MAIN ST

You Can't Deduct Your Wedding and Other Things You Shouldn't Be Expensing

Nicholas Pell

Dec 15, 2014 6:27 AM EST

NEW YORK (MainStreet) — It's hard to believe that 2014 is almost over; however, with the new year almost upon us, it's time to start looking at everyone's favorite time of spring -- tax season. You want to write off as much as you possibly can. Still, especially for small business owners and the growing "gig economy" workers, you're going to want to pay attention to things you shouldn't be writing off. Every situation is different and your accountant should be the final arbiter, but here are some things you should not be expensing.

Club Dues

"People are constantly deducting their club dues," says Bradford Hall, the managing director of Hall and Company. What he means is clubs that are primarily social. "People think that those memberships are deductible, because they occasionally do business or wine and dine clients there," he says. While you might be able to deduct any fees associated with bringing in a client, your membership fees are not deductible.

Note that this does not apply to professional organizations and other groups, such as networking clubs, that are totally for business -- go ahead and deduct those.

Personal Travel

Adam Libman of Libman Tax Strategies points out a similar situation: people who think that just because they're doing business on a pleasure trip that makes it business. "You don't get to write off a trip to Hawaii, because you chatted about your business at the bar," he says. "It has to be more material than just talking to someone."

Concerts

Here's an interesting twist of tax law: You cannot, no matter how related to your business, deduct going to a concert and doing business there. Libman points out that this is because the IRS has decided that it's too loud to do any kind of significant business there -- so don't try it, even if you work in the industry.

Commuting

If you go on a business trip, your travel expenses will probably be deductible. However, Hall states that a regular commute is not deductible. Similarly, a vehicle you purchase for your business might be, but there are strict limits on how much you can deduct per year. "If you get a big SUV it's going to take you something like 20 years to expense the full cost of the vehicle," he says. So if you're going to buy a car for business purposes, make sure that it's a modest one.

Hobby Losses

"A lot of people want to take something they do for fun and pretend it's a business," says Hall. For example, if you start a wedding band, spend a ton of money on equipment, but never get a paying gig, that's not going to count as a deductible expense as far as the IRS is concerned. "You need to have profits three of the last five years for it to count as a legitimate business," he says. The only exception to this rule is animal husbandry, where you can show a profit two out of the last seven years on breeding, training, raising or racing horses.

Taxes and Penalties

Your business might owe from last year, including interest and penalties. That might be costing you big time, but it's not deductible even though it's a business expense, says Hall.

Weddings

Libman knows more than one person who has tried to deduct a wedding or a bar mitzvah on the grounds that they were doing business there. "Just because there are associates or potential clients there doesn't make it deductible," he says.

This underscores a broader principle when it comes to what you can get away with deducting: "Is it primarily for business or personal use?" asks Libman. "Ultimately it's going to come down to three things -- documentation and intent." That's the question the IRS is going to ask and the question you should be asking yourself before you try and deduct something.
"If there's an audit, the first three things they're going after are travel, meals and entertainment," he says.

--*Written by Nicholas Pell for MainStreet*