

MONEY MYTHS SERIES

"Start an LLC and Write Off Everything": What an LLC Really Changes

What an LLC does and doesn't let you deduct, the hobby-loss rules, Tax Court cases and California's \$800 yearly LLC tax.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/llc-tax-write-offs/

Part of our [money myths series](#), where we check what social media says about money against the statute, the IRS and the courts.

The claim: start an LLC and you can write off your car, your phone, your trips, your meals, even your kid's tuition. **The verdict:** an LLC doesn't change what's deductible. A single-member LLC is ignored for income tax unless you elect otherwise, and the same rules apply to it that apply to anyone with a side business: the expense has to be an ordinary and necessary cost of a real business, never a personal one. In California, the LLC itself costs at least \$800 a year.

\$800

California's minimum annual LLC tax, owed every year until you cancel (R&TC § 17941)

\$0

Federal deduction for hobby expenses, made permanent by the 2025 budget law (IRC § 67(h))

20%

Accuracy penalty on the tax you underpaid (IRC § 6662)

7%

IRS underpayment interest, compounded daily, fourth quarter of 2026

\$18 million+

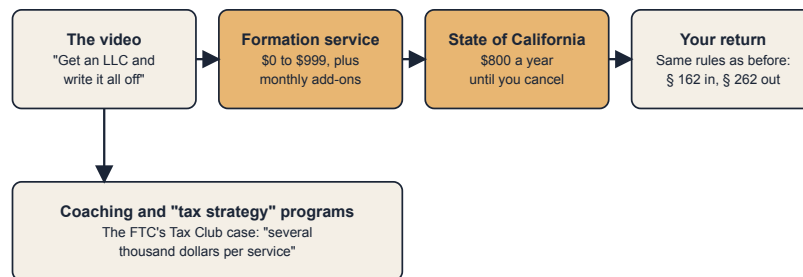
FTC refunds to people sold business coaching and corporate formation services (Tax Club, 2016)

The pitch is everywhere on TikTok and Instagram: form an LLC, and personal spending turns into business expenses. Some versions say to put your car in the LLC's name, some say to call your vacation a "business retreat," and some say anything you post about is content and therefore deductible. In every version, the LLC is supposed to be what makes it work. It doesn't. The tax code doesn't care what your business is called. It cares what you spent money on and why.

Who gets paid when you follow this advice

The formation service gets paid first. One large online provider lists LLC packages at \$0, \$249 and \$999 "+ state filing fees," with add-on subscriptions that auto-renew at \$49 or \$99 a month. The State of California gets \$800 a year for as long as the LLC exists, whether or not it does any business.

Then the coaching and "tax strategy" programs that sell the idea. The Federal Trade Commission's case against The Tax Club is a documented example of the pattern. The FTC said telemarketers sold people starting home businesses on "business coaching services, corporate formation services, and credit development services," typically for "several thousand dollars per service." The settling defendants had to surrender assets valued at more than \$15 million, and in 2016 the FTC mailed more than 20,000 refund checks totaling more than \$18 million. The IRS describes the same market from its side: "Promoters continue to peddle elaborate schemes to reduce taxes and make a handsome profit."



Does an LLC let you write off more than a sole proprietor?

No: a single-member LLC is "disregarded as an entity separate from its owner" for federal income tax unless it elects otherwise, so its income and expenses go on your own Schedule C under the same rules (Treas. Reg. § 301.7701-3).

Treasury regulations say a disregarded entity's activities "are treated in the same manner as a sole proprietorship." The IRS says the same: unless a single-member LLC elects to be taxed as a corporation, it's a "disregarded entity," and the owner reports its activity on their own return. California requires the LLC to use the same classification for state purposes. The tax code even blocks the end-run: IRC § 67(c) directs regulations that "prohibit the indirect deduction through pass-thru entities" of amounts you couldn't deduct directly.

An LLC can be worth having. It can separate business liabilities from your personal assets, and it can elect to be taxed as an S corporation once the business earns enough. Neither of those has anything to do with turning personal costs into deductions. Our [LLC vs. S corp](#) page covers when the election helps.

What can a business deduct?

Ordinary and necessary expenses of carrying on a trade or business under IRC § 162(a), and never "personal, living, or family expenses" under § 262(a).

IRS Publication 334 defines an ordinary expense as "one that is common and accepted in your field of business" and a necessary expense as one that is "helpful and appropriate." Section 262 then rules out anything personal. The costs the videos mention most each have their own rule.

- ✓ **Your car.** Driving between home and your regular workplace is commuting and isn't deductible. For a mixed-use vehicle, you deduct only the business-use percentage. Publication 334's example allows 80% of a van's costs because 16,000 of 20,000 miles were business.
- ✓ **Your phone.** Basic local service on the first phone line in your home is treated as personal by statute (§ 262(b)). For other phone costs, only the business share counts.
- ✓ **Meals.** Business meals are capped at 50%, and only if you're present and the meal isn't lavish (§ 274(n); IRS Publication 463).
- ✓ **Entertainment.** Not deductible at all since 2018 (§ 274(a)(1)).
- ✓ **Travel.** If a trip is "primarily for personal reasons, such as a vacation, the entire cost of the trip is a nondeductible personal expense." A spouse or child coming along is generally not deductible either (Publication 463).
- ✓ **Your kid's tuition.** Personal. A federal court called tuition for one's child "unquestionably a 'personal, living, or family expense'" (United States v. Musin, 2011).
- ✓ **Home office.** Only space used "exclusively" and regularly for the business (§ 280A(c)(1)). A desk in the family room doesn't qualify.

Travel, gifts and vehicles also need records that meet IRC § 274(d): "adequate records or ... sufficient evidence corroborating the taxpayer's own statement."

What if the "business" doesn't make money?

An activity not run for profit is a hobby, and since the 2025 budget law made the suspension permanent, hobby expenses can't be deducted at all on a federal return, while hobby income is still taxed (IRC § 67(h); IRS Publication 529).

Section 183 disallows deductions from an activity "not engaged in for profit." There's a presumption in your favor if the activity shows a profit in three of five consecutive years (two of seven for horses). Otherwise the IRS and courts weigh nine factors from Treasury Regulation § 1.183-2(b), including whether you run it in a businesslike way with complete and accurate books, your expertise, your history of losses, and whether the losses offset substantial income from elsewhere. "No one factor is determinative."

The 2017 tax law suspended the deduction for hobby expenses through 2025. The 2025 budget law, Pub. L. 119-21, signed July 4, 2025, struck the end date, so the suspension is now permanent for tax years after 2025. IRS Publication 529 says hobby expenses "are miscellaneous itemized deductions and can no longer be deducted." The income from a hobby must still be reported.

What happens when the IRS says a write-off was personal?

You owe the tax, interest at 7% compounded daily for late 2026, and often a 20% accuracy penalty, and courts have upheld all three against people who ran personal spending through an entity.

Sherman (2023). An emergency room physician reported \$104,758 in expenses for a film, music and blog venture. He had no business plan, and the court noted the losses would have produced "a substantial tax benefit, essentially zeroing out any tax obligation he owed." The court held the venture wasn't run for profit and sustained a \$59,339 deficiency for 2015 (Sherman v. Commissioner, T.C. Memo. 2023-63).

Schwarz (2024). A couple's partnership, Tecomate Industries, LLC, reported more than \$15 million of losses from 2005 to 2020 on a ranch used for hunting, fishing and events. The court held the farming activity wasn't engaged in for profit. The IRS had determined deficiencies of \$496,754, \$637,924 and \$717,020 for 2015 to 2017. The couple avoided the penalties only because they had relied in good faith on their longtime accountant (Schwarz v. Commissioner, T.C. Memo. 2024-55).

Musin (2011). A federal court in Iowa permanently barred two tax preparers from preparing returns. It wrote: "To the Musins, the ownership of a small business has been treated as a license to convert almost any of one's personal expenses into business deductions." Their returns deducted \$14,975 of a client's daughters' school tuition, scuba diving vacations, and a trip to London and Croatia after the client asked whether it counted as "lifestyle promotions for the business" (United States v. Musin, 953 F. Supp. 2d 944 (S.D. Iowa 2011)).

Federal tax "saved" on the return

\$4,800

Tax owed back after audit

\$4,800

20% accuracy penalty

\$960

Interest, 2 years at 7% compounded daily

\$721

California LLC tax, 2 years

\$1,600

Hypothetical. Single filer, 24% federal bracket (2026). Leaves out self-employment tax, California income tax and interest on the penalty, so it understates the cost.

Item	Amount
Federal tax "saved" on the return	\$4,800
Tax owed back after audit	\$4,800
20% accuracy penalty	\$960
Interest, 2 years at 7% compounded daily	\$721
California LLC tax, 2 years	\$1,600
Total owed after audit (federal)	\$6,481

What does an LLC cost in California?

At least \$800 a year in state LLC tax, due "even if you are not conducting business, until you cancel your LLC," plus an extra fee from \$900 to \$11,790 once California income reaches \$250,000 (Franchise Tax Board; R&TC §§ 17941, 17942).

California briefly waived the first-year \$800 for LLCs formed in 2021 through 2023. That waiver is over. You'll also pay a \$70 filing fee for the articles of organization and \$20 for each Statement of Information, and the Secretary of State charges a \$250 penalty if you don't file the statement. Our page on [California's \\$800 LLC tax](#) covers the first year, unused LLCs and how to cancel, and our [LLC compliance calendar](#) lists every recurring filing.

Under \$250,000 California income

\$800

\$250,000 to \$499,999 California income

\$1,700

\$500,000 to \$999,999 California income

\$3,300

\$1 million to \$4,999,999 California income

\$6,800

\$5 million or more California income

\$12,590

Sources: Cal. Rev. & Tax. Code §§ 17941, 17942; Franchise Tax Board. The \$800 is owed every year until the LLC is cancelled.

LLC's total California income	Annual LLC tax	LLC fee	Total each year
Under \$250,000	\$800	\$0	\$800
\$250,000 to \$499,999	\$800	\$900	\$1,700
\$500,000 to \$999,999	\$800	\$2,500	\$3,300
\$1 million to \$4,999,999	\$800	\$6,000	\$6,800

LLC's total California income	Annual LLC tax	LLC fee	Total each year
\$5 million or more	\$800	\$11,790	\$12,590

One California difference cuts the other way. California didn't adopt the federal suspension of miscellaneous itemized deductions or the 2017 entertainment disallowance, and it generally doesn't conform to the 2025 budget law. That changes a few lines on the California return. It doesn't make personal expenses deductible in California either, because California adopts §§ 162 and 262.

Worked example: \$20,000 of personal costs through an LLC

The numbers here are hypothetical. A single California filer in the 24% federal bracket forms an LLC and runs \$20,000 of personal spending through it: family dinners, a vacation, a car used mainly for commuting. The IRS audits two years later and disallows all of it.

- **Federal income tax "saved" on the return:** 24% of \$20,000, or \$4,800.
- **What's owed after the audit:** the \$4,800 back, a 20% penalty of \$960, and about \$721 of interest at 7% compounded daily for two years, for \$6,481.
- **What the LLC cost meanwhile:** \$1,600 in California LLC tax for the two years.

The example understates the damage. It leaves out self-employment tax on the overstated profit, California income tax and interest on the penalty.

When is an LLC and its deductions legitimate?

When there's a real business with a profit motive and records, which is the same answer with or without an LLC. The Tax Court sided with taxpayers in *Huff* (2021) and *Wondries* (2023) because they ran their ventures like businesses.

In *Huff v. Commissioner*, T.C. Memo. 2021-140, a couple breeding miniature donkeys through an LLC lost \$87,236 and \$47,039 in two years and still won, because they ran it like a business. In *Wondries v. Commissioner*, T.C. Memo. 2023-5, a California couple with no ranching experience hired an experienced foreman for their cattle ranch, and the court found a profit motive in what it called a close case. *Sullivan v. Commissioner*, T.C. Memo. 2026-13, shows the middle ground: the court found the LLC's software business was run for profit, but it allocated 25% of the home construction costs to a separate parcel and treated that share as personal.

Real business expenses are deductible whether or not you have an LLC: the business share of your phone and car, business trips, half of business meals, a true home office. Losses from a new business are allowed while you're building it, as long as you're trying to make money.

What the video says	What the law says
"An LLC lets you write off everything."	A single-member LLC is disregarded. The deduction rules are the same as for a sole proprietor.
"Put your car in the LLC."	Commuting is personal. Only the business-use share is deductible, with a mileage log.
"Your vacation is a business trip."	A trip that's primarily personal is entirely nondeductible.
"Write off your kid's school."	Tuition for your child is a personal expense.
"Even if it loses money, it's deductible."	Not if it's a hobby. Hobby expenses are permanently nondeductible federally after the 2025 law.
"The LLC is cheap to set up."	In California it's \$800 a year minimum, every year, until you cancel.

What should you do instead?

Start with the business, not the entity, and keep records that would satisfy a skeptical stranger.

1 Open a separate account

Every business dollar in and out goes through it. Mixed accounts are the first thing an auditor looks at.

2 Write a basic business plan

Who pays you, for what, and when you expect a profit. Taxpayers who won hobby-loss cases had one.

3 Allocate mixed-use costs

Phone, car, internet: deduct the business percentage you can document, not 100%.

4 Form an LLC for liability reasons

If you need one, price in California's \$800 a year. See [asset protection for business owners](#) and [business entity formation](#).

5 Use a real tax professional

A CPA or enrolled agent you can name in an audit. Good-faith reliance on a competent adviser saved the Schwarz couple from penalties.

6 Report promoters

The IRS takes reports of abusive tax schemes on Form 14242.

Other pages in this series cover related pitches. See [the G-Wagon deduction](#), [the Augusta rule](#) and [hiring your kids](#).

Frequently asked questions

Does forming an LLC lower my taxes?

Not by itself. A single-member LLC is taxed like a sole proprietorship unless it elects otherwise. An S corporation election can lower self-employment tax for a profitable business, but it adds payroll and filing costs.

Can I write off my car through my LLC?

Only the business-use share, documented with a mileage log. Commuting between home and your regular workplace is personal no matter who owns the car.

Can my LLC pay for my vacation?

Not if the trip is primarily personal. A few business meetings during a vacation don't turn it into a business trip, and family members' costs generally aren't deductible.

Can I deduct expenses if my business doesn't make money?

Yes, if it's a real business run to make a profit. If it's a hobby, the expenses aren't deductible federally, permanently, after the 2025 budget law, and the income is still taxable.

How much does an LLC cost in California every year?

At least \$800 in annual tax until you cancel, plus a fee from \$900 to \$11,790 if California income reaches \$250,000, plus \$20 for the Statement of Information when it's due.

What is the penalty for claiming personal expenses as business expenses?

Usually a 20% accuracy-related penalty on the underpaid tax, plus interest. The penalty applies when the understatement is substantial or the return was negligent.

This page is general information, not legal, tax or investment advice for your situation. Whether a particular cost is deductible depends on facts, so ask your own tax preparer before you rely on a write-off.

More in the [money myths series](#).

SOURCES

- 26 U.S.C. §§ [162](#), [262](#), [183](#), [274](#), [67](#) (as amended by Pub. L. 119-21, § 70110, July 4, 2025), [280A](#), [6662](#), Cornell LII.
- Treas. Reg. §§ [301.7701-2](#), [301.7701-3](#), [1.183-2](#), [1.262-1](#), Cornell LII.
- IRS, [Single member limited liability companies](#); Publications [334](#), [463](#), [525](#), [529](#) and [587](#), accessed October 7, 2026.
- IRS, [Accuracy-related penalty](#); [Interest rates remain the same for the fourth quarter of 2026](#), August 21, 2026.
- IRS, [Dirty Dozen wrap-up](#), April 11, 2024; [Dirty Dozen tax scams for 2026](#), IR-2026-30, March 5, 2026.
- Franchise Tax Board, [Limited liability company and 2025 Schedule CA \(540\) instructions](#); Cal. Rev. & Tax. Code §§ [17941](#), [17942](#), [17201](#).
- California Secretary of State, [Business entities fee schedule](#) (rev. June 2018).
- Federal Trade Commission, [Tax Club settlement](#), June 24, 2014; [FTC returns \\$18 million to victims](#), December 16, 2016.

- Sherman v. Commissioner, T.C. Memo. 2023-63, [CourtListener](#).
- Schwarz v. Commissioner, T.C. Memo. 2024-55, [CourtListener](#).
- United States v. Musin, 953 F. Supp. 2d 944 (S.D. Iowa 2011), [CourtListener](#).
- Huff v. Commissioner, T.C. Memo. 2021-140, [CourtListener](#); Wondries v. Commissioner, T.C. Memo. 2023-5, [CourtListener](#); Sullivan v. Commissioner, T.C. Memo. 2026-13, [CourtListener](#).
- LegalZoom, [LLC pricing](#), accessed October 7, 2026 (marketing).

Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

ridleylawoffices.com · (805) 244-5291

General information, not legal, tax or investment advice for your situation. Reading this guide does not create an attorney-client relationship. Ridley Law does not sell insurance or investments. You may share this PDF freely in unaltered form.