

As a small business owner, you must have a clear understanding of which expenditures are genuine business expenses eligible for deduction and which should be deemed as personal.

**According to the IRS, a business expense must be:**

**Ordinary:** Common and accepted in the business's industry.

**Necessary:** Helpful and appropriate for the business operations, but not necessarily indispensable.

[Click here to view a list of allowable business expenses by the IRS.](#)



## BEST PRACTICES

- Establish a separate entity for your business.
- Open a business bank account(s) - checking, savings, credit cards, lines of credit, etc.
- Implement a dedicated accounting system which may be managed by an accountant or bookkeeper.
- Keep receipts for all business-related transactions
- Clearly document any expenses incurred personally and establish a policy for reimbursement.
- Set up a standard process to pay yourself. Depending on the entity's taxation status, this may be as owner's draw or as salary.



## WHY IS COMMINGLING PERSONAL & BUSINESS FUNDS RISKY?

- You could lose limited liability status. If the business is not maintained separate from the owners/managers, the individuals could be held liable for debts, negligence, or mismanagement of the business.
- You may not be establishing business credit.
- Unclear business finances will make management of the company difficult at best.
- Filing your taxes may cause a significant headache.

