The SmallBiz Builder

PADGETT THE SMALL BIZ PROS

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THIS MONTH:

- Dollar Limitations on Business Gift Expenses
- Self-Directed Retirement Plans
- Unreimbursed Business Expenses

Dollar Limitation on Business Gift Expenses

As a small business owner during the holiday season, you may find yourself giving gifts to clients and/or customers. Basically, the IRS will let your business deduct up to $25 for business gifts per person during a tax year. There is no limit on how many people you can give business gifts to during the year nor how much you spend on those gifts, although your business gift deduction is limited to $25 per recipient. For example, if you give your customer a $50 gift basket , be prepared to settle for a $25 deduction. However if during the course of a year, you give two gifts to a customer, one worth $10 and one worth $15, you can still claim the maximum $25 deduction. This limit does not include incidental costs such as packaging, gift wrapping, engraving or mailing costs. Costs are considered incidental if they don't add substantial value to the gift.

Self-Directed Retirement Plans

Financing a business venture can be challenging. For some, leveraging your personal retirement account can be an option for entrepreneurs. There are rules governing almost every aspect of a person's retirement account. Self-directing your retirement plan funds into your own business venture requires cautious handling because not adhering to the rules governing a retirement account can disqualify the plan. Any moves which would result in a disqualified retirement plan should be avoided.

A self-directed IRA can be used to invest in a real estate investment trust (REIT) or it can be used to invest in almost prospective business. The big restriction for a self-directed IRA is that the plans funds cannot be invested in a business if the owner of the IRA is also an owner or officer of that same business. Any movement of the IRA's funds must be done through the plan administrator or the plan's trustee.

A self-directed 401(k) can be used to invest in the plan holder's own business. The business must be a corporation and must be taxed as a C-Corporation. Transactions between the 401(k) owner and the business must be handled deliberately, not haphazardly. The 401(k) actually owns the business, which means money taken out of the business bank account could be construed as a distribution from the 401(k) and money put into the business could be construed as a contribution to the 401(k). Therefore, the owner of a self-directed 401(k) should avoid any direct transactions with the business before consulting with the plan administrator or plan trustee.

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Unreimbursed Business Expenses

Partners have a limited ability to deduct out-of-pocket expenses which they have paid on behalf of the partnership. Unreimbursed partner expenses can be deducted on Schedule E of the partner's individual income return, but only if the partnership has a written policy which specifically allows partners to pay business expenses from their personal funds. A partner cannot deduct any expenses which would have been repaid by the partnership if the partner had requested a reimbursement. Also, a partner cannot deduct unreimbursed business expenses if the partnership has a written policy which specifically disallows any partners to pay for partnership's expenses with personal funds. Shareholders of S-Corporations cannot deduct unreimbursed expenses on their individual Schedule E, because they are treated as employees of the corporation. Generally, a shareholder cannot personally deduct any expenses which are not remitted to the corporation for reimbursement. However, if an S-Corp shareholder has expenses which were remitted to the corporation, but cannot be reimbursed by the corporation, then the shareholder can deduct.