PRIME

STARTUP EXPENSES AND ORGANIZATIONAL COSTS



When starting a business, most entrepreneurs are bound to incur some early expenses. These expenses can typically be categorized as either "startup costs" or "organizational costs." Because many new businesses aren't profitable in their first year, the IRS allows businesses to deduct up to $5,000 of both organizational and startup costs each in the first year of doing business, provided the total costs per category are $50,000 or less... more on this below. Any costs of either category above the deducted $5,000 can be amortized—a fancy word for "spread out"—over a period of 15 years.

QUALIFICATIONS

Because these costs are specifically associated with starting a new business, qualifying expenses must be incurred before the end of the first tax year that the business is operational. This means, if your business is a few years old, you're not able to utilize the first-year deduction... but you still may be able to amortize the remaining organizational costs over the next 15 years!

STARTUP COSTS

Expenses related to researching and creating a new business, but not directly related to the actual setup of the business entity itself.

- Research and development activities
- Costs for marketing and advertising
- Personnel expenses
- Fees related to business development
- Operating expenses

IMPLEMENTATION

For a detailed implementation checklist and other helpful resources, scan the QR code below or click **here**.

ORGANIZATIONAL COSTS:

Expenses associated with establishing the legal and logistical structure of your business.

- Cost for organizational meetings
- State and legal fees associated with entity formation
- Costs related to temporary directors
- Expenses related to building corporate credit
- Cost of accounting and tax preparation services
- Consulting fees (the fees you pay to an entity formation service for helping establish your business... like Prime Corporate Services!)

IMPLEMENTATION

For a detailed implementation checklist and other helpful resources, scan the QR code below or click **here**.



STAY ORGANIZED

Here are a few tips for making sure your deductions are applied correctly:

- **Document Costs:** Keep detailed records (invoices, receipts, contracts).
- **File Correctly:** Sole proprietors and single-member LLCs use Schedule C (Form 1040), Line 27a, and Form 4562 for amortization.
- **Maintain Records:** Keep a 15-year amortization schedule.

As always, it's a good idea to consult with a tax professional to ensure you're implementing your startup and organizational costs deduction correctly.

GOT QUESTIONS?

Email **decoder@primecorporateservices.com**
or contact **(855) 577-4639** for more information.

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