

Corporate expenses covered by officers or shareholders.

There is a tax issue related to your position with your corporation, namely, whether expenses you incur personally on behalf of the corporation will be deductible.

In general, you cannot deduct an expense you incur on behalf of your corporation, even if it is a legitimate "trade or business" expense and even where the corporation is financially troubled. This is because a taxpayer can only deduct expenses that are his own. And since your corporation's legal existence as a separate entity must be respected, the corporation's costs aren't yours and thus cannot be deducted even if you in fact pay them. What's more, the corporation won't be able to deduct them either because it didn't pay them itself. Accordingly, please be advised that it shouldn't be a practice of your corporation's officers or major shareholders to cover corporate costs.

On the other hand, if a corporate executive incurs costs which relate to an essential part of his duties as an executive they may be deductible as ordinary and necessary expenses related to his "trade or business" of being an executive. If you wish to set up an arrangement providing for such payments and safeguarding their deductibility, a provision should be included in your employment contract with the corporation stating the types of expenses which are part of your duties and authorizing you to incur them. For example, you may be authorized to attend out of town business conferences on the corporation's behalf at your personal expense.

Alternatively, to avoid the complete loss of any deductions by both yourself and the corporation, an arrangement should be in place under which the corporation reimburses you for the expenses you incur. This will at least allow the corporation to deduct the amount of the reimbursement.