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Ken Berry • Sep. 09, 2022



Do you have an itch to start a new business venture? It could be tough sledding in the current economic environment, but at least the tax law gives you a leg up. Specifically, you may be entitled to claim a current deduction for qualified start-up costs, up to a specified limit.

**Basic premise:** Unlike most “ordinary and necessary” business expenses which are currently deductible, like rent and supplies, start-up costs generally must be

amortized over a period of 60 months. The write-off period begins in the month in

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begins.

What sort of expenses does this include? Some of the start-up costs that are typically deductible are as follows:

- Studies of potential markets, products, labor supply, transportation facilities, etc.;
- Advertisements for the business opening;
- Salaries and wages for employee training;
- Travel and other necessary costs for securing prospective distributors, suppliers or customers; and
- Salaries and fees for executives and consultants or for similar types of professional services.

But note that certain expenses are specifically excluded. This include expenses required for entering a business (e.g., licensing fees); expenses for attempting to purchase a specific business; interest and taxes; research and experimental expenses and costs of individual business owners. However, these expenses may be deductible as other types of expenses.

**Also, be aware of this—**

**Special rule:** The maximum current deduction of \$5,000 is phased out on a dollar-for-dollar basis for costs above \$50,000. For example, if your start-up costs for the year are \$54,000, you can deduct only \$1,000. The reminder must be amortized over 60 months. If your costs exceed \$55,000, you get no current write-off.

Of course, the exact date when you're "open for business" depends on the nature of the business, but this typically means that you have started offering goods or services in exchange for payment. So you can't simply stick a sign on a store door or window that says you're open and proclaim that you're operating a business.

That alone won't cut it.

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