

# Nice Try Deductions

## *You mean I can't claim that?*

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When it comes to taxes, people try to deduct some pretty outrageous items. In all cases, we help our clients get every possible deduction they are entitled to. If something can't be deducted, we try to educate them on why and what the penalties and interest would be if the deductions were disallowed. Here's some items you might think are deductible, but, sorry to be the bearer of bad news – they're not!

### Common nice try deductions

**Personal travel/vacations and spouses or family on business trips.** If you travel for business, obviously it's deductible. But if it's a flat out personal vacation, it's not – it doesn't matter who goes.

If you do mix business and personal travel, you're going to be able to deduct the travel for yourself, the hotel stay while you're on that business trip and any reasonable extension for personal purposes. That might mean if you stayed an extra two days, the IRS would probably be okay. If you stayed an extra week and just had a vacation, it's not going to fly.

You will not be able to deduct the travel costs for your spouse or kids, even on a business trip, which basically means their airline costs.

**Kids.** You can deduct certain items for your dependents, but there are also a slew of things you're not going to be able to deduct for your kids, no matter what. Say you loaned money to your kid for him to start a business. He doesn't pay you back and the business fails. You're likely not going to be able to deduct that loan unless you did some type of legal remedy to go after your own kid, which usually doesn't happen. You're going to have to first pursue collection and attempt every avenue to collect. If you do so, you may get a capital loss. But in most cases, it's simply a gift.

Paying for your child's college tuition is not deductible unless you go through one of the approved federal or state credits/deductions. Any personal stuff for your kids also doesn't qualify – clothes, food, toys, etc.

You can't deduct anything for someone who is not your dependent (with certain exceptions for children of divorced parents and other limited circumstances).

**Clothing and makeup.** Generally, this isn't going to be deductible for the majority of the population. You may be able to deduct certain items such as steel toed boots for the construction industry because you're not going to wear those every day. Or scrubs if you're in the medical profession. But, if you have to wear a tie to work, you're not going to get to deduct your ties and suits.

**Meals and entertainment.** In order to deduct any sort of meals and entertainment in a business setting, you have to document where, who and the business relationship of that meeting or event. Even if you are able to prove that, you only get to deduct 50% of the costs.

**Hobbies.** Hobbies are not deductible unless there is intent to make money and you can prove that you're running it as a business. That would mean having a business plan, a separate checking account and no comingling of funds with personal stuff.

**Moving expenses.** You cannot deduct moving expenses unless they're job-related (separate rules may apply if you are in the armed forces). You can deduct moving expenses if you meet all three of the following requirements:

- Your move is closely related to the start of work.
- You meet the distance test – your new main job is at least 50 miles farther from your former residence than your old main job location.
- You meet the time test – generally, you must work full time for at least 39 weeks during the first twelve months after you arrive in the new location.

**Boats.** For the most part, boats are personal. You have to establish a pretty good business connection in order to come anywhere near getting some sort of deduction for your boat. Where you could deduct a boat is as a second residence if it has basic living quarters – cooking, sleeping and toilet facilities.

**Mortgage interest.** You *can* deduct interest on up to \$1.1 million of home indebtedness, but nothing more. So, if you have a \$2 million mortgage, you're out of luck on deducting the interest on that whole amount.

Also, that \$1.1 million is only deductible on a first and second residence. Let's say you have three residences each with a \$300,000 mortgage. You can deduct interest on the first \$300,000 and the second \$300,000. But, you can't deduct that on the third residence even though the total for all three is under \$1.1 million. That's also assuming they're all personal residences and the mortgage is a secured debt on that residence.

**Loss on the sale of personal assets.** Maybe you bought a home for \$1 million, used it as your personal residence and then sold it three years later for \$700,000. You cannot deduct the \$300,000 loss.

**Vehicle donations.** If you donate a car to charity, they likely are more interested in having cash and may end up selling it. Maybe you think your car has a fair market value of \$8,000 but the charity gets \$5,000 for it. Your deduction is \$5,000. It doesn't matter if Kelly Blue book says it's \$8,000. You'll also need a response from the charity that shows the amount or you can't deduct the donation at all.

**Personal legal fees.** The only way you can claim this deduction on your individual return is if it's related to the protection of an income producing asset, or help in determining, collecting or getting a refund of any tax.

**Political donations.** Political donations and lobbying expenses are not deductible. Donations, in general, to a qualified 501c3 (or other qualified organizations) are okay.

**Fines or penalties.** You cannot deduct these. If you get a speeding ticket because you were late to a business meeting, it's still not deductible.

**Club dues.** Anything for recreational personal purposes, such as country club dues, is non-deductible. Even if you try to get a business connection on this one, it doesn't happen.

## **That's just outrageous**

**Pets.** Assuming this is not a service animal, which you might be able to claim for a medical deduction, it's just not going to happen. Pet food, vet bills, etc. – you're not going to get a deduction for these things.

**Your kid's wedding.** One parent tried to claim this as a business expense because he invited all of his business acquaintances. Sorry, you're not going to get to write that off.

**Tattoos.** Again, not going to happen.

## **Talk to your CPA**

If we can find a way to legitimately link a deduction to a business purpose, we will do it. We are first and foremost advocates for our clients but we have to find the right strategy to get there.

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