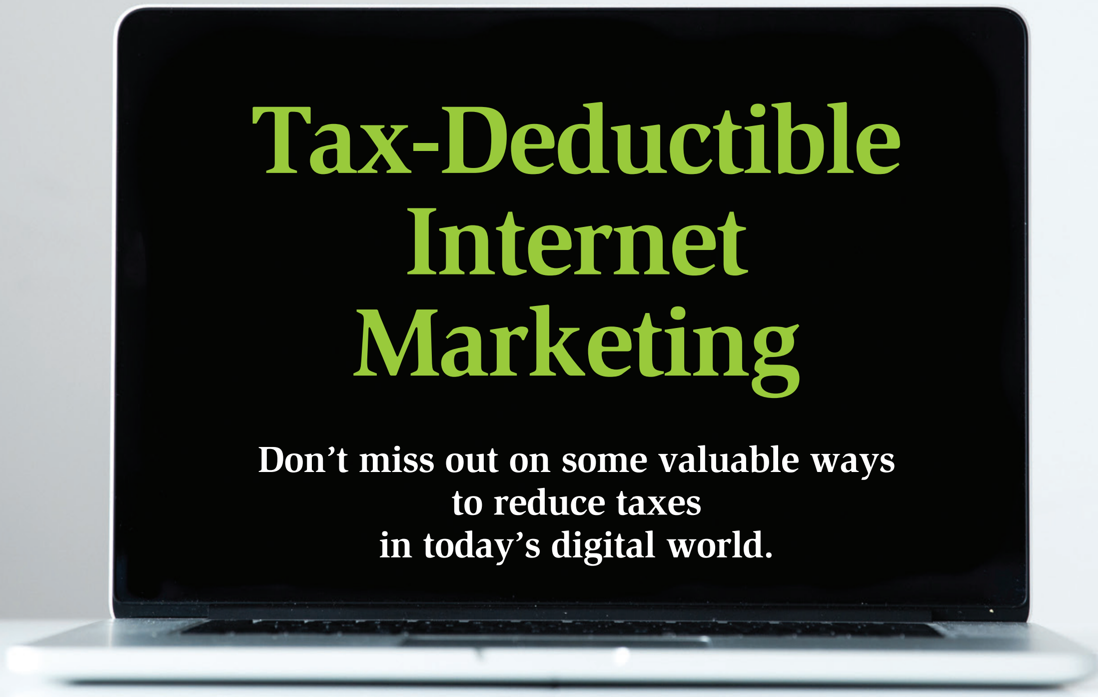

Tax-Deductible Internet Marketing

Don't miss out on some valuable ways to reduce taxes in today's digital world.

BY JAMES D. KRICKETT

© Vadymvdrobot | Dreamstime

Many self-employed podiatrists or principals in small podiatry practices use tax deductions and write-offs to reduce the impact of taxes on their bottom line. Often overlooked, however, are the deductions available for marketing expenses, especially those involving Internet marketing. Few seem aware that advertising, promotional, and marketing expenses are tax deductible.

According to the IRS, advertising and marketing expenses must only be reasonable and directly related to a practice or business in order to be tax deductible. That means the cost of advertising the podiatry practice's services—business cards, yellow page ads, and so on—are deductible as a current expense. Promotional costs that create goodwill, such as sponsoring a Little League baseball team, are also deductible so long as there is a clear connection between the sponsorship and the practice. While naming the team the "Crosstown Footsavers" or listing the practice's name in the program is usually evidence the expenditure is deductible, unfortunately the same is not always true when it comes to Internet promotion.

In the eyes of the IRS, advertising consists of paid, scripted messages directed at potential patients. Promotion is paid exposure for the practice. Examples of advertising include magazine and newspaper ads, radio and TV spots, billboards, website banner ads and signage at events. Advertising that does not directly relate to the podiatry practice's services or products, such as supporting legislation or promoting a charity, may or may not be tax deductible.

According to the IRS, advertising and marketing expenses must only be reasonable and directly related to a practice or business in order to be tax deductible

Specifically, advertising expenses include the cost of media buys, expenses associated with creating ads, agency fees and commissions, and the like. Promotional expenses are expen-

Continued on page 64

Viva La Difference

Sole practitioners and small podiatry practices often lump advertising, promotions, public relations and other expenditures under the heading of marketing expenses. Others keep them separate, especially those podiatry practices that have designated a specific employee to handle these functions. Separating advertising and promotion budgets is the first step when reducing overall costs with tax deductions.

Internet Marketing *(from page 63)*

ditures made by a podiatry practice to make its services better known to consumers. The IRS considers promotion expenses to be tax-deductible as business expenses provided they are ordinary and necessary. Promotional expenses include the fees charged by an event for the podiatry practice to sponsor, signage created for an event, staff time creating and attending events, products or services given away, and fees paid to consultants, event workers or endorsers.

A practice's website as well as its Internet marketing/advertising expenses are also tax deductible. In fact, many of the website and marketing services contracted for can be deducted in the same year they are incurred. Unfortunately, there are several website services where the cost can be recovered only over a long amortization write-off period.

Marketing and Other Expenses

Marketing via social media is becoming increasingly popular and has been recognized by the lawmakers who create our tax laws. The expense of social media creation and ongoing account management are considered advertising expenses and can be claimed as a tax deduction in the year paid or incurred. Consider, a few examples of advertising/promotional Internet-related expenditures:

• Google AdWords used to attract new patients or clients instantly; a simple campaign can be set up in minutes and display search results within a couple of hours. This is considered to be a miscellaneous advertising expense;

• Pay-per-click (PPC) campaigns—like the other internet marketing and advertising expenses, the cost for a PPC campaign also falls within the miscellaneous advertising section of the practice's tax return and Pay-Per-Click advertising and account management costs are considered advertising and can be deducted the same year;

• Facebook ad campaigns are considered advertising and can be deducted the same year, as are:

• Twitter ad campaigns;

• Display banner ad campaigns;

• Costs for hiring an agency to conduct any of these campaigns;

• On-Page and Off-Page SEO (Basic and Ongoing)—Search Engine Optimization (SEO) campaign results are a long-term campaign to keep a podiatry practice's website at the top of search engine result pages, but it takes time if it's done properly. On-Page and Off-Page SEO (Basic and Ongoing)—both can be deducted in the year they were incurred and are considered advertising expenses;

A practice's website as well as its Internet marketing/advertising expenses are also tax deductible.

• Link Building—falls under advertising and can be deducted the same year;

• Social Media—the expense of creating as well as ongoing account management are considered an advertising expense and can be deducted the same year;

• Reputation Management Services—can be deducted the same year.

Don't forget old-fashioned Goodwill Advertising. If the podiatry practice is expected to benefit in some shape or form from a promotional activity, the cost of that so-called institutional or goodwill advertising may be deducted. This is because the motive of advertising activity is to get the name of the practicing podiatrist or the podiatry practice in front of the public. Goodwill advertising includes:

• Promotional activities that ask people to donate for charity;

• Getting a practice or business sponsor;

• Distributing product samples; and

• Organizing contests and offering rewards or prizes. Unfortunately, labor costs involved in organizing such activities cannot be deducted. Actually, it is necessary that funds be paid in order to record it as an advertising expense or a deduction.

• On the off chance the website is being used for publicizing, web support costs can be deducted as a promoting cost. In the event that the site is utilized for sales and has an e-commerce option, it is a sales expense and treated independently. Of course, designing and maintenance costs for even an e-commerce website are deductible.

Naturally, detailed records and receipts for these marketing expenses are strongly recommended. Also, every practicing podiatrist should be aware of the IRS's guidelines (or lack of guidelines) when developing and maintaining a website.

Website Development Costs

The IRS has yet to issue formal guidance on the treatment of website development costs. However, informal internal guidance suggests that one appropriate approach is to treat those costs like an item of software and depreciate them over three years.

It is clear, however, that taxpayers who pay large amounts to develop sophisticated sites have been allocating their costs to items such as software development (currently deductible, like research and development costs), utilizing the Section 179 first-year expensing election and even treating these expenditures as currently deductible advertising expenses.

When website design is considered as software, it is usually classified as purchased software. As a general rule, software costs are amortized and deducted over a three-year period beginning with the month that software is placed in use.

If, however, website design is treated as an advertising cost, it is currently deductible, written-off in the year of purchase. This remains a "gray" area as the court decisions in this area seem to indicate only websites that list or display products and

Continued on page 66

Internet Marketing (from page 64)

services, without a shopping cart, patient or rep portal, are considered to be advertising.

In reality, the classification of web design and development services depends on when the work was done, who did it, and the specifics of the actual work. For example, if an outside contractor designs a simple template website for informational purposes that does not require extensive custom programming, it can be capitalized and the expenditures amortized over its "useful life" (usually three years) once put into service. Or, depending on the podiatry practice's accounting practices, the cost could be deductible as an advertising expense in the year it was completed.

Here's a look at several specific website-related expenditures:

• Cost for the design of the website by an outside contractor hired for this purpose;

• Cost for the template if purchased the design pre-made;

• Cost for hosting the site as well as the domain fee;

• Cost for any premium services (such as add-ons or plug-ins for the podiatry practice's site);

• Cost for maintenance;

• If a new blog was created and uses freelance bloggers for its content, be sure to keep records of all related expenses because they can often be tax deductions as well.

If the website was purchased, a podiatrist is required to amortize the cost over a three-year period. Content or design updates and ongoing maintenance are considered advertising and can be deducted the same year. It is a similar story for hosting, domains, and other similar products that are usually deducted the same year.

Up to $5,000 of so-called "start-up" expenses can be deducted in the first year—even where the website is built before the podiatry practice opens its doors. While that immediate deduction for start-up costs is reduced, dollar-for-dollar when all start-up costs exceed $50,000, the balance is recoverable over a 15-year period.

More on All Software

As a general rule, software purchased for use by the podiatry practice must be depreciated over a 36-month period. When software comes with a computer, and its cost is not separately stated, it's treated as part of the hardware and depreciated over five years.

However, under Section 179, the cost of a whole computer system (including bundled software) can be written off in the first year so long as the total cost is within Section 179's $500,000 limit.

If website design is treated as an advertising cost, it is currently deductible, written-off in the year of purchase.

Software, in order to qualify, must meet all of these general specifications:

• The software must be financed (only specific types of leases or loans qualify), or purchased outright;

• The software must be used in the practice for an income-producing activity;

• The software must have a determinable useful life;

• The software must be expected to last more than one year;

Off-the-shelf computer software placed in service during the tax year qualifies for the Section 179 first-year expensing deduction. This is computer software that is readily available for purchase by the general public, is subject to a non-exclusive license, and has not been substantially modified.

Website Design as an Intangible Practice Asset

Section 197 of our basic tax law governs "Amortization of Goodwill & Certain Other Intangibles," and permits an amortization deduction for any qualifying Section 197, intangible asset. Unfortunately, the cost of intangible assets is written off, ratably over a 15-year period beginning with the month in which the intangible was acquired. While this is better than the non-existent write-off for intangible assets without an ascertainable "life" that are not "acquired" or "purchased," it is still a long-term write-off.

Computers

Computers purchased to use for advertising or promoting the podiatry practice are also a deductible business expense. Office equipment such as a computer is usually deducted over five years just as with the other equipment used in the podiatry practice. Fortunately, the entire cost of a computer may be deductible in a single year.

An employee in someone else's practice who purchases a computer for use in his or her work will often be reimbursed by the employer. The employer will then be able to deduct the cost as a business expense and the cost will not be included in the employee's income.

If, however, the practice does not provide reimbursement, the cost of the computer becomes an unreimbursed employee business expense and can be deducted as an itemized deduction, at least to the extent it and other itemized deductions exceed two percent of adjusted gross income.

If the computer was purchased for use in a podiatrist's practice, deducting the whole cost is permitted. In many cases, in fact, the entire cost can be deducted in a single year rather than over the usual five-year depreciation period.

Basically, a computer used in a podiatrist's practice more than 50 percent of the time can be written off under the Section 179, first-year expensing rules. Under Section 179, the cost of tangible personal property (new or used) purchased for use in the practice, including computers, business equipment and machinery, and office furniture, can be deducted

Continued on page 68

Internet Marketing *(from page 66)*

in a single year. Of course, there is a $500,000 annual limit on expenditures for all business property, after which the Section 179 write-off is reduced, dollar-for-dollar.

On the downside, Section 179 expensing applies only for property that is purchased, not for leased property or property inherited or received as a gift. Keep in mind that computers are considered to be "listed property," and depreciating their cost requires special attention.

The IRS is afraid that taxpayers might use listed property for personal reasons but claim a business deduction for it. For this reason, everyone is required to document one's own business use of listed property. This requirement can be satisfied by keeping a logbook showing when and how the property is used.

So-called "listed property" are items that can easily be used for personal as well as business purposes—such as cars and certain other vehicles, computers, and any other property generally used for entertainment, recreation, or amusement such as VCRs, cameras, stereos, and camcorders.

Use of any listed property, even if used 100-percent in the practice, must be documented. However, there is an exception to this rule for computers: If a computer or computer peripheral (such as a printer) is used only for business and kept at the location of the business or practice, compliance with the record-keeping requirements is waived. This also includes computers kept in a practicing podiatrist's home office if the office qualifies for the home office deduction.

The marketing and general business use of websites is widespread. Today websites and the Internet are essential tools for advertising, marketing, and promoting the podiatry practice. Many practices now use their websites as their main information delivery source. Even brick and mortar businesses are experiencing a shift to online sales or seeing greater benefit from online promotion strategies. As such important tools, the question of what is and what isn't tax deductible becomes important.

It's also extremely important to remember that every practicing podiatrist should consult with a tax professional who can serve as a guide through the tax rules, deductions, and potential pitfalls of Internet marketing, advertising, and promotions. **PM**

James D. Krickett is a well-known tax and financial adviser whose columns are syndicated to more than 65 publications each week. His features routinely appear in the pages of leading trade magazines and professional journals.