

Dear Client:

If you've recently started a business, or if you're in the process of starting one now, you should be aware that the way you treat some of your initial expenses for tax purposes can make a big difference in your tax bill.

Generally, expenses incurred before a business begins don't generate any deductions or other current tax benefits.

However, taxpayers, whether they are individuals, corporations or partnerships, are permitted to elect to write off "start-up expenses" over a period of 60 months or more that begins with the actual start of the business. (A write-off period of more than 60-months might be attractive to some taxpayers, for example, taxpayers with expiring net operating losses). Start-up expenses include, with a few exceptions, all expenses incurred to investigate the creation or acquisition of a business, to actually create the business, or to engage in a for-profit activity in anticipation of that activity becoming an active business. To be eligible for the election, an expense also must be one that would be deductible if it were incurred after the business actually began. An example of a start-up expense is the cost of analyzing the potential market for a new product.

A similar 60-month-or-more-write-off election is available, to corporations and partnerships, for their "organization expenses." To qualify as an organization expense, the expense must be incident to the creation of the corporation or partnership, be an expense that, in the absence of the election, would be capitalized, and be an expense that, if it had been incurred in connection with a corporation or partnership that had a limited life, would have been eligible to have been written off over that limited life. Examples of organization expenses are legal and accounting fees for services related to organizing the new entity (such as fees for drafting the corporate charter or partnership agreement) and filing fees (such as fees paid to the state of incorporation).

As you can see, it's important to keep a record of these start-up and organization expenses and, where called for, to make the appropriate 60-month-or-more-write-off election. As mentioned above, if an election isn't made, there is no current tax benefit derived from the eligible expenses covered by the election. Also, you should be aware that in each instance, an election requires the filing of detailed statements and, once made, is irrevocable.

We will be happy to work with you in making any of the elections discussed above and in all other aspects of starting a business.

Sincerely,

*Titus, Urbanski & DeMarco, Inc.*

Certified Public Accountants