

# Ordinary and Necessary Expenses and Receipts

*by Lori Lemmer*

As a business owner or a farmer/rancher, there are numerous deductions that you are allowed to determine your taxable income. Some are very clear cut, and some are a little gray. Just remember, being too aggressive on claiming deductions to get a better outcome on your return may raise red flags to the IRS auditors.

Ordinary and necessary is the general rule of thumb to consider when determining the deductibility of an expense. For example, if you pay rent for pasture or you are a farmer and need to buy seed corn, these are ordinary and necessary expenses. Other expenses may not be this clear. The easiest way to determine if an expense would be deductible is to answer the question “is this purchase or service necessary for me to do my job?”

The importance of keeping receipts:

- Remember that not everything you buy at a farm supply store has a business purpose. Gifts and personal clothing should be adjusted out and receipts are crucial.
- Convenience store expenses are not 100% deductible as vehicle fuel. Many of us grab snacks or drinks when purchasing fuel. Remember to account for that as a personal expense and keep your receipt.
- Credit card statements are not a substitute for documentation. You will still need your receipt to justify the expense.

These are just a few reminders to keep in mind when you are gathering your information for taxes and to tabulate in your accounting.

In summary, if you feel the expense is justifiable and you have the proper documentation to support it, do not be afraid to claim the deductions and credits to which you are entitled.

Remember – Keep those receipts!

Thanks,

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