



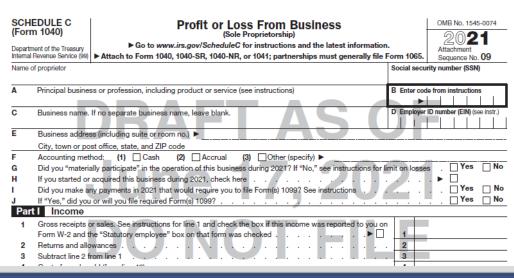
| Filing Statu Chack only one box. | The management and b | ar the name of spouse. If you chacked the HOH or QW box, or | | | | |
|--|---|--|--|--|--|--|
| Yo If } | SCHEDULE C (Form 1040 or 1040-SR) Department of the Treasury | Profit or Loss From E (Sole Proprietorship) | | | | |
| Fo Sta De- | SCHEDULE SE (Form 1040) Department of the Treasury Internal Revenue Service (99) | Self-Employme ► Go to www.irs.gov/ScheduleSE for instruc ► Attach to Form 1040, 1040 | | | | |
| | Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 10 Part I Self-Employment Tax | | | | | |
| Age Dej (1) | Note: If your only income subject to self-employment tax is church en and the definition of church employee income. A If you are a minister, member of a religious order, or Christian: \$400 or more of other net earnings from self-employment, che- | | | | | |
| | Skip lines 1a and 1b if you use the farm optional method in Part II. See in 1a Net farm profit or (loss) from Schedule F, line 34, and farm part box 14, code A. b If you received social security retirement or disability benefits, enter | | | | | |

About Business Income

- TaxSlayer: Income Screen
- Additional resources listed in L< "Partner Resources" tab
- Review all tips and cautions
- Read all examples and sample interviews
- We will review answers to each exercise in the lesson

Objectives – Business Income

- Determine how to report business income
- Determine what business expenses are within scope
- Know how to complete Schedule C
- Identify "red flags" when preparing a Schedule C tax return with EIC
- Tell taxpayers which records to maintain
- Time Required: 20 minutes



Topics



- Business income or loss information
- Reporting business income
- When Schedule C is in scope for VITA/TCE
- Clarifying taxpayers' business income and expenses
- Business expenses
- Completing Schedule C
- Recordkeeping

Key Terms

Definitions are always available in the L< online Glossary.

- Actual Expense Method
- Business Expenses
- Business Income
- Cash Method of Accounting
- Depreciation
- Earned Income
- Election to expense
- Employee
- Independent Contractor
- Inventory

- Qualified Business Income Deduction
- Qualified Medicaid waiver payments
- Regular Method
- Ride Share Services
- Self-Employment Income
- Sole Proprietor
- Standard Mileage Method
- Statutory Employee

Business Income or Loss Information

- Questions on the L< landing page check your understanding of rules regarding business income
- Ask probing questions to determine if taxpayer or spouse had business income or is self-employed
- Business income information may come from:
 - Form 1099-NEC (Nonemployee compensation)
 - Form W-2 (Statutory Employee)
 - Form 1099-K (Payment Card and Third Party Network Transactions)
 - Taxpayer's books and records
- Cash payments to self-employed taxpayers must be included as business income, even if not reported on Form 1099-NEC
- Qualified Medicaid waiver payments are treated as difficulty of care payments and are excludable from gross income

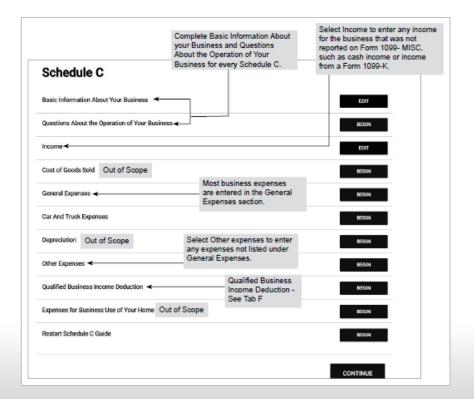
Reporting Business Income

 Schedule C shows income and expenses and the resulting net profit, if any

Business profit or loss is reported on Form 1040

What does TaxSlayer do with the income and expenses entered

into Schedule C?



When Schedule C Is in Scope for VITA/TCE

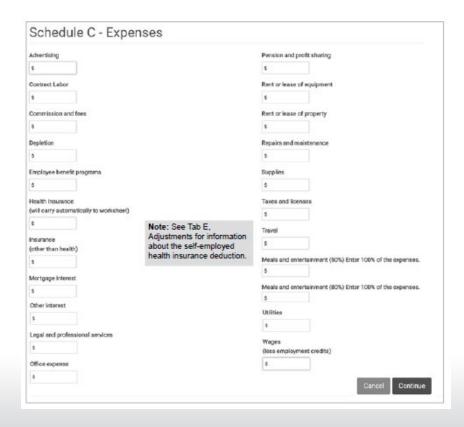
- What are the conditions <u>Schedule C</u> being in scope?
 - Have less than \$35,000 in business expenses
 - Use the cash method of accounting
 - Have no inventory at any time during the year
 - Did not have a net loss from the business
 - Have no employees during the year or paid contract labor for services
 - Are not required to file Form 4562, Depreciation and Amortization, for this business
 - Do not deduct expenses for business use of a home
 - Do not have prior year unallowed passive activity losses from this business

Clarifying Taxpayers' Business Income and Expenses

- Ask sufficient questions of taxpayers to be satisfied:
 - The taxpayer actually conducts a business
 - The taxpayer has records to support income and expenses, or can reasonably reconstruct income and expenses records
 - All income and related expenses have been included on the taxpayer's Schedule C
- Taxpayers must be prepared to provide receipts and other documentation to support their claimed business income and expenses in the event of an IRS audit
- Certain situations involving Schedule C and EIC should raise "red flags"

Types of Business Expenses in Scope

- Business expenses must be ordinary and necessary to be deductible
- Review examples of types of business expenses from L< topic
 - Find details in <u>Schedule C Instructions</u>



Completing Schedule C

- The same business expenses are deductible on **Schedule C**
- If the taxpayer's Form W-2 has the "Statutory employee" box checked, follow TaxSlayer guidance for Schedule C
- Review L< topic for Out of Scope Situations

| 8 9 10 11 12 13 | 9 Car and truck expenses (see instructions) | 8 9 10 11 12 13 | 18 19 20 a b 21 22 23 24 a b | Office expense (see instructions) Pension and profit-sharing plans Rent or lease (see instructions): Vehicles, machinery, and equipment Other business property Repairs and maintenance Supplies (not included in Part III) Taxes and licenses Travel and meals: Travel Deductible meals (see | 18 19 20a 20b 21 22 23 24a | |
|--------------------------------|---|--------------------------------|--|---|---|--|
| 16 | Interest (see instructions): | 15 | 25 | instructions) | 25 | |
| a | Mortgage (paid to banks, etc.) | 16a | 26 | Wages (less employment credits) . | 26 | |
| b | Other | 16b | 27a | Other expenses (from line 48) | 27a | |
| 17 | Legal and professional services | 17 | b | Reserved for future use | 27b | |
| 28 | Total expenses before expen | 28 | | | | |
| 29 | Tentative profit or (loss). Subtr | 29 | | | | |
| 30 | Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: | | | | | |
| | | | | | | |

Recordkeeping

- Business records should include a summary of business transactions and all supporting documents
- Review Pub 4012, Tab D, Income
- Some taxpayers may need to reconstruct records to support claimed business income and expenses

Out of Scope for this Lesson:

Schedule C with:

- Hobby income or not-for-profit activity
- Expenses over \$35,000
- Return and allowances
- Cost of goods sold (inventory)
- Expenses for employees
- Business use of home
- Casualty losses
- Vehicle expenses reported as actual expenses

- Contract labor
- Depreciation or election to expense business assets
- Vehicle lease expenses of more than 30 days
- Accounting methods other than the cash method
- Net losses
- "No" on line G
- Credit card payments not includible in income
- "Yes" indicating there is a requirement to file Form(s) 1099

Summary

- While business income or loss is generally beyond the scope of VITA /TCE, in some cases, you may help self-employed taxpayers who qualify to use limited Schedule C
- This lesson covered:
 - Where to get business income and expense information
 - Cash income must be reported
 - Qualified Medicaid waiver payments are treated as difficulty of care payments and are excludable from gross income
 - How to determine what records to maintain
 - Certain situations involving Schedule C and EIC should raise "red flags"
 - Record reconstruction may be required to support a taxpayer's claimed business income and expenses