

Business Startup: Understanding the Costs and Tax Deductions

A step by step guide to Business Startup Costs and Tax deductions

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[/EINPresswire.com/](https://EINPresswire.com/) -- One of the most exciting events in life is launching a new business. It is very important to determine which startup expenses are required to get your business off and running. We recommend that you work with a certified public accountant (CPA). CPAs can help you plan out expenses and give business owners an idea of how much money they will spend to start a business.

Fixed costs

Fixed costs are reoccurring business expenses that need to be paid on a monthly basis. One easy example is office rent. These costs are usual fixed and predictable. List of fixed costs include:

Rent

Businesses may need office space to operate. If you can run a business from a house in the first year or two, that could save a large number of business expenses. Growth and possible need an office space down the road, plan now and set money aside as soon as possible

If an office or retail space is required for your setup, rent will be a fixed expense. Startups must estimate how much space can be managed and the type of space a business needs. Then calculate your rent expenses. If real estate is purchased instead of lease the business space, a mortgage will be the fixed expense.

Business Payroll



Startup Business <https://llc.as.gov>



[IRS.gov](https://irs.gov)



There are different types of expenses business owners should be aware of. Many of these expenses typically fall into two separate categories: fixed costs and/or variable costs.”

Kim Gilmore

Payroll is an essential expense that any business has to include: salaries business employees. Establish a payroll for cofounders, partners, and employees. The beginning payroll can be challenging because owners have to decide when to hire workers and when to contract a freelancer. Establishing payroll is mandatory.

Business Tax

The business tax depends on revenue, deductible expenses, and your business’s location. If a business is

using designated office space for the business, it might need to pay real estate taxes for the property.

Start your fiscal year as soon as business begins operation. It is always recommended to hire the services of a CPA to properly evaluate business taxes, income taxes, and fiscal year returns.

Legal/Professional Services

Some businesses may require accountants, experts to ensure a business is secure and legal. This is especially true if selling a service. It is always a good idea to ask experts for help. This can cost several hundred to several thousand dollars. It is always better to open a business with as much information as possible.

Lawyers are always a great idea Lawyer services can include drafting agreements, helping decide on a business structure, forming a separate business entity, or incorporation. Hiring an attorney to perform these types of services for a startup can save time and money.

Software

Businesses use software to help run day-to-day operations or provide services. QuickBooks is a popular accounting tool used by business owners to track expenses, cash flow, and profitability. Google Drive, Microsoft Office, website hosting, and other hiring software.

Payments on Loans

A small business loan may be needed to start a business. Set a portion of your profits aside to make loan payments. Some businesses may be eligible to get loans from the Small Business Administration (SBA).

The amount of capital needed in reserve for repayment depends on the type of loan payback plan you have with your loan provider. The original payment will likely have interest and should

plan for accordingly.

Insurance

Businesses need to be insured and protects a business from lawsuits, damages, and more. business insurance—health insurance—can save you from possible legal fees and settlements in the event of an accident or lawsuit.

Insurance costs vary depending on the type of business and plans. Insurance includes coverages like general liability insurance, workers' compensation insurance, errors & omissions insurance, and commercial insurance.

Marketing

Marketing business costs can be physical marketing materials, like signs and banners. It also covers digital marketing, like ads on social media platforms (Facebook or LinkedIn).

Marketing costs can vary from month to month depending on the type of business you're running. Some marketing costs can be one-time expense like designing a business website or creating business cards.

Utility Payments

Utilities are a veery important expenses that a business willhave to take care of. The lights need to be on! Utility costs include gas, electricity, water, phone, and internet bills.

Office

Even the smallest businesses will need some office essentials. A package of pens may cost a few dollars, but over a time, paper, pens, pencils, drinks, snacks and office equipment can add up.

[Variable costs](#) or One-Time Expenses

These expenses can overtake profits for the first few months after starting the business. Knowing what these costs are will help a business plan for the future and succeed. One-time costs include:

Permits/licenses

Even if not forming an LLC, certain businesses may need to pay for licenses and permits at the state and federal levels. Permits and licenses needed to depend on business location, industry, and the nature of the company.

Incorporation Costs

Incorporate your business or form a limited liability company. Businesses will have to pay the expenses and costs of forming that business. The filing fees for articles of incorporation and organization vary by state. American Samoa is the best LLC location for small businesses. An LLC can be formed in minutes with no outside help at <https://llc.as.gov>.

Logo

Logo designs can be an essential part of a company brand. Fees for logo designs are paid to various designers. Investing in a good logo design can help create a great first impression for your company and strengthens brand identity.

Website

Successful businesses must have an online presence to widen their reach and succeed. Websites are a great way to establish a brand on the internet. A business website must be easy to navigate and include access to information about products, services. It must look professional, so investing in your business's online presence is mandatory.

Brochures/business cards

You may think you can skirt by without them, but there will come a point where you wish you had a business card or brochure to give someone. In the startup phase, networking and word of mouth are especially important.

Taking care of this part means paying for the services of graphic designers, consultants, and printing companies. The material costs for brochures and business cards depend on the type and quality of paper and ink used. You will also need to hire the services of a good content writer for the brochures if you want them to be professional and adequately detailed.

Down payment

Leasing office space requires capital and down payment. It is best, if possible, to limit the length of the lease. It is also recommended that a startup find space that has already had improvement made to fit business needs.

Startup deductions

Incurred expenses before opening a business last year are eligible to deduct certain startup and organizational costs on a tax return. The IRS has strict guidelines you must follow to claim them. Here are the IRS rules

[Allowable Deductions](#)

The IRS has three categories of startup costs eligible for tax deductions. Chapters 7 and 8 of IRS Publication 535 outline these deductions. Startup costs must be related to one of three things:

Creating a Business

These costs might include market research, products development and local labor supply.

Business Preparations

Incurred costs before opening are included in this category, except equipment, which will have to be depreciated. This means a business can write off a portion of the cost over a period of time. Expenses in this category include training, travel expenses, advertising expense, and attorney/accountant fees.

Organizational cost

If you legally set up your business as a partnership or corporation before the end of your first year in business, you can deduct these costs too. The expenses typically associated with incorporating are legal fees, state organization fees, salaries for temporary directors, and organizational meetings. Expenses related to setting up a partnership agreement include legal expenses as well as filing and accounting fees.

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