

Tests for Deducting Pay

To be deductible, your employees' pay must be an ordinary and necessary business expense and you must pay or incur it. These and other requirements that apply to all business expenses are explained in [chapter 1](#).

In addition, the pay must meet both of the following tests.

- **Test 1.** It must be reasonable.
- **Test 2.** It must be for services performed.

The form or method of figuring the pay doesn't affect its deductibility. For example, bonuses and commissions based on sales or earnings, and paid under an agreement made before the services were performed, are both deductible.