

Tax Incentives for Business Start-up Expenses

An entrepreneur may claim a special deduction for costs associated with starting up a new business venture. Now the new small-business law—the Small Business Jobs Act of 2010—enhances the deduction for certain taxpayers. However, the enhancements are only available for the 2010 tax year.

Background: Under prior law, a taxpayer could deduct up to \$5,000 of qualified start-up expenditures. This maximum deduction was phased out on a dollar-for-dollar basis for expenses over \$50,000. Any remainder was deducted ratably over a 15-year period.

The new law doubles the maximum deduction to \$10,000 and increases the phaseout threshold to \$60,000. The changes apply to qualified expenses paid or incurred in 2010. These amounts revert to pre-2010 figures in 2011.

Qualified start-up expenses include amounts paid to investigate a prospective business and get the business started. Many of these costs are similar to costs incurred by an existing business. A few examples are costs of surveys of potential markets; evaluations of available facilities, labor, materials and supplies; advertisements for opening the business; salaries and training costs for employees; and fees paid to consultants for professional services.

If the business fails, investigatory expenses are treated as nondeductible personal expenses. This includes costs incurred in the course of a general search or preliminary investigation of a business prior to deciding whether to enter the business. However, other start-up expenses may be deducted in any event. A professional tax adviser can provide more details.