

Starting a Business - Maximize Benefits of Start-Up Costs

Planning to get the most out of any new business venture begins with making sure you get the greatest possible tax advantages for your investigation costs, start-up expenses, and other organization costs. These include costs such as advertising, salaries and wages of employees-in-training, travel and other expenses of lining up customers, suppliers, and distributors, and fees paid for consultants and professional services.

You may assume that all of these start-up expenses are deductible as business expenses in the year you pay them, but that is not the case. Such expenses are not considered to be business expenses because they are not incurred in a going business. Instead they must be capitalized unless you make a proper election to amortize them ratably over a period of no less than 60 months once the business starts to operate. The costs of organizing a corporation can also be amortized over 60 months, if the corporation properly elects to do so.

Another complication with start-up expenses is that they are amortizable only by the person who incurs them. If your new business is going to be a sole proprietorship, that won't be a problem. However, if the venture is to be a corporation, you can't personally deduct the costs you incur before incorporation. Those costs are part of your investment in the corporation's stock; you may want to contribute the funds to the corporation and let the corporation incur the expenses so that it can amortize them.

It's also important to know that some expenses are treated more favorably than the regular start-up costs we have been talking about, and some less favorably. Start-up expenses for interest, taxes, and research costs usually can be deducted in the year paid. The cost of tangible property purchased for use in the business can be recovered by way of accelerated depreciation deductions over various periods, depending upon the type of asset, but generally faster than start-up costs. On the other hand, the costs of buying intangible assets for use in your business, such as customer lists or the goodwill of a purchased business, have to be written off over 15 years.

You want to be sure that you get whatever tax benefit you can from all of these expenses. To do so, you need to coordinate the expenses with the business's starting date, and properly make the necessary elections. If you are expanding an existing business, rather than starting a new one, you may be able to deduct the expansion costs currently. We would be glad to help you explore these possibilities further to be sure that you avoid any costly pitfalls. Please do not hesitate to call our offices if you need any assistance in planning your business start-up.

Sincerely yours,