

**Kickbacks.** A kickback is a payment for referring a client, patient, or customer. The common kickback situation occurs when money or property is given to someone as payment for influencing a third party to purchase from, use the services of, or otherwise deal with the person who pays the kickback. In many cases, the person whose business is being sought or enjoyed by the person who pays the kickback is not aware of the payment.

For example, the Yard Corporation is in the business of repairing ships. It returns 10% of the repair bills as kickbacks to the captains and chief officers of the vessels it repairs. Although this practice is considered an ordinary and necessary expense of getting business, it is clearly a violation of a state law that is generally enforced. These expenditures are not deductible for tax purposes, whether or not the owners of the shipyard are subsequently prosecuted.

**Form 1099-MISC.** It does not matter whether any kickbacks paid during the tax year are deductible on your income tax return in regards to information reporting. See Form 1099-MISC for more information.

**Car and truck expenses.** The costs of operating a car, truck, or other vehicle in your business are deductible. For more information on how to figure your deduction, see Pub. 463.

**Charitable contributions.** Cash payments to an organization, charitable or otherwise, may be deductible as business expenses if the payments are not charitable contributions or gifts and are directly related to your business. If the payments are charitable contributions or gifts, you cannot deduct them as business expenses. However, corporations (other than S corporations) can deduct charitable contributions on their income tax returns, subject to limitations. See the Instructions for Form 1120 for more information. Sole proprietors, partners in a partnership, or shareholders in an S corporation may be able to deduct charitable contributions made by their business on Schedule A (Form 1040).

**Example.**

You paid \$15 to a local church for a half-page ad in a program for a concert it is sponsoring. The purpose of the ad was to encourage readers to buy your products. Your payment is not a charitable contribution. You can deduct it as an advertising expense.

**Example.**

You made a \$100,000 donation to a committee organized by the local Chamber of Commerce to bring a convention to your city, intended to increase business activity, including yours. Your payment is not a charitable contribution. You can deduct it as a business expense.

See Pub. 526 for a discussion of donated inventory, including capital gain property.

**Club dues and membership fees.** Generally, you cannot deduct amounts paid or incurred for membership in any club organized for business, pleasure, recreation, or any other social purpose. This includes country clubs, golf and athletic clubs, hotel clubs, sporting clubs, airline clubs, and clubs operated to provide meals under circumstances generally considered to be conducive to business discussions.

**Exception.** The following organizations are not treated as clubs organized for business, pleasure, recreation, or other social purpose unless one of the main purposes is to conduct entertainment activities for members or their guests or to provide members or their guests with access to entertainment facilities.

- Boards of trade.
- Business leagues.
- Chambers of commerce.
- Civic or public service organizations.
- Professional organizations such as bar associations and medical associations.
- Real estate boards.
- Trade associations.

**Credit card convenience fees.** Credit card companies charge a fee to businesses who accept their cards. This fee when paid or incurred by the business can be deducted as a business expense.

**Damages recovered.** Special rules apply to compensation you receive for damages sustained as a result of patent infringement, breach of contract or fiduciary duty, or antitrust violations. You must include this compensation in your income. However, you may be able to take a special deduction. The deduction applies only to amounts recovered for actual economic injury, not any additional amount. The deduction is the smaller of the following.

- The amount you received or accrued for damages in the tax year reduced by the amount you paid or incurred in the year to recover that amount.
- Your losses from the injury you have not deducted.

**Demolition expenses or losses.** Amounts paid or incurred to demolish a structure are not deductible. These amounts are added to the basis of the land where the demolished structure was located. Any loss for the remaining undepreciated basis of a demolished structure would not be recognized until the property is disposed of.

**Education expenses.** Ordinary and necessary expenses paid for the cost of the education and training of your employees are deductible. See Education Expenses in chapter 2.

You can also deduct the cost of your own education (including certain related travel) related to your trade or business. You must be able to show the education maintains or improves skills required in your trade or business, or that it is required by law or regulations, for keeping your license to practice, status, or job. For example, an attorney can deduct the cost of attending Continuing Legal Education (CLE) classes that are required by the state bar association to maintain his or her license to practice law.

Education expenses you incur to meet the minimum requirements of your present trade or business, or those that qualify you for a new trade or business, are not deductible. This is true even if the education maintains or improves skills presently required in your business. For more information on education expenses, see Pub. 970.

**Franchise, trademark, trade name.** If you buy a franchise, trademark, or trade name, you can deduct the amount you pay or incur as a business expense only if your payments are part of a series of payments that are:

1. Contingent on productivity, use, or disposition of the item.
2. Payable at least annually for the entire term of the transfer agreement, and
3. Substantially equal in amount (or payable under a fixed formula).

When determining the term of the transfer agreement, include all renewal options and any other period for which you and the transferee reasonably expect the agreement to be renewed.

A franchise includes an agreement that gives one of the parties to the agreement the right to distribute, sell, or provide goods, services, or facilities within a specified area.

**Impairment-related expenses.** If you are disabled, you can deduct expenses necessary for you to be able to work (impairment-related

SCHEDULE C

