

What Tax Deductions can You Avail of for your Online Business?

Whether you have a traditional business where transactions occur primarily offline, partially online, or completely online, you'll need to file your taxes. When it comes to tax season, you are in the same situation with other types of businesses. You're still required by the IRS to report all of your income, file your tax return and pay your taxes and other applicable expenses. Fortunately, even though your business may be a completely online effort, many of the same tax benefits and even loopholes that apply to regular offline ventures will also apply to online businesses. Obviously, identifying what loopholes and exceptions that applies to your company is sometimes the tricky part otherwise, you will run into an IRS trouble.

One primary tax break that online business owners can use is having a home office. There is a higher probability that business owners can qualify for significant tax deductions as most of the time, online businesses are done at home. Entrepreneurs just have to remember that using the house regularly and exclusively for business purposes will make them eligible for the applicable deductions. For instance, a dining room used by a family to have dinner in the evening and used as an office during the day will not classify under this tax deduction.

Any given space or room must be primarily used for business endeavors such as client meetings and daily operations, for it to qualify as a home office. You may want to keep it simple rather than dividing the use of a particular room between personal and business matters. For instance, it is a better option to claim that the room is solely used for business rather than say that 75% of the time, it is used for business operations and 25% of the time, for family gatherings. This strategy will keep you away from probable IRS problems.

It is also important to prove to the IRS that your home office is your primary place for business. Basically, since online businesses are done at home, entrepreneurs will have no problems meeting this stipulation. The significance of this requirement lies on the fact that the IRS needs to ensure that business-related endeavors are done in the confines of the home office, and not somewhere else.

These two requirements are the major criteria for a home office and meeting these will certainly translate to large savings on your home and office tax obligations. Rents, mortgage payments, insurance, utility bills and property taxes are just some of these expenses. Bear in mind, however, that you can't be exempted on the full amount of your rent as deductions related to a home office are done in percentages. To demonstrate, if you use 25% of your home as home office and the monthly mortgage payment for that property is \$10,000, you can claim \$250 as exemption and a year's time, you can save up to \$3,000. Just take note to have all your online business records so if questions arise, you won't have problems in proving your claims.

Restrictions to online business tax deductions are also available. For instance, you can't claim for a number of deductions which, when totaled, will record a net loss for that year. Specifically, if your business registers yearly revenues of \$50,000 and your exemptions also total to \$60,000, you can't claim a net loss equaling to that \$10,000 difference. What you can do in this case, however, is claim for a net gain of zero.

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