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# NINE

## Most Crucial ECOM Tax Deductions

### The IRS Doesn't Want You To Know (Updated For 2021)





FREE CASH FLOW  
AGENCY



## About the Author

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Alan brings with him 12 Years of Experience in accounting, tax planning, financial strategies, and consultation. In a previous life, he worked in multinational and billion-dollar companies and has seen how Fortune 500 companies are able to utilize the IRS tax code to their advantage to MAXIMIZE their tax savings. He is dedicated to providing online business owners with the tools they need to expand their knowledge on tax savings for their business and ensure they stay compliant and never have to worry about penalties and fines.

# INTRODUCTION

"The 9 Most Crucial Ecom Tax Deductions the IRS doesn't want you to know (updated for 2021)" ebook was created to ensure online business owners have a definitive resource to reference when they are looking at their tax situation every year. Our desire is to equip each online business entrepreneur with the tools they need to ensure they can maximize their tax savings year after year!

## Important Tax Deadlines:

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- Individual Returns: April 15th
- Business (C Corp) Returns: March 15th
- Business (Sole Proprietorship LLC, Partnership): April 15th

## IRS Small Business Tax Guide:

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- <https://www.irs.gov/forms-pubs/about-publication-334>



# #1 ADVERTISING EXPENSE

One of the top benefits for Ecom Owners is to be able to deduct all their facebook ads, google ads, and snapchat ads on their business tax return! For LLCs and sole entrepreneurs, you will find this deduction on Schedule C Line Part II Line 8. Use this category to categorize expenses related to promoting and selling your products or services.

**Here is the Full List of possible deductions in this Category:**

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- Advertising
- Listing fees
- Web advertising, banner ads, and pay-per-click fees
- Promotional purchases and giveaways (T-shirts, caps, bags, pens)
- Fees paid to advertising and public relations agencies
- Business logo design
- Marketing emails and direct mail campaigns
- Promotions and promotional events
- Newspaper and magazine advertising
- TV advertising
- Professional performance videos and CDs
- Package design fees
- Catalogs
- Billboards, signs, and display racks
- Phone book advertising
- Sponsorships
- Banners, posters, bumper stickers, and door-hangers
- Yellow Pages listings

# #2 BUSINESS TRAVEL

## (HOW TO GET FREE TRAVEL)

Follow these steps below to get free travel and stay within IRS guidelines!

1. Make sure to start and end your trip with a business purpose. This can range from attending client meetings, a conference, scouting for suppliers, warehouses, and other R&D (Research and Development) activities, and really any activities that counts as potential to generate revenue for your company
2. The 2nd requirement is that the travel needs to be “Ordinary and Necessary”. The IRS is very vague about the interpretation of this ruling but generally this means kind of just look around you and see what is typical in your industry and travel that much. But what it really means is don't do something crazy like take 250 trips a year because that won't be very believable unless your job is a traveling salesman selling mixers to all the restaurants in the US. So a secret rule of thumb is domestic travel as long as you prove 50% of the time spent travel is for the purpose of conducting business, then it's all deductible. If it's less than 50%, then you don't get anything. So keep that in mind when planning your business trip!



3. The last requirement is to always plan ahead of your travel. Make sure you plan out how many days you will be traveling and how many days you plan on doing business activities. Always keep a log of your travels, including all hotel invoices, transportation receipts, and even the name of the client and vendor and how long you met with them would really help cement your backup documentation in case of an audit. This is why Month End Close is so important. It helps you keep a timely record of all your travels so you can take advantage and enjoy some amazing personal travel in between. If you out there do a lot of business travel and need a consultant or firm that can help with this, do not hesitate to reach out to our agency and we'll be glad to help during your consulting call.



## **Special Note :**

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This is very important to remember- if you are taking an international trip- international travel is proportionate. This means if you spend 40% of your time doing business, 40% of your travel is deductible, which gives you a bit greater flexibility, BUT also means it makes it a bit harder to fit in some fun travel time like you can do around the states, but hey it still allows you to define your travel plan which is great to know. And for international travel, don't forget the following is also included: transportation lodging, meals and other incidentals (Dry cleaning, Business calls, airport luggage fees, so keep these in mind too!)

# #3 BUSINESS MEALS

Business Meals under the IRS guidelines for small business owners are 50% Tax Deductible! If you run your business full-time as an entrepreneur, there are a million ways you can qualify for your meals to count as a business meal! Some typical scenarios are:

- Meeting with Suppliers
- Lunch out with your employees (Less than 50%)
- Dinner with Business Partners
- Lunch on Your Errand Trip to pick up office supplies
- Discussing Shopify apps with another ecom owner over lunch
- Working on your facebook ads and ordering Ubereats (Working Lunch)

As you can see there are a ton of creative ways a full time entrepreneur can qualify for the business meal expense! Here's a quick example of how quickly that can add up:

## So just for Meals deduction...

\$15/meal @ 10 meals a week	\$150
Multiply 52 weeks in a year (150 x 52)	\$7,800

Take half the total meals expense ( $7,800 * 0.5$ )...

**\$3,900 in Tax Savings!!**

## #4 FAMILY INCOME SPLITTING

So what is the Family Income splitting rule? It is a tax strategy where you can allocate some of the net profit/income in your family among family members, such as your son, daughter, nephew, niece, uncle, etc. by giving them a position in your company and letting them earn a reasonable salary. For any business with more than 300K in net profit, this can make a huge impact as it moves some of your income that taxed at the highest bracket to possibly the lowest bracket, netting you immense savings in between.





Quick Warning! the IRS is aware of abuse from this tax law as believe it or not some business literally hired over 20 members to join their family business..and give them all kind of odd titles like stamp boy or greeting lady when they have no need for those jobs at all for their business. So what the IRS has done is imposed what they called a kiddie tax. It limits the amount of unearned income a kid can earn. But it's fine, as long as you are paying your child for legitimate work you are doing and giving them a reasonable salary (for example paying your 10-year-old 30/hr to copy papers is probably going to raise some flags). But if you do involve some family members and your son is able to take over operations for you, then this is a great opportunity for you to save a lot of money on your taxes!

## Example – Family Income Splitting

**Steve is an e-commerce owner making \$300K/year...**

**Splits \$50K to his daughter Jean for social media, \$50K to nephew Greg for fulfillment**

**\$100K of allocated dollars is now taxed at the 22% bracket instead of 35%, saving Steve 13%!**

Individual Filers, 2020 Federal Income Tax Brackets		
Tax Rate	Taxable Income Bracket	Tax Owed
10%	\$0 to \$9,875	10% of taxable income
12%	\$9,876 to \$40,125	\$987.50 plus 12% of the amount over \$9,875
22%	\$40,126 to \$85,525	\$4,614.50 plus 22% of the amount over \$40,125
24%	\$85,526 to \$163,300	\$14,605.50 plus 24% of the amount over \$85,525
32%	\$163,301 to \$207,350	\$33,271.50 plus 32% of the amount over \$163,300
35%	\$207,351 to \$518,400	\$47,367 plus 35% of the amount over \$207,350
37%	\$518,401 or more	\$156,235 plus 37% of the amount over \$518,401



# #5 VEHICLE MILEAGE EXPENSE

The next expense you guys are going to want to pay attention to is Car and Truck and Equipment Expense - That means if you use a Vehicle to go to

- Conferences
- Meetings
- buy some office supplies
- Attend a business meeting
- Meet with your business partner
- Visit a USPS, Fedex, UPS to ship out your products
- Driving to meet clients or customers
- Driving to meet with your accountant or small business lawyer
- Driving to the bank for a business transaction
- Driving to the store to pick up office supplies
- Any other business-related errand



## You should not claim:

Your commute to your business building (e.g., driving from your home to your business location, lunch, etc.)

Extra errands when making business-related runs (e.g., grabbing coffee when you go to the bank)

You can deduct the cost of the vehicle! The IRS is very fussy about writing off the cost of vehicles, so if you plan to take a vehicle deduction, keep a detailed log of your business miles and other expenses if you want to write them off, too. There is a whole list of deduction that u can actually deduct if want to. The IRS has two methods: the standard mileage or actual expense method.

## Standard Mileage- 56 Cents per mile (2021)

Calculating mileage for taxes using the standard method is a three-step process:

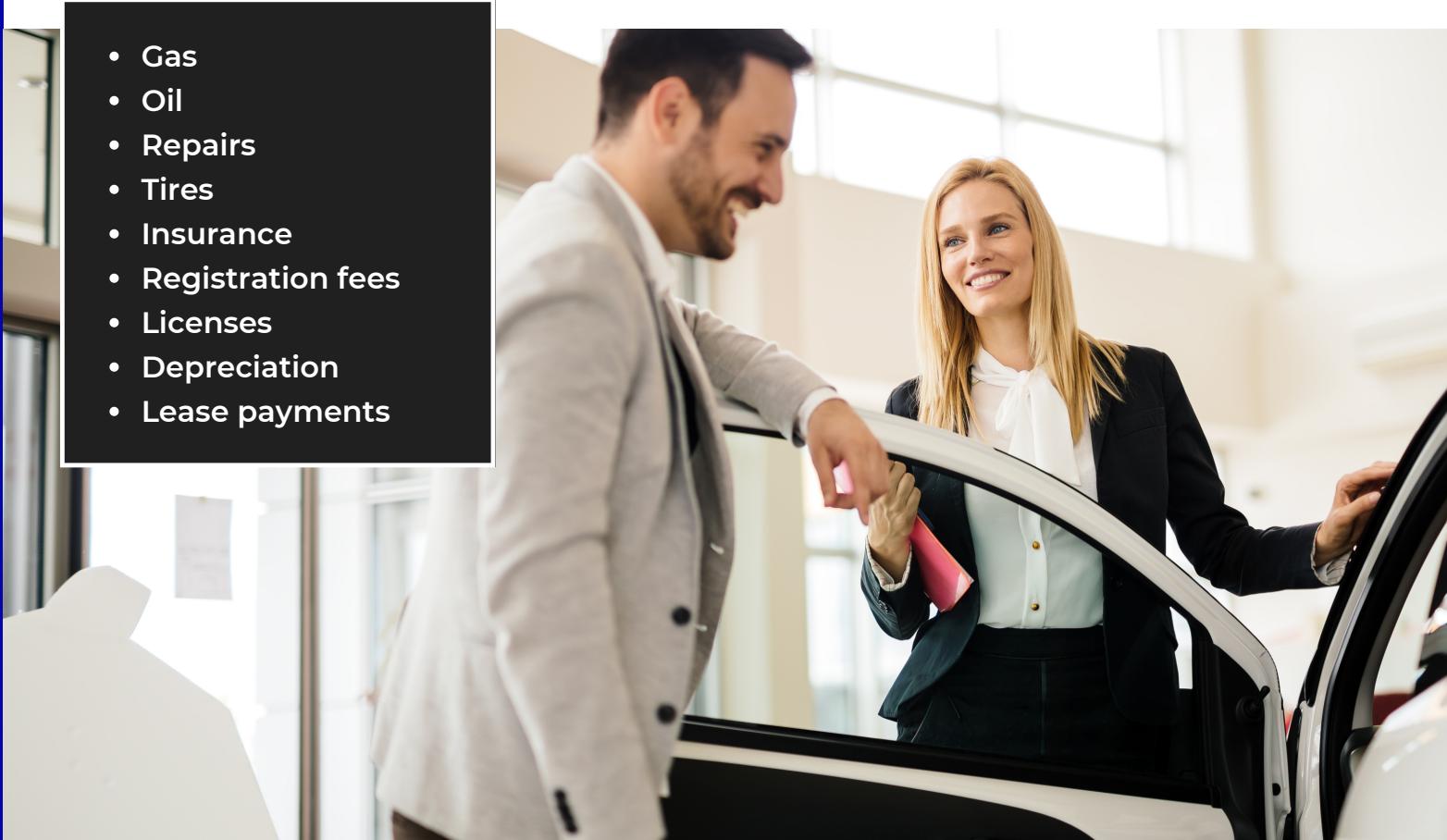
1. Determine if you can use the standard mileage rate
2. Know the 2021 mileage deduction rate
3. Multiply business miles driven by the rate

## Actual Expense Method

If you use the actual expense method, keep track of what it costs to operate your car. From there, you can record what portion of the overall expenses applies to business use.

For the actual expense method, include the following expenses:

- Gas
- Oil
- Repairs
- Tires
- Insurance
- Registration fees
- Licenses
- Depreciation
- Lease payments



## How to calculate your actual expenses for business

To calculate actual expenses, figure out what percentage of your car you used for business purposes. You can do this by dividing your business miles driven by your total annual miles.

Next, multiply your business use percentage by your total car expenses.

Let's say your total car expenses for the year were \$6,850:

Lease Payments: \$3,600

Gas: \$2,000

Repairs: \$1,000

Tires: \$250

You drove a total of 60,000 miles during the year. Of those 60,000 miles, 20,000 were for business purposes.

First, divide your business miles by your total miles:

20,000 business miles / 60,000 total miles = 33%

Now, multiply your business mileage percentage by your total car expenses:

33% X \$6,850 = \$2,260.50

You can claim approximately \$2,260.50 for the business mileage deduction using the actual expense method.

# #6 HOME OFFICE DEDUCTION

## EXPENSE

The Home Office Expense is one of the most in-demand tax deduction of 2020/2021 due to the global pandemic as the work environment shifted to the home. So how can Online and Ecom Business owners take advantage of this? The IRS offers a generous Home Office Deduction for anyone that is self-employed (not available if you are just an employee of a company, sorry!). There are two rule to receive the deduction:

- Principal Place of Business
- Exclusive use for Business



This means that the space you are using can only be used for the business purpose (so a living room would be a bad idea) and you can't have another location such as an office that is considered your main place of business.

If you are able to meet the two conditions above, these are the two method you can get this incredible tax deduction:

## 1. Simplified Method

- \$5 per square foot
- Up to 300 square feet
- Max \$1500 a Year

## 2. Actual Deduction Method

### Steps for Actual Expense Deduction:

- Measure your office
- List out all expenses that can be considered home office deduction (direct and indirect)
- Compare both simple and actual expense method to see which one is better for you
- Keep detailed records of all the business expenses you think you'll deduct

These are all the Possible deductions under the Actual Deduction method

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Rent</li> <li>• Mortgage Payment</li> <li>• Water Bill</li> <li>• Electric Bill</li> </ul> | <ul style="list-style-type: none"> <li>• Internet Access</li> <li>• Gas Bill</li> <li>• Repair and Maintenance</li> <li>• Mortgage interest,</li> <li>• Home Insurance</li> </ul> |
|---|---|

Here is an example from our Tax Free Ecom Course!

## Home Deduction Example 1



Andrew's following home expenses include: \$5,000 in mortgage insurance, \$2,000 in insurance premium, \$3,000 in utilities, and he painted his office for \$350 dollars. His Home office takes up 600 square foot of his 1500 square foot home.

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- Standard Method: \$1,500 max deduction
- Actual Method: \$4,350 deduction
- Home office represents 40% of the home ( $600/1,500$ )
- Apply the % to total indirect expenses ( $\$10,000 \times 40\%$ )
- Add direct expense of \$350 for house painting

**\$2,850 difference!**

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# #7 BONUS DEPRECIATION

Depreciation is one of the most powerful Tax Deduction available to Ecom Owners! It is considered the “invisible” deduction as it really can’t be quantifiable sometimes as to why it is so important. Essentially, Depreciation is a reduction in the value of an asset with the passage of time, due to wear and tear. The government allows you to get a tax benefit for any asset that you buy that has a useful life longer than a year by taking a chunk of the asset value as a tax deduction. Normally, you would only be allowed to take a small portion of the depreciation expense every year, but recently the IRS has been particularly generous with small business owners and have these two special accelerated depreciation methods:

- 1.Bonus Depreciation
- 2.Section 179

Bonus Depreciation is a tax incentive created as a way to encourage investment by small businesses. It allows you to take a larger than normal depreciation earlier on in the life of the asset. Due to the Tax Cuts and Jobs Act, Bonus depreciation was increased from 50%...to 100% for 2021

## Eligible Assets

Depreciable property with a useful life of less than 20 years

- Furnitures
- Manufacturing equipment
- Heavy machinery
- Computer Software
- Qualified film & television productions

**Note:** Land and buildings do not qualify

## Qualifications of Assets

- Property your business owns and for business use only
- Determinable useful life > 1 year
- Restrictions - equipment used to build capital improvement, intangible property, and property disposed of in the same tax year





## Pro Tip

Don't be afraid of investing in your growth! The US Government is heavily encouraging small businesses to hire employees and build manufacturing in the United States by providing a multitude of different tax deductions and credits for online and ecom owners out there. If you are thinking of building out a US Operation, this is the absolute best time to do so!



**3 Simple Steps to Claim the Bonus Depreciation (For a more in-depth guide check out our course, Tax Free Ecom: Hyperdrive Your After Tax Profit)**

**Step 1: Purchase Qualified Business Property**

**Step 2: Place the Property in Service**

**Step 3: Claim Bonus Depreciation on your Tax Return.**



# #8 LEGAL AND PROFESSIONAL SERVICE FEES EXPENSE

Legal and Professional Services Fees is another incredible deduction for business owners as these costs can start to build up fast! The following services that you use for your business can be 100% Tax Deductible on your business return in 2021 :

- Organization dues (including state bar dues)
- Legal fees for business matters
- Accountant fees
- Short-term consulting fees
- One-time management consultation fees
- One-time marketing consultation fees
- One-time engineering consultation fees
- One-time technical consultation fees
- Fees paid for Web site analysis
- Other outside consulting fees for short-term advice on specific deals
- One-time logo and web design fees
- Fees paid to talent agents or business and personal managers who aren't paid as employees



# #9 HOW TO TAKE ADVANTAGE OF CAPITAL GAIN AND OTHER DEFERRAL STRATEGIES

These are the list of assets that qualifies for capital asset treatment.

- Home
- Furniture
- Stock or bonds
- Mutual Funds
- ETF
- Cars
- Collectibles
- Artwork

## 1. Short Term Capital Gain Strategy

Use Any Excess in Capital Losses in Other Ways Capital losses will offset capital gains and effectively lower capital gains tax for the year. But what if the losses are greater than the gains? Two options are open. If losses exceed gains by up to \$3,000, you may claim that amount against your income. The loss even rolls over, and any excess loss not used in the current year can be deducted from income to reduce your tax liability in future years.

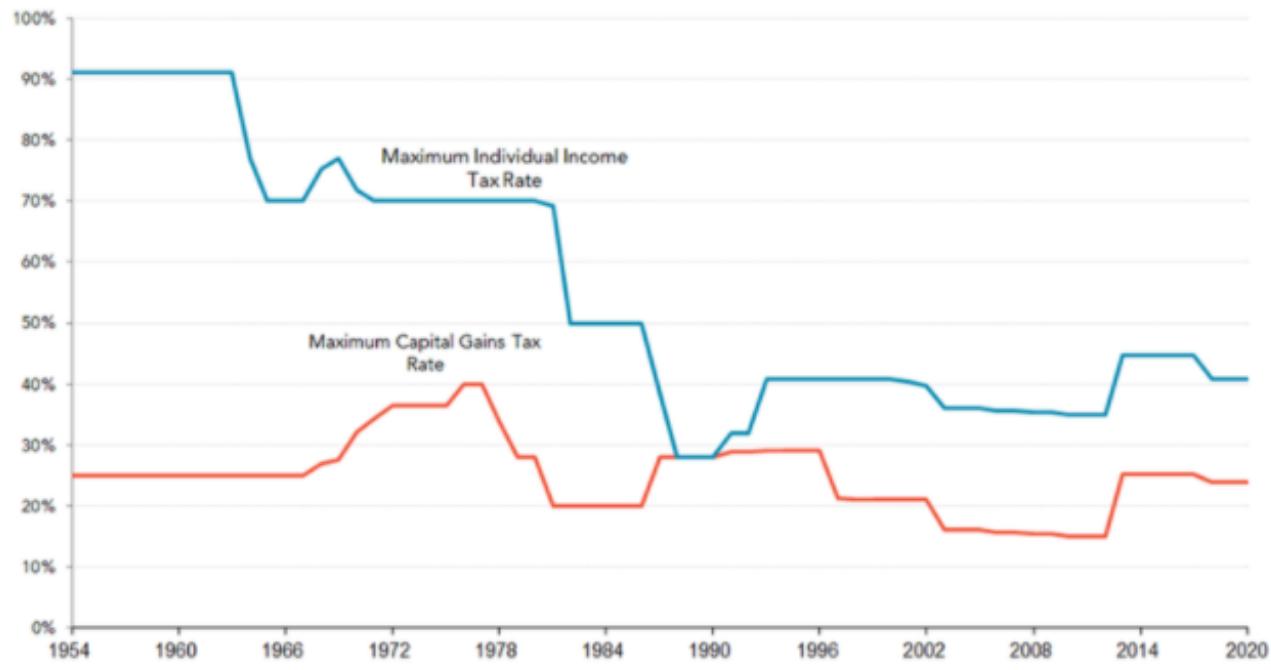
Let's consider the example of an investor who realized a gain of \$5,000 from the sale of some securities, while also incurring a loss of \$20,000 from selling others. The capital loss can be used to cancel out tax liability for the \$5,000 gain. The remaining capital loss of \$15,000 can then be used to offset income, and thus the tax on those earnings.

If the investor's annual income is \$50,000, they can, in the first year, report \$50,000 minus a maximum annual claim of \$3,000. That makes a total of \$47,000 in taxable income. The investor still has \$12,000 of capital losses and so could deduct the \$3,000 maximum from their taxable income for the next four years.

However, be mindful of selling securities at a loss to realize a tax advantage, before turning around and buying much the same investment all over again. If you do that within 30 days or less, you could run afoul of the IRS wash-sale rule against such a sequence of transactions.

Material capital gains of any kind must be reported to the IRS on a Schedule D form Consider enlisting the help of an accountant or other financial advisor.

Capital losses can be rolled forward to subsequent years to reduce any income in the future and lower a taxpayer's tax burden.



## 2. Use Tax-Advantaged Retirement Plans

Among the many reasons to hold retirement plans, including 401(k)s, 403(b)s, Roth IRAs and traditional IRAs, is that your investments grow within them without being subject to capital gains tax. In other words, within a retirement plan, you can buy and sell without losing a cut to Uncle Sam.

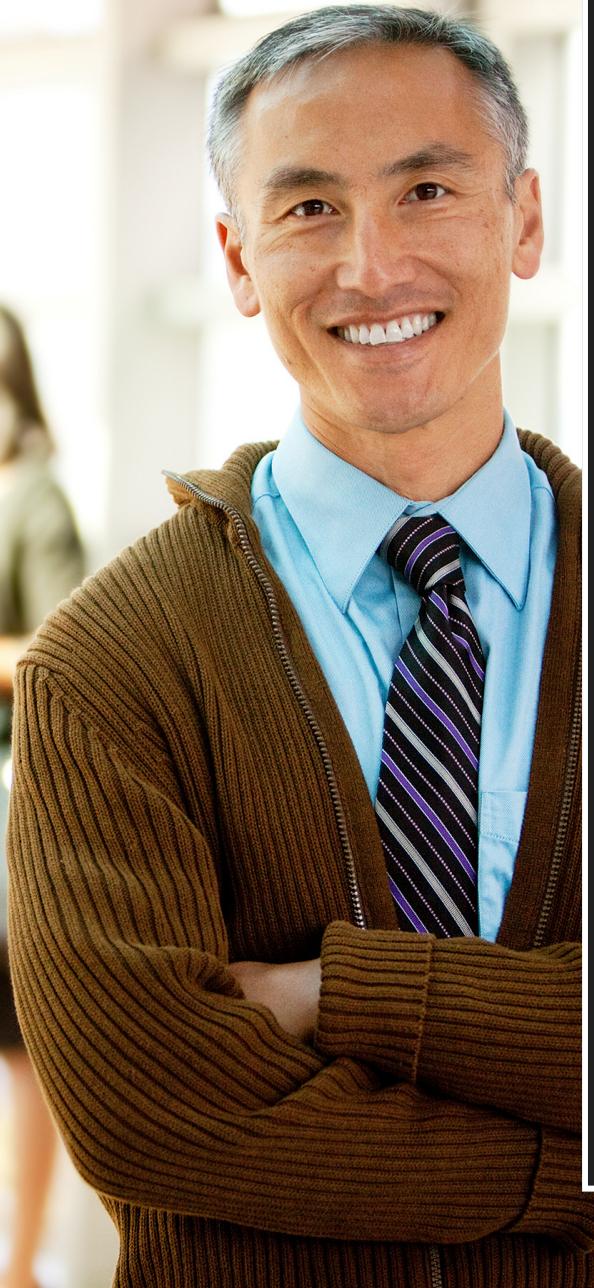
Additionally, most plans do not require participants to pay tax on the funds until they are withdrawn from the plan. That said, distributions are taxed as ordinary income regardless of the underlying investment. Taking money out of the plan at retirement means you'll likely be in a lower tax bracket. Your money will also have grown in a tax-free environment.

## 3. Time Gains Around Retirement

As you actually approach retirement, consider waiting until you actually stop working to sell profitable assets. The capital gains tax bill might be reduced if your retirement income is low enough. You may even be able to avoid having to pay capital gains tax at all.

In short, be mindful of the impact of taking the tax hit when working rather than after you're retired. Realizing the gain earlier might serve to bump you out of a "no-pay" bracket and cause you to incur a tax bill on the gains.





I hope this eBook has been useful for you and that you can implement some of these strategies to reduce your tax. There is NO NEED for you to be paying so much tax if you don't need to. Keep that money for yourself and give yourself a pay raise!

## DISCOUNT FOR TAX FREE ECOM COURSE

If you are interested to get our 'TAX FREE ECOM' course, we would like to give you a 15% discount off code for you to purchase, these are limited to 20 per month, so please redeem them when you can:

<https://freecashflow.io/course>

**Use Code At Checkout: "TAXFREE-15"**

If you are interested to work with our agency directly, please book a call here:

<https://freecashflow.io/call>

To your success,  
Alan Chen, CPA  
FreeCashFlow.io CEO