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A Law Firm's Guide to Tax Season Preparation

developers · Wednesday, February 2nd, 2022

When it comes to tax season, there are generally three types of law firms. Those that maintain meticulous accounting records all year long; those that leave tax prep to the last possible minute; and those that fall somewhere between the two. For law firm leaders and administrators who find their practices at less than their desired level of preparedness, this time of year can be extremely stressful. But, there are some steps that law firms can take to help alleviate that stress for a more seamless approach to tax season.

First, it's important to know all relevant dates, deadlines, and filing requirements. For instance, firms that operate on a fiscal year that differs from the calendar year may have different tax return due dates. Also, limited partnerships have different filing responsibilities than limited liability partnerships. These may seem like small distinctions, but they are extremely important for ensuring compliance.

The next step is organization. For firms that have maintained accurate financial records throughout the year, this will likely not be a huge problem. But other firms may have to put in a little work to get everything in order. Records like previous tax returns, expense receipts, income statements, and balance sheets need to be compiled and organized into a system before being handed over to the firm accountant. Disorganized and incomplete files can lead to inaccurate filings with unnecessary tax liability.

The final preceding step involves recognizing the firm's responsibility as a business entity and as an employer. For instance, what tax obligations come along with operating as an S-Corp law firm? Which employees require W-2 forms and which are actually independent contractors requiring [1099- Misc. forms](#)? By what date does the firm have to provide these forms to firm members? There is a lot to think about, but it is all necessary as law firms plan for tax season.

Deductions

At the bare minimum, business expenses must be both ordinary and necessary for a legal practice in order to be claimed. Let's take a look at a list of the most commonly used law firm deductions, along with some precautions to consider before claiming them as business expenses:

Credit Card Transaction Fees

An increasing number of law firms [accept credit card payments from clients](#), and many credit card processing companies charge firms a per transaction or monthly flat fee in exchange for

transferring those payments. The IRS has determined that the fees associated with these transactions may be deducted as businesses expenses.

In addition, fees that law firms incur while using their own business credit cards may also be deductible, including finances charges, annual fees, monthly fees, and late fees. There is a caveat though - the fees must be actually paid or incurred by the practice. Fees stemming from a firm member's use of the firm's business credit card for personal expenses may not be deductible.

Office Expenses

The rules around deducting office expenses can be somewhat confusing, so it's important to consult a tax professional before filing. However, some of the most common tax deductions related to law office expenses include:

- Interest costs for rent or mortgage on the law office building or buildings
- Home office deductions for law firms that are conducting business remotely
- Office furniture and equipment may be deductible as first-year expenses, regular depreciation, or as safe harbor.
- Normal office supplies may be deducted in full during the year of purchase, based on the premise that the firm only purchases what is reasonably expected for usage within the year.
- Office maintenance, as well as some repairs

Marketing and Advertising

Most law firm marketing expenses can be deducted, including website costs and print advertisements. For firms that include networking within their marketing strategies, a percentage of meal and entertainment expenses may also be deductible as long as the event was primarily related to firm business.

Continuing Legal Education (CLE)

Legal professionals can typically deduct education expenses that are deemed "ordinary and necessary" to the profession. **As stated in IRS publication 535:** "For example, an attorney can deduct the cost of attending classes that are required by the state bar association to maintain his or her license to practice law."

Under some circumstances, legal conferences may also be eligible deductions if they are targeted towards improving the law practice in some way. It's best to notify the firm accountant about all educational expenses so they can determine which are appropriate deductions.

Professional Dues

Dues paid by law firms to professional associations on behalf of firm members may also be deductible as business expenses. This includes bar fees, trade association dues, and chamber of commerce fees. Public service organizations may also qualify as long as their main purpose is the provision of community services.

Insurance

Law firms may also be able to deduct a variety of insurance premiums. As stated by the IRS, this includes malpractice insurance covering personal liability for professional negligence. Premiums

for property insurance to cover damage and liability for incidents inside the physical law office may also be fully deductible.

Research Materials, Books, and Periodicals

In order to stay on top of legal industry trends and changes to the law, firms need to purchase a variety of resources for members to utilize. While most firms have moved to virtual library options, many still maintain a collection of physical books. For those firms, the depreciating value of these books may be deductible, much like any piece of office equipment.

There is a caveat to this deduction though. The only tax-deductible items are those that can be utilized for longer than a year. That leaves out periodicals and resources purchased on a monthly or annual basis, as well as those with yearly volume additions. There may be other deductions available for those resources though, so it's always best to consult an accountant for clarity.

Travel Expenses

Travel on behalf of a law firm may also be tax-deductible. That includes travel that occurs outside of a regular radius to handle a specific case or research a particular matter. Travel cost deductions may also include air travel and hotel accommodations to conferences or out-of-state meetings, as long as they are substantially related to the business of practicing law.

The Takeaway

The most important components of tax preparation are deadlines, organization, and documentation. With an awareness of potential tax deductions and guidance from a skilled accountant, law firms can successfully navigate tax season.

This entry was posted on Wednesday, February 2nd, 2022 at 12:00 am and is filed under [Billing & Accounting](#), [General](#)

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