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Start-Up Costs of Going into Business

When you are in the development and planning stage of starting a business, you need to plan for your initial costs and understand their taxation.

A start-up cost must be a cost that would be deductible if it were paid to operate an existing business (in the same field as the one you entered into). This cost must be incurred or paid and it before your business' first day of operation.

The following is a list of typical start-up costs involved in starting a business.

- Pre-Opening Salaries and Wages - including instructors/trainees
- Prepaid Insurance Premiums
- Inventory
- Legal, Accounting and Consulting Fees
- Rent Deposits
- Utility Deposits
- Supplies
- Advertising and Promotions - brochures, business cards, flyers, newspaper ads, etc.
- Licenses - permits - inspections
- Market Surveys - to identify number and location of potential customers or distributors
- Site Surveys - to locate a place of business
- Supplier/Labor Market Analysis - to assess cost and supply of local suppliers/workers
- Travel Expenses: to secure suppliers, distributors or customers.

Note: Start-up costs do not include research and development, interest, or taxes

Organization costs, such as state registration fees, and legal/accounting fees, required to set-up an LLC, partnership, or corporation, are deductible in the same manner as start-up costs. Costs of marketing and issuing equity interests are not deductible, as they are part of the capital cost basis.

Start-up costs and organization costs, of up to \$5,000 each, are deductible as "other expense" in the business' first year of operation, while the balance of those costs are deductible, as amortization expense, over the next 15 years. If the first year's costs exceed \$50,000, that year's

deduction is reduced. To elect to amortize start-up or organizational costs file IRS form 4562 with the first tax return of the business.

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