



Landon Mance & Austin Peterson
Financial Planners
Backbone Planning Partners



Small Business Rent Expenses May Be Tax Deductible

Rent is any amount paid for the use of property that a small business doesn't own. Typically, rent can be deducted as a business expense when the rent is for property the taxpayer uses for the business. Here are some things small business owners should keep in mind when it comes to deducting rental expenses:

Lease or purchase:

- Sometimes a business must determine whether its payments are for rent or for the purchase of the property because different tax rules may apply.
- Businesses must first determine whether an agreement is a lease or a conditional sales contract.
- Payments made under a conditional sales contract aren't deductible as rent expense.

Unreasonable rent:

- Businesses can't take a rental deduction for unreasonable rents paid. Rent is unreasonable for deduction when it is higher than market value or a professional appraisal.
- Usually, unreasonable rent becomes a problem when business owners and the lessors are related.
- Rent paid to a [related person](#) is reasonable if it's the same amount a business owner would pay to a stranger for use of the same property.

Office in the home:

- A business owner's workplace can be in their home if they have a home office that qualifies as their principal place of business.
- Business owners who rent their home and have a home office as their principal place of business may also qualify for a deduction.
- [IRS Publication 587](#), *Business Use of Your Home, Including Use by Daycare Providers*, has more details about this deduction.

Rent paid in advance:

- Rent paid for a business is usually deductible in the year it is paid.
- If a business pays rent in advance, it can deduct only the amount that applies to the use of the rented property during the tax year. The business can deduct the rest of the payment over the period to which it applies.
- Business owners can review [Publication 535](#), *Business Expenses*, for detailed examples on rent paid in advance.

Canceling a lease: A business can usually deduct the costs paid to cancel a business lease.

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Backbone Planning Partners
7477 W Lake Mead Blvd Ste 230
Las Vegas, NV 89128
(702) 569-7316

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7477 W Lake Mead Blvd, Suite 230 • Las Vegas, NV 89128
702-569-7316

www.backboneplanning.com

landon.mance@lfg.com; austin.peterson@lfg.com

Austin Peterson & Landon Mance

Financial Planners

Please email christina.johnson@lfg.com if you'd like to be removed from this mailing list.

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