

The background of the image shows a clean, modern workspace. A white table with light wood legs holds a laptop, a green mouse, and a small potted plant. A white pitcher with a wooden handle is also on the table. The wall is a neutral, light beige color, and a single light bulb hangs from the ceiling. The overall aesthetic is bright and airy.

Start Now: How to Prove 4 Tax Deductions

For Small Business Owners

by Karen Brady, Alavita Business Solutions

Introduction

As entrepreneurs we look for ways to make the best use of cash by taking advantage of tax deductions.

Invest smartly in your business operations and growth, and take these four common deductions, and be able to prove they are legitimate. When you come from a place of knowledge on these four deductions, you will be confident about your compliance.

You may ask, “Why do I need to prove them?” IRS or State audits can disqualify your deductions due to lack of proof, and then more taxes will be owed than you had planned.

As a general practice, it is best to document your business activities daily. This includes receipts, bills, schedule diaries, logs, time tracking, and business bank account statements. These types of documentation record relevant information such as date, amount, and business purpose, all of which the IRS regards as proof of events that validate your deductions.

Regarding the information in this book, please note: IRS rules can change year over year. The information here on deductions is generally true for the long term. The specific rules and rates presented here are up to date as of 2024. Please consult your tax accountant if you have questions about income tax rules.

Chapter One: Mileage & Some of Your Vehicle Expenses (Fuel & Maintenance)



Owners, you can expense business errands, or travel to meet a client or business colleague. Similarly, if you are a salesperson, delivering items or services from one location to another, you can prove this deduction by tracking your mileage.

I will describe the way to calculate that in a moment. Before I do that, I'll explain the advantage of this deduction.

Example Scenario: If you drive just 5,000 business miles in a year, and the IRS standard mileage rate for 2024 is 67 cents, you could deduct \$3,350 from your taxable income!

Please note: There is a difference between deductions you can take for personal vehicles used for business and business-owned vehicles. Business-owned vehicles can earn bigger deductions if tracked.

Owner with business vehicle:

Mileage and running expenses (fuel, wear and tear) are allowed on **business-owned vehicles used for business purposes**. Back up everything with detailed proof and receipts.

Owner with personal vehicle

Fuel, wear and tear on personal vehicles is disallowed. (Unless you can prove the vehicle is not used for personal use, even though personally owned).

There are two options to expense part of your business travel in a personal vehicle. Firstly, if you want to reimburse yourself, account for it as a business expense. Then you would enter a bill or expense claim to your Mileage category.

If you don't pay out a reimbursement for mileage, this cash stays in the business and the Mileage is still deductible. Think about that.

In this method you would enter a journal entry which debits Mileage Expense and credits Owner Contribution.

If you'd like Alavita to do the setup and bookkeeping, [contact us](#). We will make sure you get the tax deductions you are entitled to!

IRS Compliance requirements for Mileage deduction

The IRS defines business mileage as mileage driven between two places of work, permanent or temporary. That is why you cannot claim that your morning commute from home to work.

If you are self-employed and driving from your home office to another business-related destination, it does count for business mileage.

To calculate the mileage deduction, multiply the number of business miles by the IRS's rate for the current tax year.

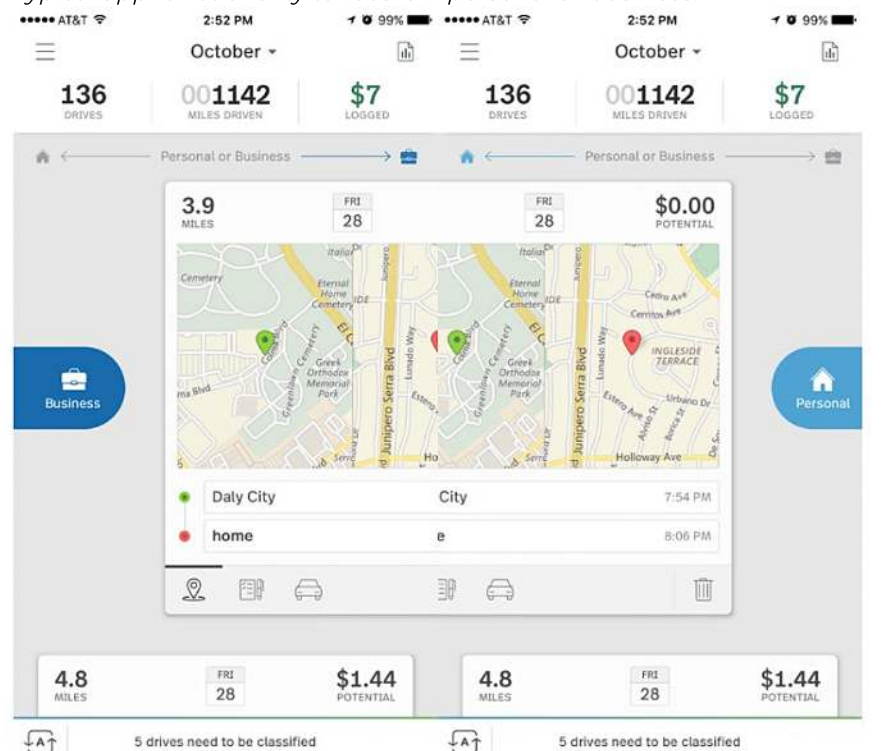
What the Proof looks like

To be compliant about your business mileage, you need to track it in detail; specifically, the odometer starting (when you start tracking) and odometer ending for the year, the dates, distances, starting and ending points, and business purposes. Some people prefer to keep a log book and make entries by hand.

How to Automate

MileIQ, TripLog, Driversnote, and Everlance are examples of phone apps that use automated GPS, and give tracking reports on vehicle users, time spent, and trip statuses for reimbursement management. The app renders data on business mileage into a fully compliant report to back up your deduction to the IRS.

Typical app functionality to record if personal or business.



Mileage Report – Report Name



Report date range

Dec 1, 2022 - Dec 30, 2022

Business rate

\$0.625/mi

Name

Jane Smith

Client

Company XYZ

Project

House Repairs

Drive log: Aprilia Tuono V4 1100 RR

When	Why	Where	Notes	Rate	Distance*	Value	Parking	Tolls	Total
Sun, Jun 12, 2:05 p.m.	Business - Between Offices	Palo Alto CA to Menlo Park CA	-	\$0.625	0.8 mi	\$204.76	\$14.76	\$14.76	\$304.92
Sun, Jun 12, 2:05 p.m.	Business - Between Offices	Palo Alto CA to Collage Terrace CA	-	\$0.625	20.4 mi	\$204.76	\$14.76	\$14.76	\$304.92
Sun, Jun 12, 2:05 p.m.	Business - Between Offices	Palo Alto CA to Menlo Park CA	-	\$0.625	8.2 mi	\$204.76	\$14.76	\$14.76	\$304.92
Sun, Jun 12, 2:05 p.m.	Business - Between Offices	Palo Alto CA to Collage Terrace CA	-	\$0.625	0.8 mi	\$204.76	\$14.76	\$14.76	\$304.92
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Sun, Jun 12, 2:05 p.m.	Business - Between Offices	Palo Alto CA to Menlo Park CA	-	\$0.625	20.4 mi	\$204.76	\$14.76	\$14.76	\$304.92
Page Totals					2,302.22 mi	\$204.76	\$14.76	\$14.76	\$304.92
Report Totals					2,302.22 mi	\$204.76	\$14.76	\$14.76	\$304.92

App compiles a report of all trips and deduction amount in a given time period.

Tracking as an expense in the books

So now you have mileage for last month and you want to get that expense into the books. Will you be reimbursing yourself? Enter a bill or expense claim to your Mileage category and add the report as a supporting document.

Will you not be reimbursing yourself? Enter a journal entry debiting Mileage Expense and crediting owner contribution. Back up your entry with the report.

Chapter Two: Hiring Service Providers Instead of Employees

IRS Compliance requirements for Non-employees deduction

There are some basic facts that business owners need to know about 1099's in the US.

Firstly, any person or company that provided a service, and to whom you paid \$600 or more in a calendar year, requires a 1099 form.

Examples are: Subcontractors, repairs and maintenance crews, legal services, accounting services, rent, consulting, and more. The key here is that none of these services are from employees.

Secondly, 1099's prove to the IRS (and some states) that a 1099 service provider is not your employee (and therefore you do not need to withhold or pay employment taxes on their behalf).

Thirdly, issuing 1099's is the responsibility of your company on behalf of your service providers each year.

They should be filed with the IRS (and some states that require them) and also sent to the service providers themselves.

Finally, Penalties, fees, taxes, and even audits can result from non-disclosure of 1099 service providers.

(Companies have been audited for not issuing 1099 to a service provider.)

What is a 1099, and what happens to it?

A 1099 is a form that looks like this.

7171 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116		Nonemployee Compensation
		Form 1099-NEC (Rev. January 2024)		
		For calendar year _____		
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation \$		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the current General Instructions for Certain Information Returns.
RECIPIENT'S name		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale ☐		
Street address (including apt. no.)		3		
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$		
Account number (see instructions)		5 State tax withheld \$	6 State/Payer's state no.	
2nd TIN not: ☐		7 State income \$		

Form **1099-NEC** (Rev. 1-2024) Cat. No. 72590N www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

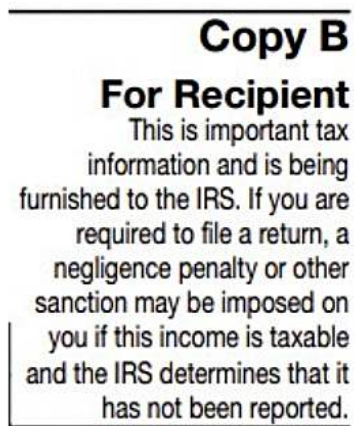
The 1099 form is actually a package containing 2-4 copies of the form. Each copy has a different purpose.

Copy A is for the IRS.

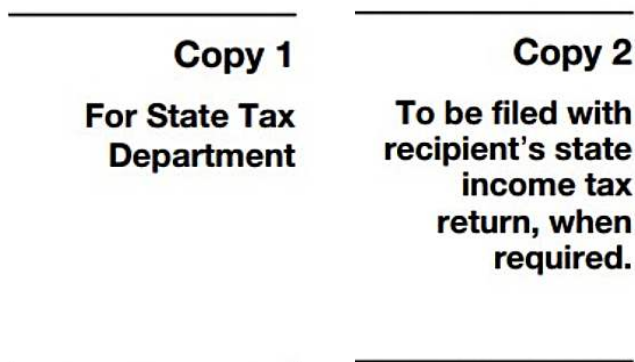
Copy A
For Internal Revenue Service Center
File with Form 1096.

For Privacy Act and Paperwork Reduction Act Notice, see the **current** General Instructions for Certain Information Returns.

Copy B is for the Recipient.



Copy 1 and 2 are only necessary if State filing is required.



Overview of compliance for qualifying Service Providers as 1099 recipients.

1. **Prove** that they are not employees
2. **Define** the type of Service Provide
3. **Determine** which **1099 form** Service Providers receive

Proof that your Service Providers are not employees, based on the new rules in effect March 2024

When assessing the status of your service provider, consider the following 6 points:

Number One: The Opportunity for Profit or Loss: Does the service provider have the opportunity to make a profit or incur a loss based on their decisions, such as accepting or declining assignments, managing their schedule, and marketing their services? **Not an employee.**

Number Two: Worker investments: Does the service provider invest in their own equipment and marketing, similar to an employer? **Then not an employee.**

Number Three: Permanence of the work relationship: Is the service provider operating on a Project or a Non-Exclusive basis with your business? **Then they are not employees.**



Number Four: Nature and degree of control: If you do not have control over their work schedules and quality standards, (except when such control is necessary for regulatory compliance), then the service provider is **not an employee**.

Number Five: How integral or close to core operations is the provider's work to your business?

If the service is core to your operations, the provider **may still not be qualified as an employee**.

Two examples:

*If you are a Marketing agency and engage an SEO specialist which may be core to your operations, but you do not control their work schedule or provide them with equipment and workplace, then **they don't qualify as an employee** (Second and Fourth Point).*

*If you are a Marketing agency and engage a law firm, the law firm is obviously **not an employee** (not close to core operations).*

Number Six: Skill and initiative: A Provider may have specialized skills, but this alone may not determine independent contractor status. This qualifier depends on whether the provider creates something new or innovative for your company, or as a shortstop, when you have employees with the skills, but they are assigned to other work.

How to Define Service Providers for 1099 reporting by Type

Not all Service Providers qualify for a 1099.

Here are some facts that disqualify service providers from receiving a 1099 from your company

#1 1099s are only for Service Providers operating in the US with US addresses.

#2 1099s are only issued for Service Providers who are Sole Proprietors, LLCs (Limited Liability Companies), LPs (Limited Partnerships), and any Lawyer or Law Firm (PLLC, PC, etc.). ***It is not for S or C Corporations (Inc.)***



- Sole Proprietors, LLCs (Limited Liability Companies)
- LPs (Limited Partnerships)
- Lawyer or Law Firm (PLLC, PC, Etc)



- S or C Corporations (Inc.)

#3 1099s apply for Service Providers to whom you have paid \$600 or more in the calendar year. This includes payments by Cash, Check, ACH, Wire, Zelle, or other methods sponsored by your bank.

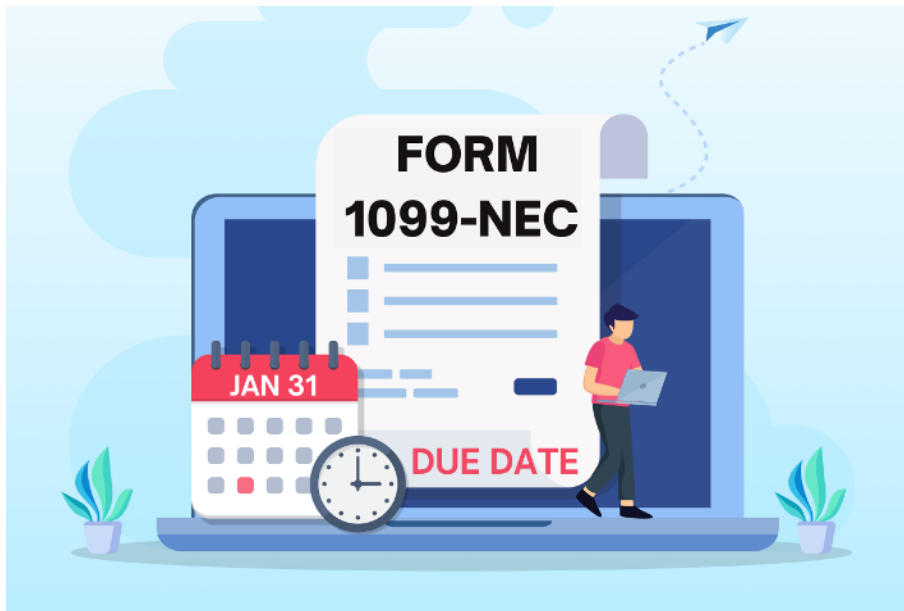


Payments through Credit Card, PayPal, Venmo, etc. are not included on your 1099s as the responsibility to issue 1099s lies with these platforms.



How to determine which 1099 form your qualified Service Providers should receive

1099 NEC form



If the Service Provider is one of the following, they get a 1099 NEC form.

1. A subcontractor providing a service in your business operations such as shipping, delivery, marketing, development, affiliate sales, and other salespeople
2. An agency providing a service for your operations, marketing, administration, sales
3. A professional service such as a consultant, bookkeeper, accountant
4. A building contractor, maintenance person such as a cleaner, janitor

The Deadline to send and file 1099 NEC forms is Jan 31st every year.

1099 MISC form

If the Service Provider is*:

1. A lawyer or law firm
2. A rentier (entity you pay rent to for your business)
3. Others listed on the IRS website but not as common

**relevant to a small business*

They all get a 1099 MISC form.

The Deadline for Lawyers and Law Firms to send and file is Jan 31st every year. There is a separate deadline for Rentiers.

How do you get ready for this?

First, you will need a W-9 Taxpayer Form for each Service Provider.

What is a W-9? It has everything that a 1099 has minus the amount paid, plus their signature and date. It looks like this.

W-9 Form (Rev. March 2024) Department of the Treasury Internal Revenue Service		Request for Taxpayer Identification Number and Certification Go to www.irs.gov/FormW9 for instructions and the latest information.		Give form to the requester. Do not send to the IRS.
Before you begin. For guidance related to the purpose of Form W-9, see <i>Purpose of Form</i> , below.				
1 Name of entity/individual. An entry is required. (For a sole proprietor or disregarded entity, enter the owner's name on line 1, and enter the business/disregarded entity's name on line 2.)				
2 Business name/disregarded entity name, if different from above.				
3a Check the appropriate box for federal tax classification of the entity/individual whose name is entered on line 1. Check only one of the following seven boxes.	4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3):			
	Exempt payee code (if any) _____			
	Exemption from Foreign Account Tax Compliance Act (FATCA) reporting code (if any) _____			
	(Applies to accounts maintained outside the United States.)			
3b If on line 3a you checked "Partnership" or "Trust/estate," or checked "LLC" and entered "P" as its tax classification, and you are providing this form to a partnership, trust, or estate in which you have an ownership interest, check this box if you have any foreign partners, owners, or beneficiaries. See instructions _____ ☐				
5 Address (number, street, and apt. or suite no.). See instructions.				
6 City, state, and ZIP code				
7 List account number(s) here (optional)				
Part I Taxpayer Identification Number (TIN)				
Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the instructions for Part I, later. For other entities, it is your employer identification number (EIN). If you do not have a number, see <i>How to get a TIN</i> , later.				
Note: If the account is in more than one name, see the instructions for line 1. See also <i>What Name and Number To Give the Requester</i> for guidelines on whose number to enter.				
Part II Certification				
Under penalties of perjury, I certify that:				
1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me); and				
2. I am not subject to backup withholding because (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and				
3. I am a U.S. citizen or other U.S. person (defined below); and				
4. The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.				
Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and, generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions for Part II, later.				
Sign Here Signature of U.S. person _____ Date _____				
General Instructions				
New line 3b has been added to this form. A flow-through entity is required to complete this line to indicate that it has direct or indirect				

Collect a completed W-9 form as soon as possible when you engage a Service Provider who qualifies for a 1099. This will save you enormous headaches and time at the end of the year. <https://www.irs.gov/pub/irs-pdf/fw9.pdf>

How to Automate

You can set up a W-9 that can be filled out and signed online using Adobesign, DocuSign, Hellosign, and others.

If you use the **Xero Accounting app**, you can send a link to your service provider to fill in the information directly to their Contact record.

Request W-9

W-9 link

Share this unique link with the vendor to complete their W-9 online. Once submitted, their details will be automatically updated. Share this link with the relevant party only as it collects sensitive information.

https://go.xero.com/tax-w9?code=

Copy link

30 days of 30 days remaining

Email

Share the W-9 link through your default email app and get a pre-filled set of details copied over using the Share via email button. Learn more from our [help centre article](#)

☐ Show email fields

Done

Share via email

Track 1099 and Tax 1099 are two great online services that file and send 1099s for you.

Please note that even though there is automation, it takes a human being to make sure the information is 100% correct.

If you think 1099 compliance will take too much time away from running your business, we can help. Reach out to us today at alavitabusiness.com.

Chapter Three: Meals



The IRS defines the deductible meal by very specific circumstances and the qualifying conditions, and the deductible percentages can change each year.

IRS Compliance Requirements for Meals deduction

There are three kinds of meals business owners typically contend with.

- 1. Meals out**
- 2. Travel Meals**
- 3. Office Snacks and Meals**

1. Meals out: 50% deduction

This is what the IRS says to define meals out:

To qualify for the deduction:

- The business owner or an employee of the business must be present when food or beverages are provided.
- Meals must be from restaurants, which includes businesses that prepare and sell food or beverages to retail customers for immediate on-premises or off-premises consumption.

- The expense cannot be lavish or extravagant.

Grocery stores, convenience stores and other businesses that mostly sell pre-packaged goods not for immediate consumption, do not qualify as restaurants.

Employers may not treat certain employer-operated eating facilities as restaurants, even if they operate under contract by a third party.

How to Automate

Use an app that allows you to take a photo at the event and upload and also make notes to qualify the Meal, for example "Team Meal after Training". Suggested apps are Hubdoc, Xero, QBO, Dext Prepare.

The best apps have OCR capability (Optical Character Recognition), so you or your bookkeeper can read and easily determine the category for the transaction.

I recommend HubDoc for all of this and its additional capability to publish to an accounting app for reconciliation in just a few clicks.

HubDoc is best friends with Xero but also works with QuickBooks Online. We can get you set up simply and easily for your most convenient experience of staying compliant.

Here's what business owners need to know about certain costs:

- The cost of the meal can include taxes and tips.
- The cost of transportation to and from the meal isn't part of the cost of a business meal.

Entertainment events are different than Meals and are 0% deductible.



Business owners may be able to deduct the costs of meals and beverages provided during an entertainment event if either of these apply:

- the purchase of the food and beverages occurs separately from the entertainment
- the cost of the food and beverages is separate from the cost of the entertainment on one or more bills, invoices, or receipts.

Entertainment expenses, purchased separately from meals, are not deductible.

2. Travel Meals

There are two options for deducting travel meals from company books:

1. 50% Limit - Travel meals are 50% deductible.

The 50% limit applies to employers or employees, to self-employed persons (including independent contractors) or their clients, depending on whether the expenses are reimbursed.

Examples of deductible meals include Meals while traveling away from home (whether eating alone or with others), or meals at a business convention or business league meeting.

2. Standard meal allowance

In general terms, this is a travel meal allowance, whether you are an employee or self-employed.

You can claim this allowance if it is incurred directly when traveling for business, and for when you travel in connection with educational purposes, or investment and other income-producing activity.

Note that you cannot claim meals incurred while traveling for medical or charitable purposes.

Amount of standard meal allowance.

This is called the Federal M&IE Rate. Since 2023, travel meals allowance is \$59-60 per day per person.

3. In-Office Snacks and Meals

Snacks and meals purchased for the office are 50% deductible.

What the Proof looks like

It is best practice for an owner or an employee to pay with a company credit card, rather than a personal card, in order to validate business purpose. All receipts must be documented and saved to enter into your books.

As printed receipts fade over time, this is best done by digital means. Take a photo, upload to a receipts app. Some vendors email or SMS your receipts to you. Save them digitally.

Tracking as an expense in the books

Attach a document of the receipt in your books, so you can always look at it if there are any questions. As the percentages of allowable deductions change ***by type***, make sure your receipts are separated by these categories:

1. Meals out

2. Travel Meals

3. In-Office Snacks and Meals

Actual deduction percentages will be calculated at the end of the year, or you can split the cost by the percentage allowed between you and your business at the time of the event.

Contact Alavita Business Solutions today to find out the most efficient way to account for your deductions alavitabusiness.com.

Chapter Four: Travel



IRS Compliance Requirements for Travel Deduction

<https://www.irs.gov/taxtopics/tc511>

Deductible travel expenses while away from home include, but aren't limited to, the costs of:

1. Travel by airplane, train, bus or car between your home and your business destination. (If you're provided with a ticket or you're riding free as a result of a frequent traveler or similar program, your cost is zero.)
2. Fares for taxis or other types of transportation between:
 - a. The airport or train station and your hotel,
 - b. The hotel and the work location of your customers or clients, your business meeting place, conference, or your temporary work location.
3. Shipping of baggage, and sample or display material between your regular and temporary work locations.
4. Using your personal or rental car while at your business destination, and general expenses such as, e.g. tolls and parking fees.
5. Travel Meals (see Chapter Three: Meals)
6. Lodging
7. Dry cleaning and laundry while traveling.
8. Business calls while on your business trip. (This includes business communications by fax machine or other communication devices.)
9. Tips you pay for services related to any of these expenses.
10. Other similar ordinary and necessary expenses related to your business travel, such as equipment rental fees.

What the Proof looks like

Business Schedule or Calendar, document of the event where travel to is needed - proof of date and description of event. Receipts.

Tracking as an expense in the books

All travel expenses, except for meals, can be categorized together for 100% deduction. Alternatively you may want to see expenses broken as lodging, airfares, ground transportation etc. Travel Meals should be categorized separately so that the 50% deduction can be applied.

How to Automate

Use an app that allows you to take a photo at the event, upload and also make notes to qualify the Expense. For example "Taxi to airport". Suggested apps are Hubdoc, Xero, QBO, Dext Prepare.

The best apps have OCR capability (Optical Character Recognition), so you or your bookkeeper can read and easily determine the category for the transaction.

I recommend HubDoc for all of this and its additional capability to publish to an accounting app for reconciliation in just a few clicks.

HubDoc is best friends with Xero but also works with QuickBooks Online. We can get you set up simply and easily for your most convenient experience of staying compliant.

Summary

Mileage, Service Providers, Meals, and Travel are costs of doing business. Now you can see how they are also tax advantages. Once you are set up and rolling with tracking these deductions, you can save time, energy, and money.

Check us out at alavitabusiness.com for more information on how we can help you.

Karen Brady is a business consultant, accountant, and entrepreneur. She owns Alavita Business Solutions, an online bookkeeping firm servicing clients nationwide.