



Department
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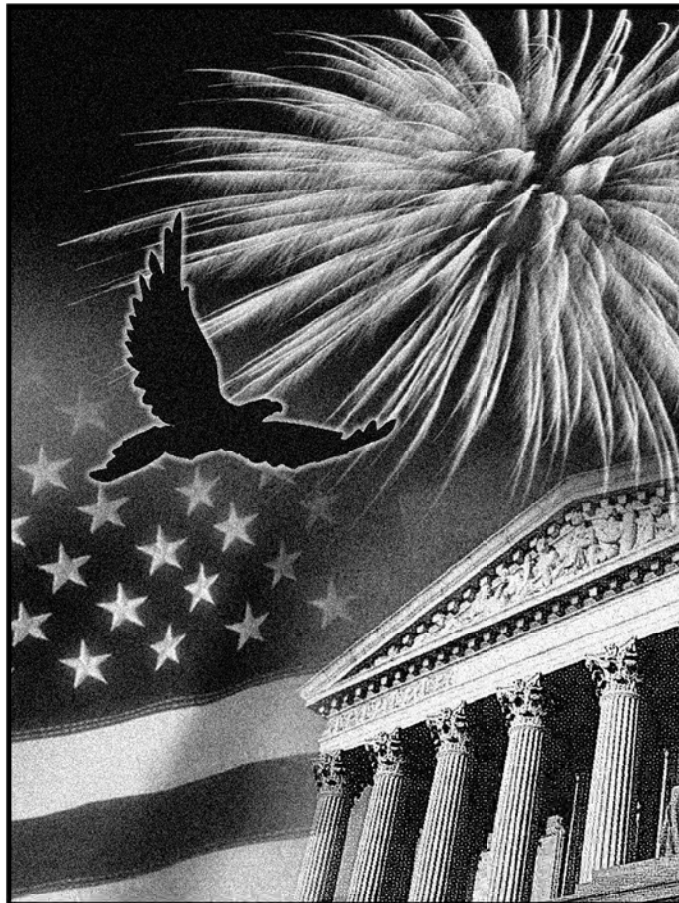
Internal
Revenue
Service

Publication 535

Cat. No. 15065Z

Business Expenses

For use in preparing
2009 Returns



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Introduction

This publication discusses common business expenses and explains what is and is not deductible. The general rules for deducting business expenses are discussed in the opening chapter. The chapters that follow cover specific expenses and list other publications and forms you may need.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can email us at *taxforms@irs.gov. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

Ordering forms and publications. Visit www.irs.gov/formspubs to download forms and publications, call 1-800-829-3676, or write to the address below and receive a response within 10 days after your request is received.

- Qualified disaster expenses
- Business start-up and organizational costs
- Reforestation costs
- Retired asset removal costs
- Barrier removal costs
- Film and television production costs

Useful Items

You may want to see:

Publication

- 544** Sales and Other Dispositions of Assets

Form (and Instructions)

- 3468** Investment Credit
- 8826** Disabled Access Credit

See chapter 12 for information about getting publications and forms.

Carrying Charges

Carrying charges include the taxes and interest you pay to carry or develop real property or to carry, transport, or install personal property. Certain carrying charges must be capitalized under the uniform capitalization rules. (For information on capitalization of interest, see chapter 4.) You can elect to capitalize carrying charges not subject to the uniform capitalization rules, but only if they are otherwise deductible.

You can elect to capitalize carrying charges separately for each project you have and for each type of carrying charge. For unimproved and unproductive real property, your election is good for only 1 year. You must decide whether to capitalize carrying charges each year the property remains unimproved and unproductive. For other real property, your election to capitalize carrying charges remains in effect until construction or development is completed. For personal property, your election is effective until the date you install or first use it, whichever is later.

How to make the election. To make the election to capitalize a carrying charge, write a statement saying which charges you elect to capitalize. Attach it to your original tax return for the year the election is to be effective. However, if you timely filed your return for the year without making the election, you can still make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). Attach the statement to the amended return and write "Filed pursuant to section 301.9100-2" on the statement. File the amended return at the same address you filed the original return.

IF you . . .	THEN . . .
Elect to deduct research and experimental costs as a current business expense	Deduct all research and experimental costs in the first year you pay or incur the costs and all later years.
Do not deduct research and experimental costs as a current business expense	If you meet the requirements, amortize them over at least 60 months, starting with the month you first receive an economic benefit from the research. See Research and Experimental Costs in chapter 8.

Research and Experimental Costs

The costs of research and experimentation are generally capital expenses. However, you can elect to deduct these costs as a current business expense. Your election to deduct these costs is binding for the year it is made and for all later years unless you get IRS approval to make a change.

If you meet certain requirements, you may elect to defer and amortize research and experimental costs. For information on electing to defer and amortize these costs, see [Research and Experimental Costs](#) in chapter 8.

Research and experimental costs defined. Research and experimental costs are reasonable costs you incur in your trade or business for activities intended to provide information that would eliminate uncertainty about the development or improvement of a product. Uncertainty exists if the information available to you does not establish how to develop or improve a product or the appropriate design of a product. Whether costs qualify as research and experimental costs depends on the nature of the activity to which the costs relate rather than on the nature of the product or improvement being developed or the level of technological advancement.

The costs of obtaining a patent, including attorneys' fees paid or incurred in making and perfecting a patent application, are research and experimental costs. However, costs paid or incurred to obtain another's patent are not research and experimental costs.

Product. The term "product" includes any of the following items.

- Formula.
- Invention.
- Patent.
- Pilot model.
- Process.
- Technique.
- Property similar to the items listed above.

It also includes products used by you in your trade or business or held for sale, lease, or license.

Costs not included. Research and experimental costs do not include expenses for any of the following activities.

- Advertising or promotions.
- Consumer surveys.
- Efficiency surveys.
- Management studies.

- Quality control testing.
- Research in connection with literary, historical, or similar projects.
- The acquisition of another's patent, model, production, or process.

When and how to elect. You make the election to deduct research and experimental costs by deducting them on your tax return for the year in which you first pay or incur research and experimental costs. If you do not make the election to deduct research and experimental costs in the first year in which you pay or incur the costs, you can deduct the costs in a later year only with approval from the IRS.

Research credit. If you pay or incur qualified research expenses, you may be able to take the research credit. For more information about the research credit, see the instructions to Form 6765, Credit for Increasing Research Activities.

Intangible Drilling Costs

The costs of developing oil, gas, or geothermal wells are ordinarily capital expenditures. You can usually recover them through depreciation or depletion. However, you can elect to deduct intangible drilling costs (IDCs) as a current business expense. These are certain drilling and development costs for wells in the United States in which you hold an operating or working interest. You can deduct only costs for drilling or preparing a well for the production of oil, gas, or geothermal steam or hot water.

You can elect to deduct only the costs of items with no salvage value. These include wages, fuel, repairs, hauling, and supplies related to drilling wells and preparing them for production. Your cost for any drilling or development work done by contractors under any form of contract is also an IDC. However, see [Amounts paid to contractor that must be capitalized](#), later.

You can also elect to deduct the cost of drilling exploratory bore holes to determine the location and delineation of offshore hydrocarbon deposits if the shaft is capable of conducting hydrocarbons to the surface on completion. It does not matter whether there is any intent to produce hydrocarbons.

If you do not elect to deduct your IDCs as a current business expense, you can elect to deduct them over the 60-month period beginning with the month they were paid or incurred.

Amounts paid to contractor that must be capitalized. Amounts paid to a contractor must be capitalized if they are either: