fees, and toll/parking fees. Being a small business owner does not have to be complicated. The professionals at The Center have decades of experience in helping small business owners meet their goals. Feel free to reach out to us via email at info@taxplanning.com, calling us at (618) 997-3436, or visiting our website at taxplanning.com for more information.

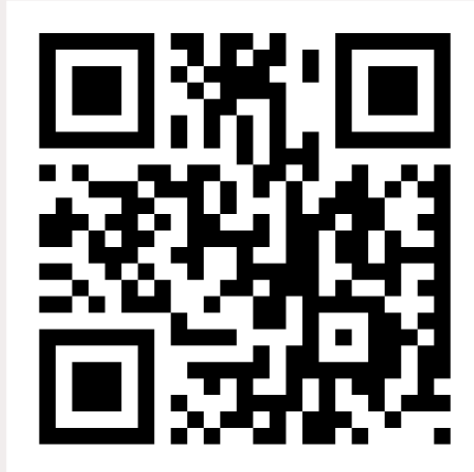
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