Self-employed? Don’t overlook valuable tax deductions

If you’re self-employed, you probably have questions about deducting business expenses on your federal income tax return. Here’s a quick overview of the filing requirements for sole proprietors and independent contractors, and five examples of expense deductions that are commonly overlooked or misunderstood.

Filing basics

Sole proprietors and independent contractors must report their business activity on Schedule C, “Profit or Loss From Business,” of their personal tax returns (Form 1040). Business income includes money earned from customers, side gigs, online sales and other self-employment activities. Income may be reported on Forms 1099-NEC or 1099-K, but you must report all taxable business income, even if you don’t receive a tax form.

Although *employees* can no longer deduct unreimbursed business expenses, *self-employed* individuals can offset their business income with various deductions for business-related expenses. This is a major tax advantage for the self-employed.

When evaluating whether costs are deductible, follow this golden rule: Business expenses must be ordinary (common in your industry) and necessary (helpful and appropriate for the business). Of course, you’ll need to keep detailed records to support your business deductions. Obvious examples of potentially deductible expenses are supplies, materials, and, if you have employees, payroll and benefits.

Other business-related expenses may also be deductible on Schedule C, though the rules are sometimes confusing. Below are five common examples.

1. Home office

Unlike employees who work remotely, you can deduct the costs for a workspace in your home that's used regularly and exclusively as your principal place of business. This can include a portion of actual indirect home expenses — such as rent or mortgage interest, insurance, utilities and repairs — based on your business-use percentage. For instance, if you use 10% of your apartment's square footage for business, you can deduct 10% of your rent.

You can also fully deduct direct expenses (for example, the cost of painting your office) and, if you own your home, claim a depreciation allowance under IRS tables. In lieu of tracking your actual expenses, the IRS also offers a simplified method of $5 per square foot for up to 300 square feet.

2. Education

The costs of refresher courses, continuing education classes, vocational training and other education programs may be deductible if you're required to take them to maintain or improve skills required for your *current* trade or business. Qualifying expenses include tuition, books, supplies and fees, and potentially travel costs to attend education programs.

However, costs of education that's needed to meet the *minimum requirements* for a trade or business or that qualifies you for a *new* trade or business generally aren't deductible. For example, you can't claim the cost to obtain an undergraduate degree as a business expense.

3. Business meals

You generally can deduct 50% of the costs of business meals if they aren't "lavish or extravagant." This applies to food and beverages provided to customers, clients, suppliers, employees, agents, partners or professional advisors — whether established or prospective.

Although entertainment costs aren't deductible under current law, food and beverages might be deductible even if they're provided at a nondeductible entertainment activity. But such a deduction is available only if:

- The food and beverage items are separately purchased or identified from the entertainment costs on bills, invoices or receipts, and
- The amount charged for food or beverages reflects the venue's usual selling price for those items if purchased separately from the entertainment or approximates the reasonable value of those items.

Say, for example, that you take a customer to a World Cup match this summer. The ticket costs aren't deductible. But if you buy the customer popcorn, nachos and drinks while there, you can deduct half of those costs as long as you have proper documentation, such as the itemized receipt, and records showing who attended and the business purpose.

4. Business travel

If you travel to a temporary location for business purposes, you can deduct your travel expenses, including round-trip airfare, hotel costs and other incidentals (such as tips and cab fares). However, the primary purpose of your trip must be business related. For instance, you might travel to a different city or country to attend a trade show or educational conference.

Beware: Some allocations may be required if a trip combines business and pleasure — for example, if you fly to a location for four days of business meetings and stay for an additional three days of vacation. Only the reasonable cost of lodging and 50% of meals incurred during the business days are deductible. Lodging and meal costs incurred for the personal vacation days aren't deductible.

On the other hand, with respect to the cost of the travel itself (for example, plane fare), if the trip is primarily for business purposes, the travel cost can be deducted in its entirety, and no allocation is required. Conversely, if the trip is primarily personal, none of the travel costs are deductible.

If your spouse joins you, his or her travel expenses generally aren't deductible, unless your spouse is your employee and has a bona fide business reason to be there. But the restrictions apply only to additional costs incurred by having your nonemployee spouse travel with you. For example, the expense of a hotel room or for traveling by car would likely still be fully deductible because the cost to rent the room or travel by car alone vs. with another person would be the same, even in a rented car.

5. Business vehicle expenses

If you drive your personal vehicle for business purposes, you may be eligible to deduct some auto-related expenses on Schedule C. The amount of your deduction is based on the percentage of business use.

For example, suppose you use your car 60% for business driving in 2026. That means you can deduct 60% of your vehicle costs — such as gas, repairs and insurance — plus a generous depreciation allowance, subject to certain limits for “luxury cars.” And, if you buy the vehicle in 2026, you may also qualify for a Section 179 deduction and 100% bonus depreciation, subject to applicable eligibility requirements and limitations.

Be aware that the IRS is a stickler for documentation. Briefly stated, you must keep a contemporaneous log listing every business trip and proof of your expenses. Alternatively, you can cut down on recordkeeping by using the standard mileage rate of 72.5 cents per business mile (plus business-related tolls and parking fees) in 2026.

Don’t leave tax savings on the table

Many self-employed taxpayers miss legitimate deductions because they fail to keep adequate records or misunderstand the rules. Tracking expenses throughout the year can make tax filing easier, help ensure you don’t miss legitimate deductions and strengthen your position if the IRS questions a deduction.

We can help you identify qualifying business expense deductions and establish recordkeeping practices that support them. Contact us to start discussing a tax strategy tailored to your small business.