

Operating a Business in Alabama: Recordkeeping & Business Expenses

Business Essentials for State Taxpayers (B.E.S.T.)

Rev. 06/15/2022

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B.E.S.T. Webinar Series Housekeeping Reminders

-  Everyone’s lines were muted when entering the meeting. This is to prevent background noises from interrupting the presentations. Only the host is able to unmute someone.
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-  If you would like to ask a question about the presentation, please use the Q&A box to send a question to **all panelists** (*not to a particular presenter*). We will respond to your question during the Q&A Session near the end of the presentation.
-  At the conclusion of the webinar, a short evaluation survey will open on your screen. Your feedback is important to us, so thank you in advance for responding to the survey.



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Disclaimer

The information in this presentation is intended to be an overview. It is not a comprehensive explanation of all aspects of the subject matter, does not represent legal advice, and is not legally binding on the department. Information regarding taxes and tax administration changes frequently and should always be confirmed through a tax professional.

Please refer to the Alabama Department of Revenue website at revenue.alabama.gov for additional information.



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Purpose of this Webinar

To inform Alabama taxpayers of the requirements and guidelines for recordkeeping and determining business expenses.

This presentation will cover:

- Why keep records
- What records to keep and for how long
- Statute of limitations
- Types of business expenses
- How to document business expenses
- Burden of proof



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Why Should I Keep Records?

- To monitor the progress of your business and future planning
- To prepare your financial statements
- To identify sources of income or losses
- To keep track of deductible expenses
- To keep track of your basis in property
- To prepare your tax returns
- To support items reported on your tax returns



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How to Keep Records

- Recordkeeping means keeping documents in an orderly manner, which may take some discipline.
- Recordkeeping systems do not have to be complicated. It can be as simple as using folders or envelopes or a more advanced computer system. Office supply stores also have several options.
- The system should be easy to use.
- There needs to be a good place to store the records.
- The documents should be easy to retrieve.
- The system should work for you and your type of business.
- For more details, see IRS – Publication 583 at [irs.gov](https://www.irs.gov).



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What Kind of Records Should I Keep?

- The business you are in will determine the type of tax records you need to keep.
- All untaxed sales must be verified and documented.
- Copies of sales tax certificates of exemption and/or retail certificates should be kept on file. (*This information makes up the customer tax exempt file.*)



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What Kind of Records Should I Keep?

The law does not specify what records must be kept. However, the following may be requested:

Bank Statements,
Deposit Slips &
Canceled Checks

Credit Card
Receipts &
Statements

Paid
Invoices/Statements
(purchases & sales)

Receipts

Payroll
Information

Z-Tapes & Cash
Register Recaps
or other Sales
Documents

Sales Journal

Customer Tax
Exempt Files



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How Long Should I Keep Financial Records?

- Keep records that support an item of income or expense/deduction on a return until the statute of limitations runs out for that return.
- Statute of Limitations – Period of time in which the *State of Alabama* can assess *additional tax*.



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Statute of Limitations

Generally, all returns and amended returns	3 years from the date you file the return
Do not report income that you should report, and it is more than 25% of the gross income shown on return	6 years from the date you file the return
File a fraudulent return	Not limited
Do not file a return	Not limited
Net Operating Loss (NOL)	Until the loss is exhausted



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Business Expenses

- To be deductible, a **business expense** must be both ordinary and **necessary**.
- **Ordinary expense** is one that is common and accepted in your trade or business.
- **Necessary expense** is one that is helpful and appropriate for your trade or business.
- For more details, see IRS Publication 535, Business Expenses at [irs.gov](https://www.irs.gov).



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Types of Business Expenses

- **Business Start-Up Costs** – These are generally capital expenses.
- **Improvements vs. Maintenance** – Improvements are capitalized vs. maintenance, which is deducted.
- **Depreciation** – Spreads the cost of an asset with a useful life that extends substantially beyond the year it is placed in service.
- **Cost of Goods Sold** = Beginning Inventory + Purchases – Ending Inventory



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Types of Business Expenses

- **Payroll** – Wages, employer’s contribution to Social Security, Medicare, Unemployment Taxes
- **Business Use of Your Home** – Must meet specific requirements listed in IRS Publication 583 - Starting a Business and Keeping Records (see [irs.gov](https://www.irs.gov))
- **Car and Truck Expenses** – Can use actual expenses or standard mileage rate



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Daily Business Mileage Log

Date	Destination (City, Town or Area)	Business Purpose	Odometer Readings			Business Miles	Personal Miles
			Start	Stop	Miles		

Note: You can keep a mileage log in a notebook and update it by hand or use a spreadsheet to continuously track your mileage. You can also use a mileage-tracking app. The key is to update your records regularly to ensure that they're precise.



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Burden of Proof

- The responsibility of the taxpayer to substantiate entries, deductions, and statements made on tax returns.
- You must be able to prove certain elements (*proof of payment & supporting documentation*) of expenses in order to deduct them.



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How to Prove Certain Business Expenses

	Amount	Time	Place or Description	Business Purpose Business Relationship
Gifts	<ul style="list-style-type: none"> • Cost of the gift (\$25 per person per year) 	<ul style="list-style-type: none"> • Date of the gift 	<ul style="list-style-type: none"> • Description of the gift 	
Transportation	<ul style="list-style-type: none"> • Cost of each separate expense • Car expenses, date you started using it for business • Mileage for each business use 	<ul style="list-style-type: none"> • Date of the expense 	<ul style="list-style-type: none"> • Business destination 	Purpose: Business purpose for the expense Business Relationship: N/A
Travel	<ul style="list-style-type: none"> • Cost of each separate expense for travel, lodging, and meals 	<ul style="list-style-type: none"> • Dates you left and returned for each trip • Number of days spent on business 	<ul style="list-style-type: none"> • Destination or area of travel (name of city, town or other designation) 	Purpose: Business purpose for the expense Relationship: N/A



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When Can an Expense Be Deducted?

- **Cash method** – Deduct business expense in the year paid.
- **Accrual method** – Deduct when:
 1. All events have occurred that fix the fact of liability, and
 2. The liability can be determined with reasonable accuracy.
- Whichever method is used to deduct expenses must be used to recognize income.



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When Can an Expense Be Deducted?

Example – You have work done and are invoiced in 2020 but paid the invoice in January 2021.

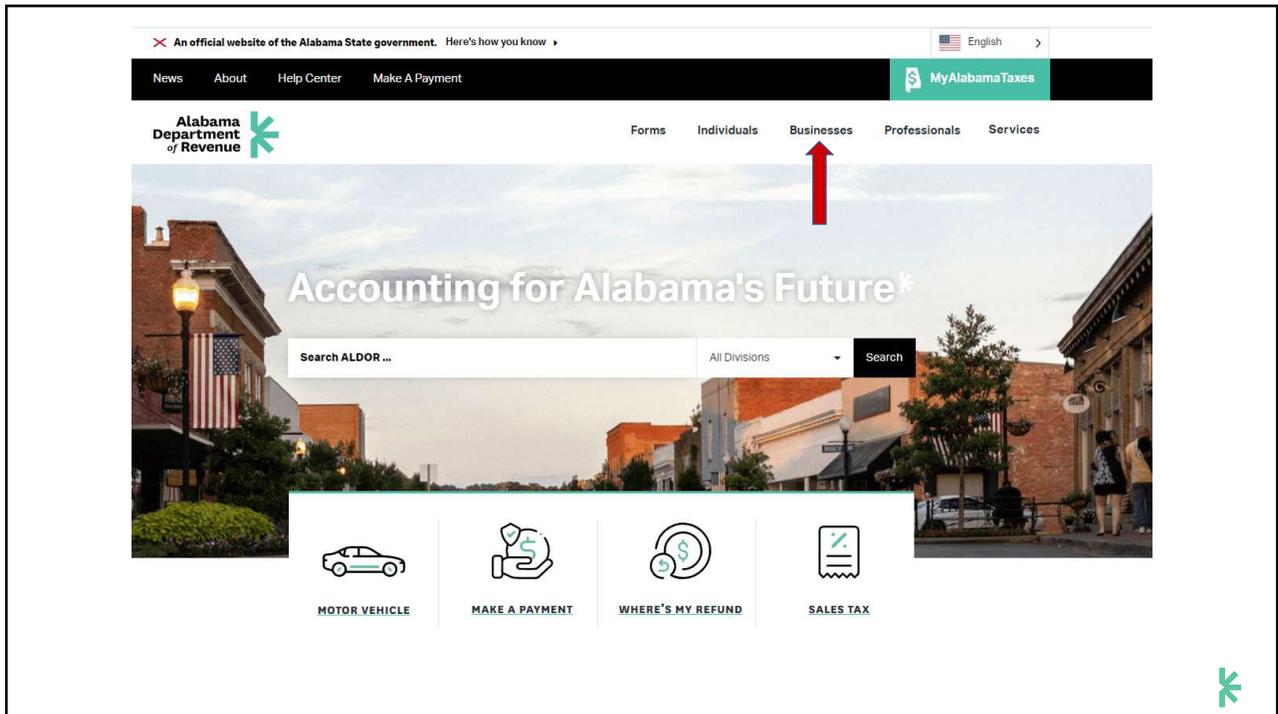
- If using the cash method, then the expense is deducted in 2021, when the invoice is paid.
- If using the accrual method, then the expense is deducted in 2020, when the work was done, and the invoice was received.



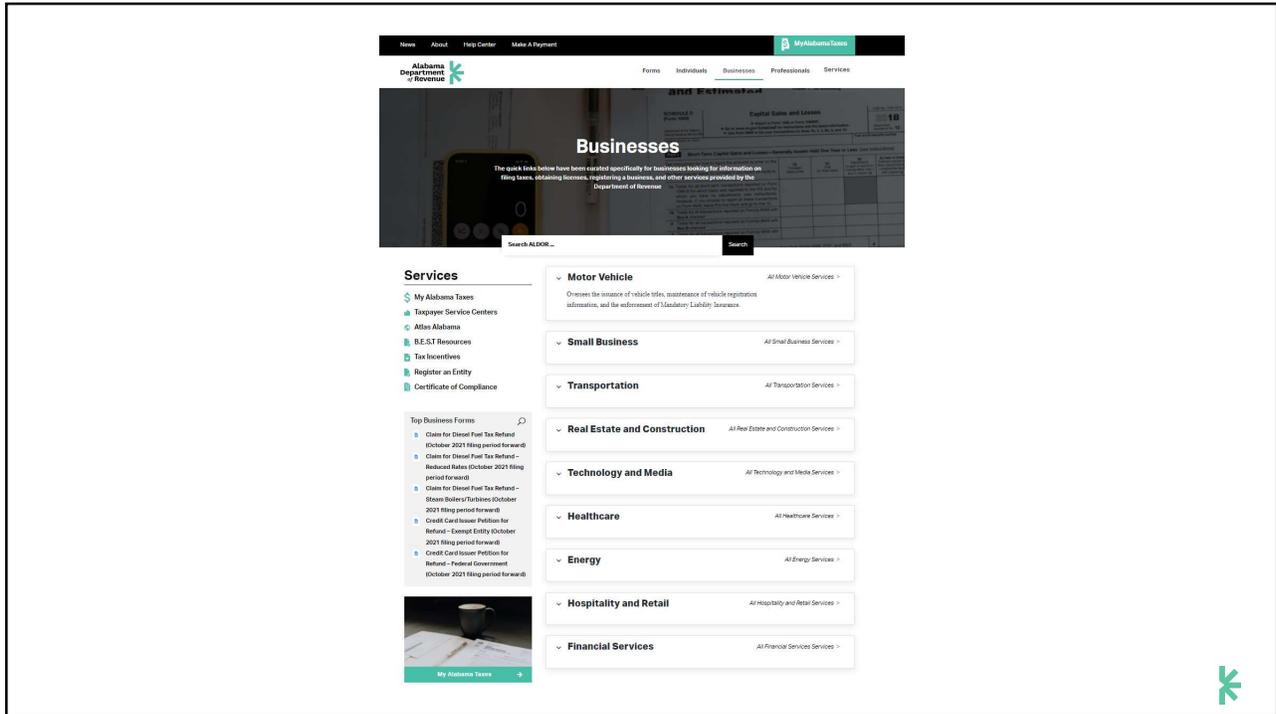
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Helpful Links on ALDOR's Website

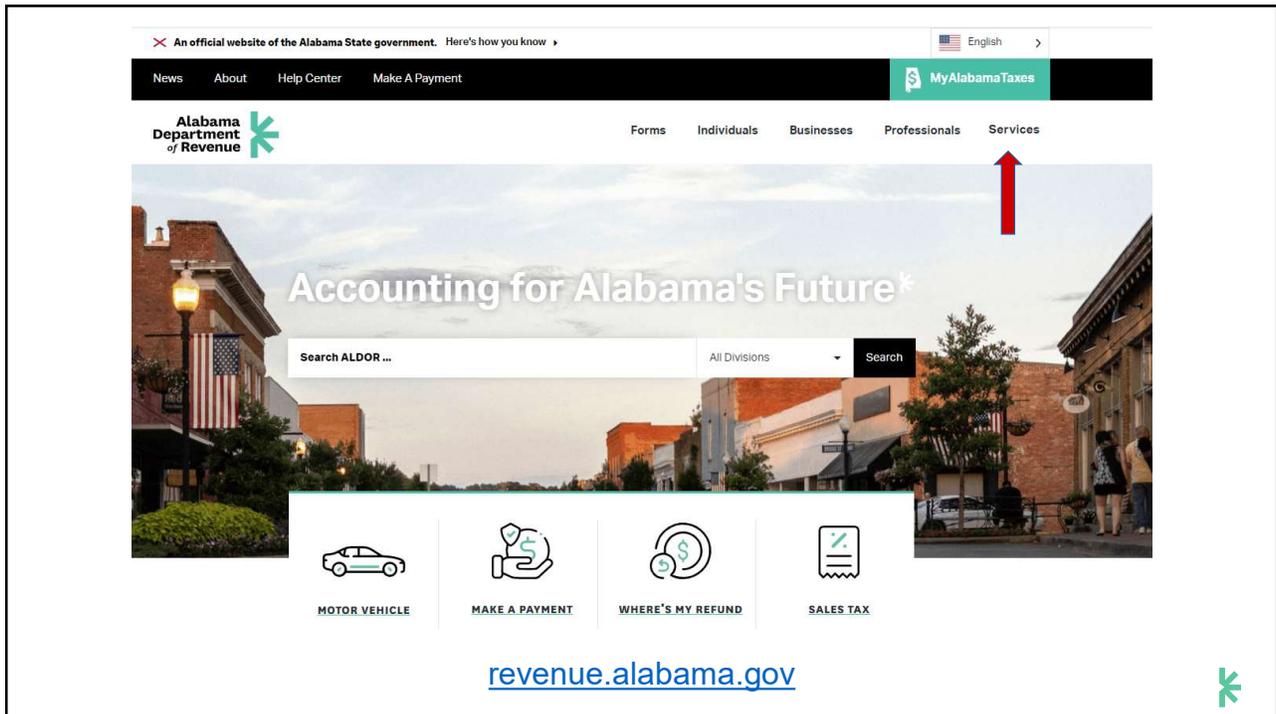
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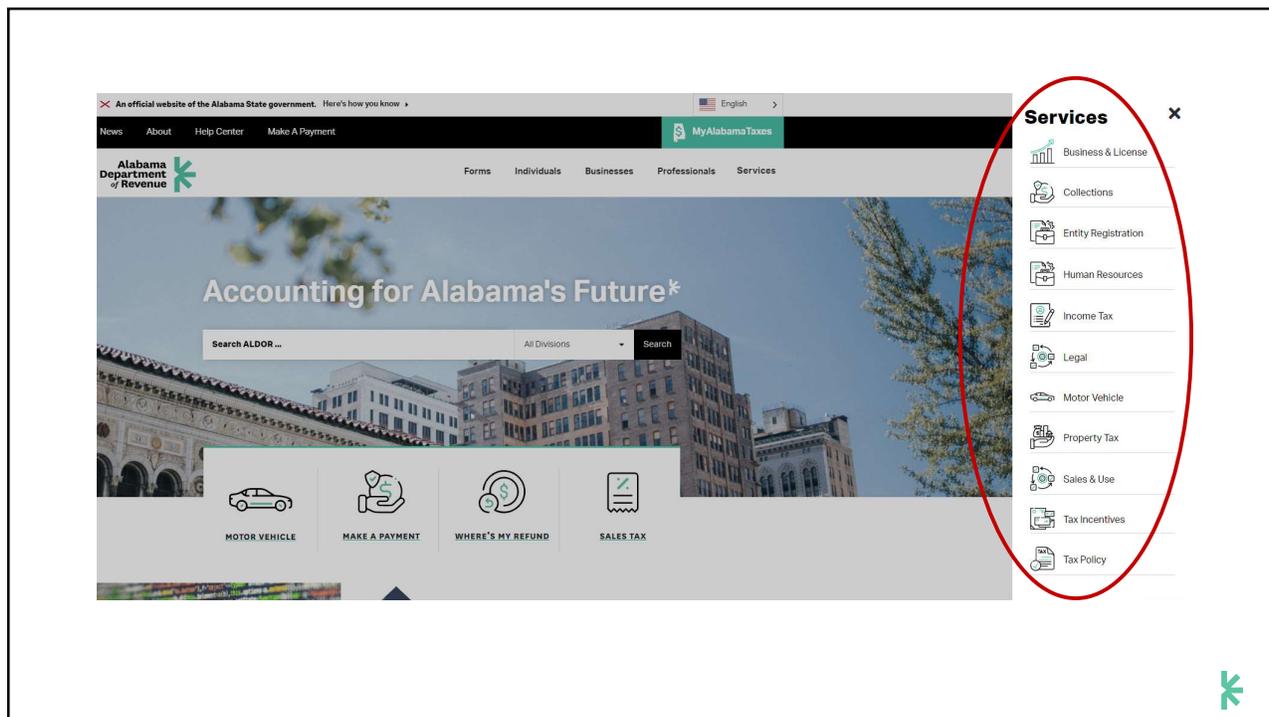
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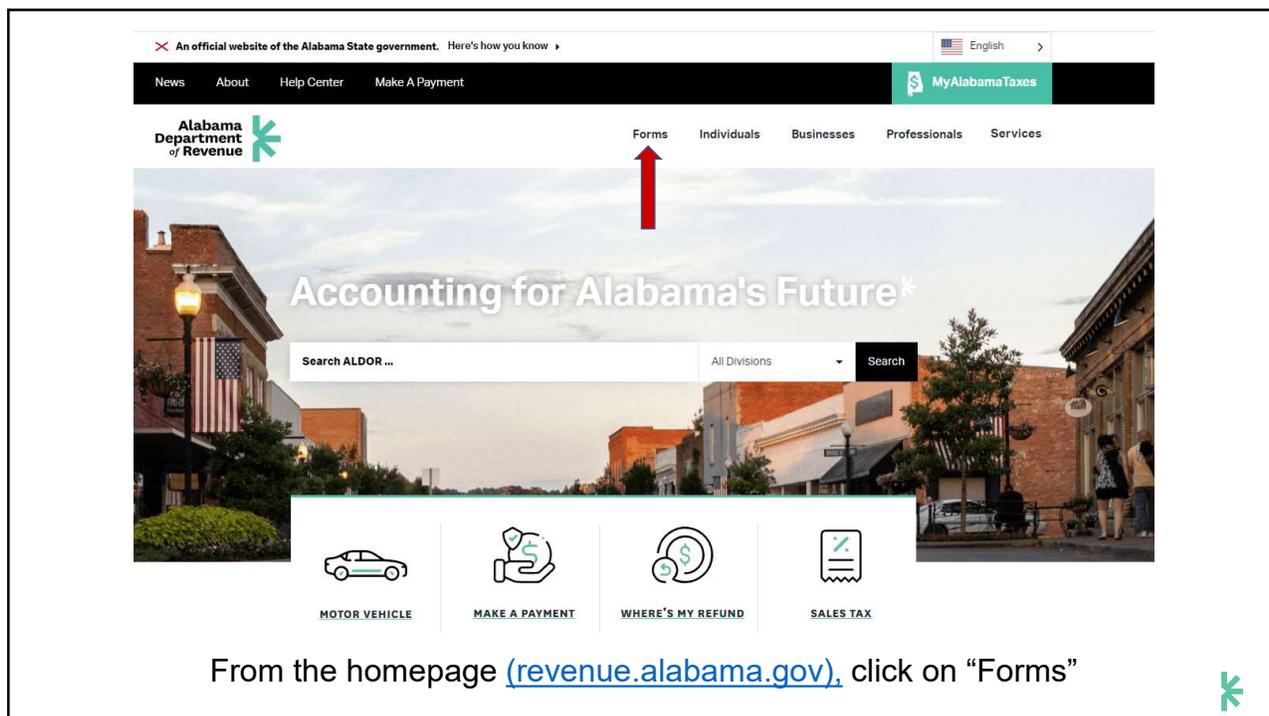
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From the homepage (revenue.alabama.gov), click on "Forms"

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Alabama Department of Revenue

Forms

All forms will download as a PDF. Please refer to the list of mailing addresses for the appropriate forms. For income tax form orders, please use this contact form.

Search ALDOR ...

Filter Forms

ADV-40

Apply filter

Form Year: 2021

Categories: Personal Property

Service: Property Tax

Remove filters

Showing (1) out of (1) Forms

Form Number	Form Title	Form Year	Download
ADV-40	Tangible Personal Property Return	2021	Download

*To find a particular form, add as much information as possible in the filters

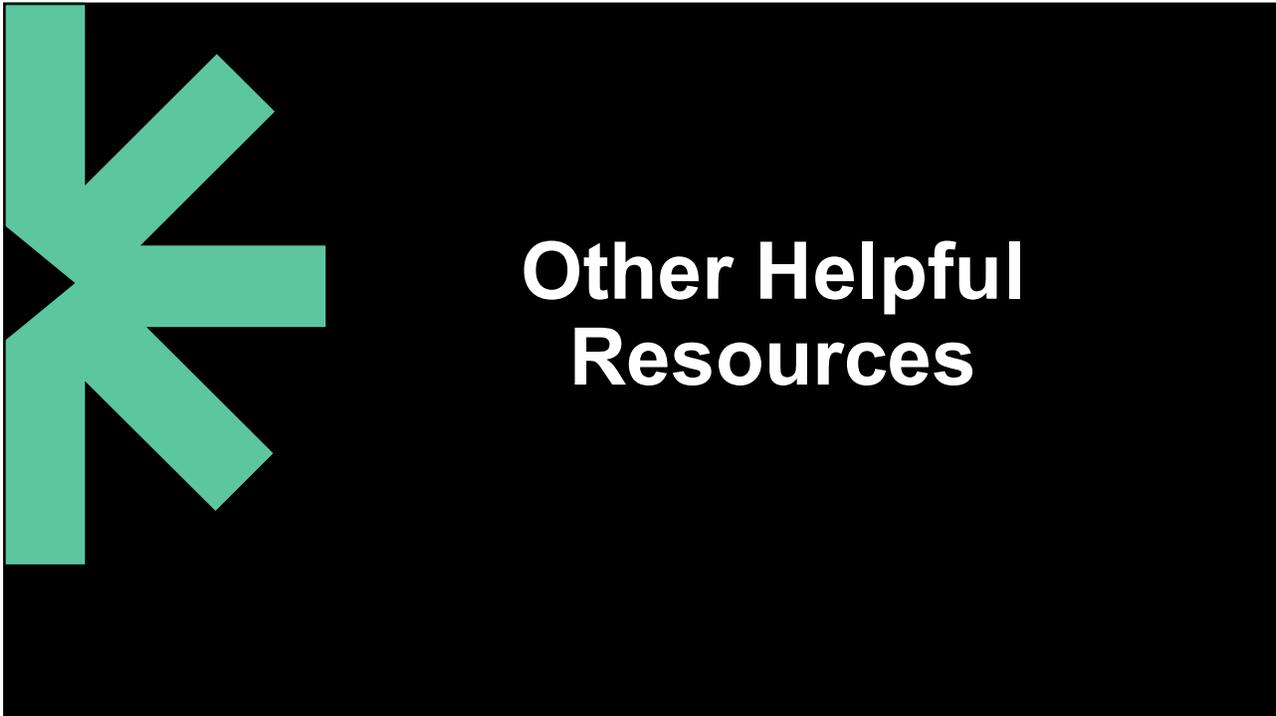
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Alabama Department of Revenue Taxpayer Service Centers

The Alabama Department of Revenue has nine Taxpayer Service Centers located throughout the state to assist you. Contact information for the service centers can be found at:

<https://www.revenue.alabama.gov/help-center/>

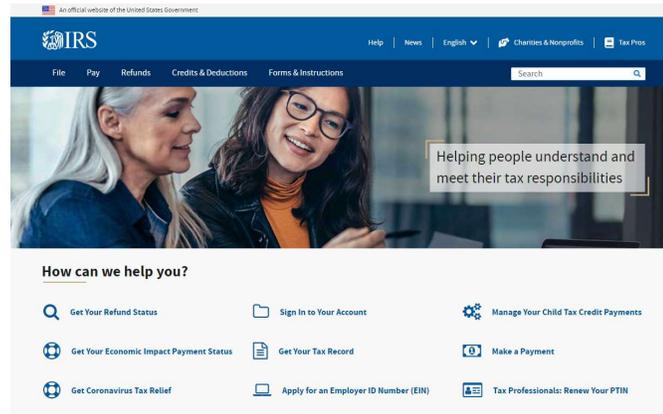
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Alabama Department of Revenue Contact Numbers	
• 334-242-1170, Option #1 –	Individual Income Tax
• 334-242-1170, Option #7 –	Withholding Tax
• 334-242-1170, Option #6 –	Corporate Tax
• 334-242-1170, Option #8 –	Business Privilege Tax
• 334-242-1170, Option #6 –	Pass-Through Entity
• 334-242-1189 –	Certificate of Compliance
• 334-242-1584 –	Business Registration
• 334-242-1490 –	Sales and Use Tax

Internal Revenue Service

- www.irs.gov/
- IRS Forms: 1-800-829-3676
- IRS Assistance: 1-800-829-1040
- FEIN: Submit Federal Form SS4 by mail or fax; or go to www.irs.gov/ and search for EIN online



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Internal Revenue Service - Resources

The IRS has a series of [Small Business Tax Workshops](#) available online that are free and contain useful federal tax information for new business owners and employers. The topics include:

- [Federal Taxes and Your New Business](#)
- [Schedule C and Other Small Business Taxes](#)
- [Business Use of Your Home](#)
- [Federal Taxes When Hiring Employees or Independent Contractors](#)
- [Managing Payroll to Withhold the Correct Amount of Tax](#)



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Internal Revenue Service - Resources

- [IRS Small Business & Self-Employed Tax Center](#) – The links on this webpage provide important information for all small businesses and self-employed individuals.
- [Publication 5557 - A Guide to Starting a Small Business](#)
- [Publication 4591 - Small Business Federal Tax Responsibilities](#)
- [Publication 583 - Starting a Business and Keeping Records](#)
- [Publication 334 - Tax Guide for Small Businesses](#)



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B.E.S.T. Webinar presentations can be found at
<https://www.revenue.alabama.gov/b-e-s-t/webinar-series-schedule/>

Also available are B.E.S.T. Learning Modules at
<https://www.revenue.alabama.gov/b-e-s-t/watch-learning-modules-online/>



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Questions?

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the presenter questions or
email Carol.Murphy@revenue.alabama.gov after the webinar.

