



Risqué Tabulations

Specialized Bookkeeping for Unique Businesses

Guide to Tax Deductions for Product-Based Businesses

Who This Guide Was Written For

This guide is meant to help product-based businesses whose income comes from selling physical goods. Some examples include manufacturers, retailers, merchants, and online shops. They can operate through websites, marketplaces, fulfillment platforms, in-person sales, or a combination of these.

If your business also involves personal services, live performances, or subscription content, additional considerations may apply.

What You Should Get Out of This Guide

This guide highlights common and legitimate expense categories applicable to product-based businesses. Those categories can include inventory, manufacturing, marketing, and overhead costs. These types of businesses require effective ways to track them responsibly, which is essential for maximizing deductions and maintaining accurate records.

As an independent contractor, you can and should claim deductions against your income for any expenses legitimately incurred in the course of conducting your business. The challenge is to maximize your deductions without claiming expenses that aren't allowed.



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Why Tracking Business Expenses Can Be Complicated

Product-based businesses can face many challenges, especially as the business starts growing, including:

- Inventory or raw materials purchased in varying quantities and at different prices
- Deciding whether a purchase should be classified as Cost of Goods Sold (COGS) or overhead
- Income processed through merchant accounts or online marketplaces
- Fees that are deducted by sales platforms or payment processors before payouts are deposited
- Potential sales tax issues

These challenges are common, but they require careful recordkeeping to help you understand your business's performance and avoid issues during tax season.

This guide focuses on the legitimate expense categories commonly used in product-based businesses and provides tips for tracking them effectively.

Common Expense Categories for Product-Based Businesses

Cost of Goods Sold (COGS)

These are the direct costs associated with producing or purchasing what you sell:

- Inventory purchases
- Raw materials or components
- Manufacturing or production costs
- Packaging materials

Pro Tip:

Proper inventory management is crucial. A common mistake is expensing inventory immediately rather than tracking



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it, which can lead to issues during financial cleanups. Correct management can help you feel more assured about your financial accuracy.

Fulfillment & Shipping

This category includes:

- Shipping and postage
 - Fulfillment service fees
 - Storage or warehousing expenses
 - Cost for returns, refunds, and reshipping
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Merchant, Platform & Processing Fees

These fees are associated with transactions:

- Payment processor fees
- Marketplace commissions
- Platform subscription fees
- Chargebacks and dispute fees

Pro Tip:

Many product businesses make the mistake of recording only net deposits rather than gross sales and associated fees, which can lead to cleanup issues.



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Equipment & Production Assets

Expenses for production-related assets include:

- Manufacturing equipment
- Tools, molds, or fixtures
- Assets used in production
- Repairs and maintenance

Some assets may need to be depreciated over time rather than expensed immediately.

Marketing & Sales

This category of expense includes costs related to promoting your products:

- Product photography
- Advertising campaigns
- Influencer or affiliate payouts
- Website and e-commerce software



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Operations & Administrative Expenses

These general business expenses cover:

- Business insurance
- Professional services (tax, legal, bookkeeping)
- Office supplies
- Phone and internet used for operations

Compliance & Tax-Related Costs

These general business expenses cover:

- Sales tax software or filing services
- Licenses or permits
- Professional tax preparation

These expenses support compliance and recordkeeping, not just tax filing.



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Situations That Often Require Extra Organization

Check any that apply:

- Inventory purchased in bulk, from multiple vendors, or at different prices at different times
- Multiple sales channels, such as your website, marketplaces, and events, can require tracking both sales and fees. Maintaining detailed records for each channel is essential to accurately reconcile and reduce errors during tax filing.
- Refunds or returns processed separately from original sales
- Fees that are deducted before deposits are received
- Sales tax collected but not tracked clearly

These situations are common and manageable, but they require intentional tracking.

You May Need Cleanup First If:

- Inventory balances do not match actual stock
- Gross sales and fees were not tracked separately
- Sales tax collected can't be matched to actual sales
- Inventory costs were not adjusted for purchases made at different prices

If two or more apply, cleanup before filing may reduce errors and improve clarity around profitability.



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Why Keeping Financial Records is So Important

Product-based businesses benefit from structured tracking earlier than most service businesses. What matters most is maintaining a clear separation between gross sales, fees, inventory costs, and operating expenses.

When records are incomplete or inconsistent, cleanup work before filing can be a protective step — and can prevent compounding problems as the business grows.

Product-based businesses usually outgrow spreadsheets earlier in the growth cycle than most service businesses. Inventory control, multiple sales channels, shipping logistics, equipment depreciation, and processing returns are more efficiently and accurately managed with accounting software.

Ready for the Next Step?

Download our Tax Prep Checklist and Basic Expense Tracker to help you organize your records, making you feel prepared and reducing stress before filing. You can download this material using the [Deductible Expense Resources](#) page.