

A person in a dark suit and tie is sitting at a desk, looking at a large document. A laptop is open in front of them. The background is slightly blurred, showing more of the office environment.

Startup Founders Guide to Categorizing Expenses

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Hey, I'm Armine!

One of the most common DMs I get is how to categorize a certain expense. Like, is Canva a marketing expense or should it go in subscriptions?

Expense categorization gets tricky because what you choose has a *real* effect on your tax return and how useful your financial statements are.

This guide runs through the most common expense categories, what belongs in them (*and what doesn't*), and my advice to keep your bookkeeping clean + easier to understand.

Disclaimer: *This guide is for educational purposes only and does not constitute tax, legal, or financial advice. For guidance specific to your business, please consult your tax professional.*

Business Expenses 101

Per U.S. tax law, most business expenses need to be “ordinary and necessary” to be deductible. Basically, is the expense common for businesses in your industry, and is it helpful and appropriate for running your business?

Certain expenses need to meet other qualifications to be fully or partially tax deductible, but in general, asking yourself those questions is a great first step to figuring out if something *could* be a write-off.

But it’s not all about taxes...

While it’s true that putting something in Office Expenses that actually belongs in Subscriptions isn’t a huge deal tax-wise, correct categorization is the difference between having accurate + useful financial statements and not.



Advertising & Marketing

If you're spending money to promote your business, it probably belongs here!

Examples:

- Facebook + Google ads
- Branding photoshoots
- Print marketing materials

What people get tripped up by:

A lot of people aren't sure if they can throw subscriptions that help with marketing, like Canva or FloDesk, here or in Subscriptions. For this one, it's your choice! Just pick where you want to put marketing subscriptions and stick to it.



Software & Subscriptions

Here's the question I like to ask myself to figure out if an expense belongs in Software & Subscriptions: is it paying for a digital tool that's helping my client run their business? If yes, I'm happy putting that transaction here!

Examples:

- QuickBooks
- Your CRM
- Project management tools
- Company communication channels (like Slack)
- Scheduling software
- Google/Microsoft

But wait, didn't you just say Canva could be marketing?

The most important thing with these categories is consistency. You don't want to categorize Canva as a marketing expense for the first half of the year, and then change it to subscriptions starting in June. This just makes your financials messy!

If you can't remember, you can always go back to last month to see how you categorized something (last month's category sometimes auto-populates, too).

Website & Hosting

Anything that keeps your website online, functional, or on-brand can go here!

Examples:

- Website hosting
- Domain registration
- Website builders (like Squarespace)
- Website design services

Getting a little picky:

If you paid a contractor for custom web design, I prefer for it to be categorized as contract labor. But, if you paid for a website template on Etsy that you updated yourself, leave it here!

Equipment & Technology

This is tangible property that you use to do your job!

Examples:

- Laptop
- Tablet
- Monitors
- Printer
- Certain office furniture

This category might sound straightforward, but it plays a big role in your tax prep!

Depending on the cost of your equipment, it may make sense to capitalize (*aka treat like an asset and show it on your balance sheet*) instead of expensing your equipment purchase.

For this category, it's never a bad idea to flag any big purchases and ask your accountant how they'd prefer for you to record them.



Professional Services

This one's pretty self-explanatory: expenses you paid to a professional for a service go here.

Examples:

- CPA fees
- Bookkeeping services
- Legal services
- Business consultants

What about 1099s?

Similar to your contractors, you still want to request a W-9 from these vendors so that you (*and your accountant*) can figure out whether they'll need a 1099.

Salaries & Wages

This category is for compensation paid to your employees (if you're paying contractors, see the Contract Labor section).

Examples:

- Employee salaries
- Hourly wages
- Bonuses

To keep things really clean, you'll want to track employer-paid expenses like:

- Social Security
- Medicare taxes
- Federal unemployment taxes

In a totally separate account called **Payroll Taxes**.

And expenses like retirement plan contributions, health insurance contributions, or wellness stipends should generally be categorized in another separate account called **Employee Benefit expenses**.



Contract Labor

When you bring in independent contractors or freelancers to help your business, this is where you'll categorize your payments to them.

Examples:

- Social media managers
- Virtual assistants
- Copywriters

Here's the key thing for contract labor:

You need to set up a vendor for each contractor with the information from their W-9 (*if you don't have one on file, get one ASAP*). This makes filing your 1099-NECs in January much easier!



Travel

Record travel expenses related to leaving your business's tax home base (long enough that you need sleep or rest) for a legitimate business purpose here.

Examples:

- Flights
- Hotels/lodging
- Rental cars
- Meals while traveling (50% deductible)

Your business travel expenses need to serve a clear business purpose. Sorry, but just checking your emails on a beach vacation doesn't count.

Traveling away from your tax home to meet with a client, attend a trade show, conference, or continuing education/training can.

Make sure you document the business purpose of your trip to help substantiate these expenses.

A few other categories:

Rent: A physical space (outside of your home) that you pay for to run your business. If you run your business from your home, ask your tax accountant about tracking home office expenses.

Interest Expense: Interest paid for loans or credit cards. When you make a loan payment, you usually have principal (non-deductible) and interest (deductible). Check the amortization schedule from your lender on this!

Merchant Fees: This includes fees from using a payment processor to accept credit cards or online payments, like Stripe or Square.

And some *more* bonus ones:

Continuing Education/Professional Development: If it's improving your skill set for your current business, it probably goes here. One thing to note: if it's qualifying you for a totally new profession, it's not deductible.

Office Supplies: These are your smaller, everyday things you'd use to keep your office stocked (printer paper, ink, filing folders, etc.)

Insurance Expenses: Premiums you pay to protect your business from risks. Think: general liability, E&O, commercial property, or cybersecurity insurance.



Let's Connect!

I'm passionate about helping small business owners [customize this section for the services you provide (i.e. understand their numbers through monthly bookkeeping, increase profits and streamline business processes, lower their tax liabilities)].

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