

HASHEM and SIMMS, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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Dear Client

We are writing in response to your inquiry concerning whether website development costs are deductible for federal income tax purposes. The following discussion sets forth a brief summary of the relevant factors to considered with respect to these expenses.

For expenses incurred before October 22, 2004, if the taxpayer developing the website is a new business, the costs are generally capitalized and amortized over a period not exceeding 60 months. However, the costs may be deducted if they qualify as research and experimental expenditures.

For expenses incurred on or after October 22, 2004, if the taxpayer developing the website is a new business, the first \$5,000 of costs may be deducted in the year in which the trade or business begins. However, each \$5,000 amount is reduced (but not below zero) by the amount by which the cumulative cost of startup expenditures exceeds \$50,000. Expenditures not deductible in the year in which the business begins are amortized over a 15-year period. As with expenditures incurred before October 22, 2004, the costs may be deducted if they qualify as research and experimental expenditures.

If the taxpayer is an existing business, the deductibility depends on the type of expense. If the costs are associated with the design of the website, the costs are capitalized and amortized over the useful life of the website. If the costs are associated with the content of the website, they may be deducted as an advertising expense. Finally, if the costs are associated with the development of software, the company has the option of deducting or capitalizing.

Once you have reviewed your expenses in light of this analysis, We suggest that we meet to discuss your particular situation. Please contact us at your convenience. Thank you.

Sincerely,

George K Hashem

Tyler W Simms



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