

For more information on employment taxes, see Publication 15.

**Unemployment fund taxes.** As an employer, you may have to make payments to a state unemployment compensation fund or to a state disability benefit fund. Deduct these payments as taxes.

## Other Taxes

The following are other taxes you can deduct if you incur them in the ordinary course of your trade or business.

**Excise taxes.** You can deduct as a business expense all excise taxes that are ordinary and necessary expenses of carrying on your trade or business. However, see *Fuel taxes*, later.

**Franchise taxes.** You can deduct corporate franchise taxes as a business expense.

**Fuel taxes.** Taxes on gasoline, diesel fuel, and other motor fuels that you use in your business are usually included as part of the cost of the fuel. Do not deduct these taxes as a separate item.

You may be entitled to a credit or refund for federal excise tax you paid on fuels used for certain purposes. For more information, see Publication 378.

**Occupational taxes.** You can deduct as a business expense an occupational tax charged at a flat rate by a locality for the privilege of working or conducting a business in the locality.

**Personal property tax.** You can deduct any tax imposed by a state or local government on personal property used in your trade or business.

**Sales tax.** Treat any sales tax you pay on a service or on the purchase or use of property as part of the cost of the service or property. If the service or the cost or use of the property is a deductible business expense, you can deduct the tax as part of that service or cost. If the property is merchandise bought for resale, the sales tax is part of the cost of the merchandise. If the property is depreciable, add the sales tax to the basis for depreciation. For more information on basis, see Publication 551.



**Do not deduct state and local sales taxes imposed on the buyer that you must collect and pay over to the state or local government. Do not include these taxes in gross receipts or sales.**

**Self-employment tax.** You can deduct one-half of your self-employment tax as a business expense in figuring your adjusted gross income. This deduction only affects your income tax. It does not affect your net earnings from self-employment or your self-employment tax.

To deduct the tax, enter on Form 1040, line 29, the amount shown on the "Deduction for one-half of self-employment tax" line of Schedule SE (Form 1040).

For more information on self-employment tax, see Publication 533.

## 7.

# Insurance

## Important Changes for 2002

**Self-employed health insurance deduction.** For 2002, the self-employed health insurance deduction percentage increases to 70%. See *Self-Employed Health Insurance Deduction*.

**New health insurance credit for eligible recipients.** You may be able to take this new credit *only* if you were an eligible trade adjustment assistance (TAA), alternative TAA, or Pension Benefit Guaranty Corporation pension recipient. By February 18, 2003, Form 8887, *Health Insurance Credit Eligibility Certificate*, showing that you were an eligible recipient should be sent to you. Use Form 8885, *Health Insurance Credit for Eligible Recipients*, to figure the amount, if any, of your health insurance credit.

## Important Change for 2003

**Self-employed health insurance deduction.** For 2003, the self-employed health insurance deduction percentage increases to 100%. See *Self-Employed Health Insurance Deduction*.

## Introduction

You generally can deduct the ordinary and necessary cost of insurance as a business expense if it is for your trade, business, or profession. However, you may have to capitalize certain insurance costs under the uniform capitalization rules. For more information, see *Capitalized Premiums*, later.

### Topics

This chapter discusses:

- Deductible premiums
- Nondeductible premiums
- Capitalized premiums
- When to deduct premiums

### Useful Items

You may want to see:

#### Publication

- 15-B Employer's Tax Guide to Fringe Benefits
- 525 Taxable and Nontaxable Income
- 538 Accounting Periods and Methods

□ 547 Casualties, Disasters, and Thefts

#### Form (and Instructions)

□ 1040 U.S. Individual Income Tax Return

See chapter 14 for information about getting publications and forms.

## Deductible Premiums

You generally can deduct premiums you pay for the following kinds of insurance related to your trade or business.

- 1) Fire, theft, flood, or similar insurance.
- 2) Credit insurance that covers losses from business bad debts.
- 3) Group hospitalization and medical insurance for employees, including long-term care insurance.
  - a) If a partnership pays accident and health insurance premiums for its partners, it generally can deduct them as guaranteed payments to partners.
  - b) If an S corporation pays accident and health insurance premiums for its 2% shareholder-employees, it generally can deduct them, but must also include them in the shareholder's wages subject to federal income tax withholding. See Publication 15-B.
- 4) Liability insurance.
- 5) Malpractice insurance that covers your personal liability for professional negligence resulting in injury or damage to patients or clients.
- 6) Workers' compensation insurance set by state law that covers any claims for bodily injuries or job-related diseases suffered by employees in your business, regardless of fault.
  - a) If a partnership pays workers' compensation premiums for its partners, it generally can deduct them as guaranteed payments to partners.
  - b) If an S corporation pays workers' compensation premiums for its 2% shareholder-employees, it generally can deduct them, but must also include them in the shareholder's wages.
- 7) Contributions to a state unemployment insurance fund are deductible as taxes if they are considered taxes under state law.
- 8) Overhead insurance that pays for business overhead expenses you have during long periods of disability caused by your injury or sickness.
- 9) Car and other vehicle insurance that covers vehicles used in your business for liability, damages, and other losses. If you operate a vehicle partly for personal use, deduct only the part of the insurance premium that applies to the business use of the vehicle. If you use the standard mileage rate to figure your car expenses, you