

Tax Deductions for Writers

by Carol Topp, CPA

<http://TaxesForWriters.com/>

Some of the common tax deductions for writers, authors and publishers (including self-publishers) include:

- Advertising and promotional costs including your website, ads, bookmarks and business cards that serve as advertisements.
- Commission and fees. If you have an agent that takes a commission based on your royalties, record it here. Some authors prefer to put their Paypal or shopping cart fees from book sales in this category. The IRS allows merchant fees to be included in cost of goods sold, but some authors prefer the fees to be more visible so they know what they are spending on merchant fees. This helps them shop for a better plan.
- Car expenses. Use a mileage log or a calendar. The IRS requires the records be kept contemporaneously, meaning you should not rely on your memory. Estimates are not allowed; there must be actual mileage records. The IRS sets the per mile rate and adjusts it annually. For example in 2010 the mileage rate for business miles was \$.50/mile. In 2011 it will be \$.51 per mile.
- Contract labor for your editor, graphic designer, or anyone you hire as an independent contractor.
- Depreciation applies to purchases of computers, furniture or equipment that will last longer than a year. Depreciation is an accounting term meaning that the value of the equipment is deducted on the tax return over several years. A Section 179 expense means that the full cost of the equipment is deducted in the year it was purchased. Your CPA can determine whether you should depreciate your equipment expense or deduct all of it as a Section 179 expense. Depreciation calculations can be complex. Give your CPA information on your purchase including the cost and the date of purchase and he or she will calculate the correct deduction to use on the tax return.
- Insurance on your inventory or professional liability insurance on your business.
- Legal and professional services to lawyers and accountants. Other professionals are listed under contract labor.
- Office expense including postage, paper, ink, envelopes, etc.
- Taxes and licenses including sales tax paid to your state from book sales and business or vendor's licenses.
- Travel, meals and entertainment for business including writer's workshops and conferences. Deduct the mileage or car rental, lodging and one-half of the meals spent while on a business trip. If you take your spouse or family, only the portion for you, the business owner, is deductible.
- Utilities such as telephone, cell phone and internet service charges. The first phone line into a home is considered a personal expense and not deductible as a business expense. See my caution below about mixing personal and business use of telephones and the internet. Only the business portion is a tax deduction.

- **Other Expenses.** Some common business expenses for authors to include in this category include:
 - Books, magazines, and subscriptions. Any publication that helps your writing and publishing business or is used in researching your book is deductible. The cost of this book is a tax deduction.
 - Professional organization dues.
 - Professional development to make you a better writer including classes, conferences and writers workshops.
 - Fees to purchase an ISBN, a Library of Congress Number (LCCN) and bar codes, for your self-published book.

Take all the deductions you are entitled to but watch out for the following:

- **Printing.** The cost to print your book is part of your cost of goods sold, which is included in Part I Income on Schedule C. I discussed cost of goods sold in Chapter Eleven on Inventory. Do not put the cost to print your books under supplies or elsewhere in Part II Expenses.
- **Merchant fees** such as Paypal or website shopping cart fees. These fees can be a part of the cost of good sold but some authors prefer to list them under expenses. Frequently an author will only record the amount they are paid *after* the fees are deducted (the net sales after fees) for simplicity. In this case, merchant fees are not listed as cost of goods sold or as a separate business expense.

Example: Your ebook may sell for \$10.00 online, but after Paypal takes its processing fees, you receive only \$9.50. You could record \$10 of income and \$.50 of merchant fees (as part of cost of goods sold or as an expense) or just record \$9.50 income and no merchant fee expenses.

Either method will result in the same bottom line for tax purposes. The advantage of recording merchant fees is that you have visibility into the total expenses. The disadvantage is that it involves more record keeping.

- **Mixed use** (business and personal use) for internet fees, computer, cell phone, etc. You may only deduct the business portion of these shared expenses. The IRS does not expect a detailed time log, but has accepted a one month log as representative for the entire tax year. You could also use any reasonable allocation to separate personal and business use.
- **Business use of the home** is a business deduction, but only if the office portion of your home is used *regularly and exclusively* for business. An office cannot be used for writing and used by the kids for homework and be eligible for the deduction. Many authors may regularly use their office, but find the exclusive requirement to be difficult to meet and therefore do not take the business use of the home deduction.

True Story: I have worked from my home office for ten years, but have never taken the business use of the home deduction because my daughters and husband also use my office. On the other hand, my neighbor, Ed, is a salesman with an office devoted solely to his work. His family uses a separate laptop in the family room for homework and personal e-mail. Ed is entitled to a business use of the home deduction, while I am not.

- **Personal Travel.** Avoid using a personal trip with the hope to write a book about it as a business deduction. It has been tried before and failed in tax court. Linda Lewis, an attorney has written an article titled “Authors and the Internal Revenue Code.” Ms. Lewis shares some vain attempts by authors to claim rather outrageous tax deductions. She also shares why and how some trips are legitimate business deductions. You'll find the article at Eclectics.com under Writing Articles.

Unique Deductions for Authors

The IRS tax code does have some special provisions just for authors. It is very common for an author to incur expenses in researching and writing a book. He or she may need to travel or buy reference books. In the past, these expenses could not be deducted until the book sold, and then in proportion to the book sales, meaning a little at a time, over several years. In accounting jargon, we call that “amortizing an expense.” For authors, this amortization requirement was unreasonable. How many years would a book sell, if it sold any? Authors had no idea of how to amortize their research expenses.

In 1986, sanity prevailed and now authors can deduct their research fees as business deductions in the year they are incurred. Cyn Mason (<http://www.forwriters.com/taxes.html>) has written an excellent article on this issue. She states, “if you are an ongoing sole proprietorship incurring ordinary and necessary expenses relating to doing business during your tax year, you may simply write off your expenses in the year incurred exactly like any other small business.”¹

Author and accountant, Carol Topp, CPA (CarolToppCPA.com) makes complicated topics such as taxes clear to writers, authors, bloggers and self-publishers. She is the author of *Business Tips and Taxes for Writers*. Her website is TaxesForWriters.com

¹ <http://www.forwriters.com/taxes.html>, “Taxes for Writers” by Cyn Mason, accessed 8/13/2009