INTERNAL REVENUE SERVICE

IRS Fact Sheet

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Deducting Business Supply Expenses

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The tax law allows for the deduction of business supply expenses.

But overstated deductions, adjustments, exemptions and credits account for up to $30 billion per year in unpaid taxes, according to IRS estimates.

This fact sheet, the seventh in a series, helps taxpayers understand the rules pertaining to business supply expense deductions.

In general, the cost of materials and supplies used in the course of a trade or business may be deducted as a business expense in the tax year they are used. In addition, the cost of incidental materials and supplies that are kept on hand may be deducted in the tax year of purchase provided that:

- No records are maintained indicating when supplies are actually used,
- No inventory is taken of the amount of supplies on hand at the beginning and end of the year, and
- This method does not distort income.

Taxpayers should be careful to avoid deducting expenses as supplies when they are capital assets. For example, if the useful life of an item is significantly greater than one year it must be depreciated.

Supplies used directly or indirectly in manufacturing goods are part of the cost of goods sold.

As with all items on the tax return, taxpayers should keep complete records to substantiate deductions for supply expenses. Since many types of supplies can have personal-use applications, demonstrating business use is particularly important. Taxpayers should review recordkeeping requirements in IRS Publication 552, Recordkeeping for Individuals.

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