



# Reeder CPA Group

## *Franchisee Expense Checklist*

At Reeder CPA Group, we understand that starting a franchise involves a variety of costs, from initial research and legal setup to operational expenses. To help new franchisees navigate these financial complexities, we've created this comprehensive expense checklist. This guide not only outlines common startup and organizational costs but also highlights potential tax deductions that may be available under IRS guidelines. Our goal is to ensure you are well-prepared, financially informed, and positioned for long-term success as you embark on your new business venture.

### **IRS Deduction Guidelines:**

- **Startup Expense Deduction:** The IRS allows a deduction of up to \$5,000 for startup costs in the year the business begins, with the remainder amortized over 15 years if total startup costs exceed \$50,000. This applies to expenses related to investigating the creation of the business, including those listed in the Creating the Business category.
- **Organizational Expense Deduction:** Up to \$5,000 can be deducted for business organizational costs such as legal fees, state filings, and organizational meetings. If these expenses exceed \$50,000, the deduction is phased out, and the remaining balance is amortized over 15 years.
- **Launch & Operational Expenses:** Once the business is operational, typical operating expenses (like marketing, recruiting, and professional fees) are fully deductible as ordinary business expenses.
- **Capitalized Expenses:** Some costs (like equipment, long-term assets, or franchise fees) may need to be capitalized and amortized over time rather than being deducted in full in the first year.

### **1. Creating the Business**

Expenses in this category are related to investigating and planning the creation of a business. According to IRS guidelines, these costs may be deductible as startup expenses if they meet the requirements for business creation and planning.

#### **Feasibility Studies & Market Research**

- Surveys, focus groups, and product testing
- Hiring consultants for business feasibility analysis
- Costs for analyzing customer needs and preferences

#### **Franchise Opportunity Research**

- Legal fees for Franchise Disclosure Document (FDD) review
- Franchise system evaluation and market analysis
- Industry-specific research and professional advice

#### **Site Selection Costs**

- Travel expenses to visit potential franchise locations
- Travel for meetings with franchisors, suppliers, or industry contacts
- Lodging, meals, and transportation expenses related to investigating business locations (within IRS per diem guidelines)

#### **Labor Market Research**

- Researching the availability of local labor
- Analysis of wages, hiring trends, and workforce capabilities



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Franchisee Expense Checklist (cont.)

## 2. Launching the Business

These expenses relate to getting the business ready to operate. The IRS allows many of these expenses to be deducted under general business startup rules, though some may need to be capitalized (like equipment purchases).

### Business Licensing & Permits

- State, local, and federal business licenses
- Franchise registration fees
- Health, safety, and operational permits

### Recruiting, Hiring, & Training Employees

- Costs for job postings, recruiting platforms, and advertising for employees
- Agency fees for professional recruitment services
- Background checks and employment screening services
- Employee training programs, materials, and certification costs

### Marketing & Advertising Costs

- Website development and hosting fees
- Print and digital marketing materials (flyers, brochures, social media ads)
- Search engine marketing (Google Ads, Bing Ads, etc.)
- Professional design services for logos, branding, and marketing campaigns

### Supplier & Vendor Relationship Building

- Travel expenses to meet with potential suppliers or vendors
- Initial deposits or retainer fees for vendor services
- Contract negotiation expenses for long-term supplier agreements

### Professional Fees

- CPA fees for initial tax consultation, planning, and setup
- Legal fees for drafting contracts, franchise agreements, or leases
- Business consulting fees for financial projections, business planning, or operational advice

### Financing-Related Costs

- Bank loan application fees and legal review of loan documents
- Interest on business loans (typically deductible as business expenses)
- Costs to prepare for third-party financing (including CPA review)

### Insurance Costs

- Business liability insurance
- Property insurance and other required coverages for franchisees
- Worker's compensation and health insurance for employees (required in some states)

### Miscellaneous Operational Costs

- Office supplies and administrative setup (non-capitalized items)
- Business-specific software or initial technology setup fees
- Security deposits for leased properties



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## 3. Business Organization Costs

These expenses relate to legally establishing the business entity and can generally be deducted or amortized over a period of time, as per IRS rules. They may include:

### Legal & State Filing Fees

- State filing fees for forming an LLC, corporation, or partnership
- Legal fees for preparing and filing articles of incorporation
- Expenses for amending documents (such as franchise agreements) during setup

### Accounting & Administrative Costs

- Costs for setting up accounting and bookkeeping systems
- CPA fees for preparing financial statements or setting up a payroll system
- Costs associated with conducting organizational meetings, including director fees or board meetings

### Franchise Fees

- Initial franchise fee (capitalized and amortized over the life of the franchise agreement)
- Ongoing franchise royalties (deducted as normal business expenses once the business is operational)