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The self-employed workforce, which today accounts for 55 million Americans, or roughly 36 percent of the American workforce, is rapidly growing. One segment of self-employed are on-demand workers which provides an alternative to the nine-to-five job and companies such as Uber, Airbnb, and GrubHub are effectively reshaping the economy. Other segments include freelancers, independent contractors and other businesses of one. It's forecasted that by 2020 there will be more than 60 million Americans who are in some aspect self-employed.

This trending phenomenon offers a unique opportunity for tax professionals to expand their client base. These emerging entrepreneurs are usually heads down on building their operation and don't have the time or expertise to learn about tax implications on their own. Thus, as their trusted advisor you can advise them on some easy-to-digest tax topics and help them save vital tax dollars and improve their cash flow.

Starting a new business operation can involve spending money so it's important to understand the associated tax rules.

Deducting startup expenses

The government allows businesses to **write-off \$5,000 of startup expenses**. This \$5,000 deduction is reduced by the amount that your total startup expenses exceed \$50,000. Any startup costs that are not deducted in the current year can be

amortized ratably over a 15-year period, beginning in the month you start

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Return on Form 1562 for the tax year in which the active trade or business begins. You must file the return by the due date, including extensions. For costs paid or incurred after September 8, 2008, you are not required to attach a formal election statement to your return. The election to amortize or capitalize startup costs is irrevocable.

Startup costs defined

Business startup costs are amounts paid or incurred for:

- **Creating an active trade or business, or**
- **Investigating the creation or acquisition of an active trade or business**

Qualifying costs eligible for amortization (must meet both conditions):

- A cost you could deduct if incurred to operate an existing trade or business, and
- A cost you incurred before the day the trade or business begins

Examples of startup costs:

- An analysis or survey of potential markets, products, labor supply, transportation facilities, etc.
- Advertisements for the opening of the business
- Salaries and wages for employees who are being trained and their instructors
- Travel and other necessary costs for securing prospective distributors, suppliers or customers
- Salaries and fees for executives and consultants or for similar professional services

Please note, once the enterprise actually begins operations all business expenses are deductible.

Miscellaneous issues

Non-qualifying costs include deductible interest, taxes or research and experimental

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can also be expensed up to \$5,000 in the current year. The \$5,000 deduction is reduced by the amount that your total organization expenses exceed \$50,000. Any organization costs that are not allowed to be expensed can be amortized over a 15-year period.

Unsuccessful attempt to go into business

The costs fall into two categories:

- Costs incurred prior to deciding to acquire or begin a business are personal and nondeductible (e.g. expenses paid during general search for or preliminary investigation of a business or investment possibility)
- Costs incurred in your attempt to acquire or begin a specific business are capital expenses and can be deducted as a capital loss

The costs of any assets that you purchased during an unsuccessful attempt to start a business are part of the asset basis. These costs cannot be deducted but are recovered when you dispose of the assets.

As discussed, the rules associated with deducting start-up costs can be involved. However, the tax professional can boil down these concepts for the budding entrepreneur to understand and coach them along so they can take full advantage of these important tax breaks.

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