



Business Income & Schedule C

Today's Topics

- Schedule C
 - Income
 - Expenses
 - Scope
- Qualified Business Income Deduction
- Self-Employment Tax
- Self-Employed Health Insurance Deduction
- K-1s

Schedule C-Income

- Income from a business or profession where the taxpayer is the sole proprietor
- The business is a for profit not a hobby
- Income can be reported in the following ways:
 - Forms 1099-MISC, Miscellaneous Income
 - Forms 1099-NEC, Nonemployee Compensation
 - Forms W-2, Wage and Tax Statement, with Statutory Employee checked in Box 13
 - Taxpayer's books and records
 - Forms 1099-K, Payment Card and Third Party Network Transactions

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	OMB No. 1545-0115		
		\$	Form 1099-MISC		
		2 Royalties	(Rev. January 2022)		
PAYER'S TIN		\$	For calendar year 20__		
		3 Other income	4 Federal income tax withheld	Copy 1 For State Tax Department	
5 Fishing boat proceeds	6 Medical and health care payments	\$	\$		
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		7 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>	8 Substitute payments in lieu of dividends or interest		\$
		9 Crop insurance proceeds	10 Gross proceeds paid to an attorney		
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		11 Fish purchased for resale	12 Section 409A deferrals		\$
		13 FATCA filing requirement <input type="checkbox"/>	14 Excess golden parachute payments	15 Nonqualified deferred compensation	\$
Account number (see instructions)		16 State tax withheld	17 State/Payer's state no.	18 State income	
\$		\$		\$	

Form **1099-MISC** (Rev. 1-2022) www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		FILER'S TIN	OMB No. 1545-2205			
		PAYEE'S TIN	Form 1099-K			
Check to indicate if FILER is a (an): Payment settlement entity (PSE) <input type="checkbox"/> Electronic Payment Facilitator (EPF)/Other third party <input type="checkbox"/>		Check to indicate transactions reported are: Payment card <input type="checkbox"/> Third party network <input type="checkbox"/>		(Rev. January 2022)		
		1a Gross amount of payment card/third party network transactions		For calendar year 20__		Copy B For Payee
1b Card Not Present transactions		2 Merchant category code		This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.		
3 Number of payment transactions		4 Federal income tax withheld				
PAYEE'S name		5a January	5b February			
Street address (including apt. no.)		\$	\$			
		5c March	5d April			
City or town, state or province, country, and ZIP or foreign postal code		\$	\$			
		5e May	5f June			
PSE's name and telephone number		\$	\$			
		5g July	5h August			
Account number (see instructions)		\$	\$			
		5i September	5j October			
		5k November	5l December			
		\$	\$			
		6 State	7 State identification no.	8 State income tax withheld		
		\$	\$			

Form **1099-K** (Rev. 1-2022) (Keep for your records) www.irs.gov/Form1099K Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116		
		Form 1099-NEC		
		(Rev. January 2022)		
PAYER'S TIN		For calendar year 20__		
		1 Nonemployee compensation		
RECIPIENT'S TIN		\$		
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>		
		3		
Account number (see instructions)		4 Federal income tax withheld		
		\$		
		5 State tax withheld	6 State/Payer's state no.	7 State income
		\$		\$

Form **1099-NEC** (Rev. 1-2022) (keep for your records) www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

What is in scope for VITA/TCE?

- 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 and did not pay contract labor for services
- Are not required to file Form 4562, Depreciation and Amortization
- Do not deduct expenses for business use of a home

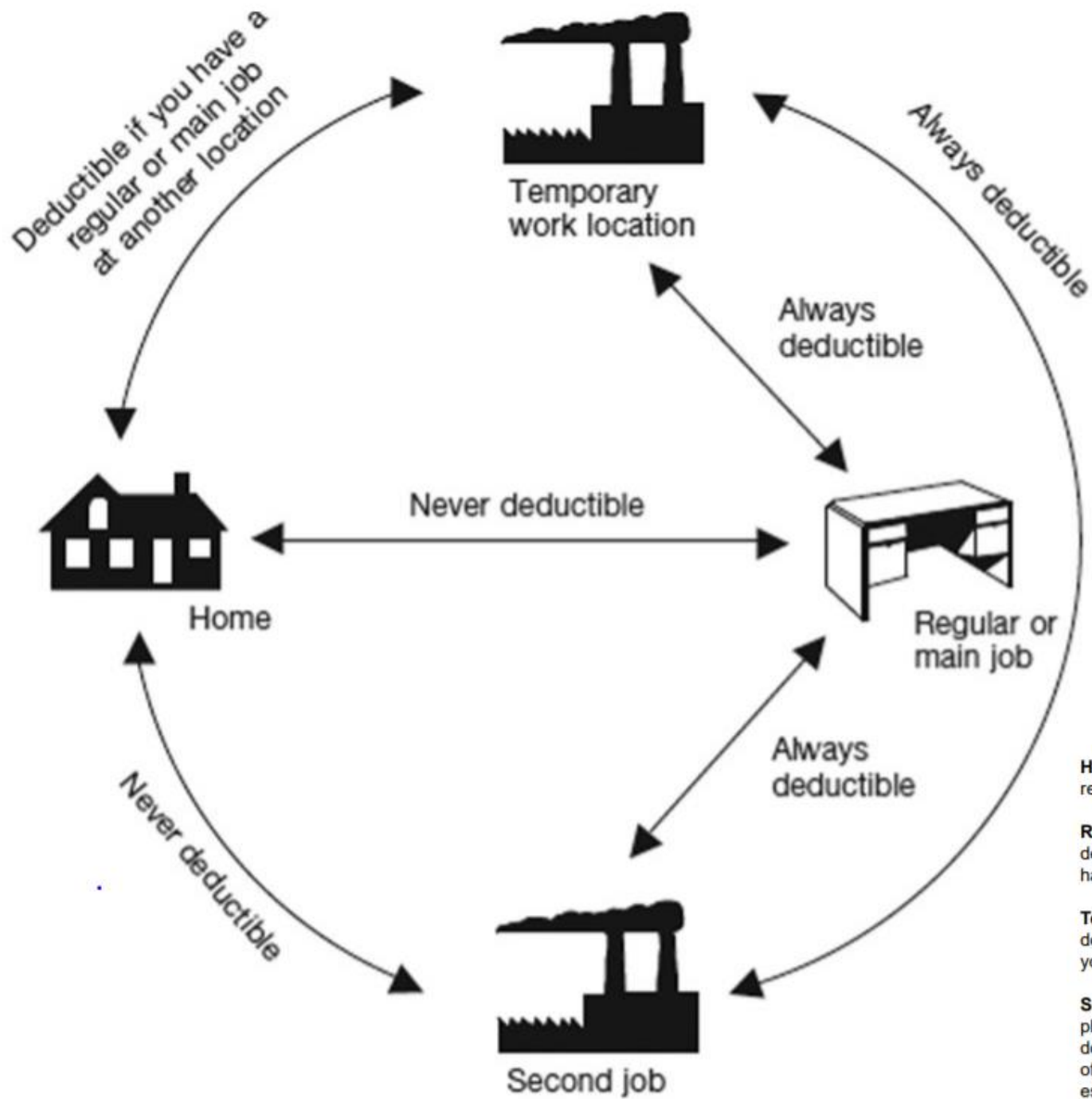
Business Expense

- Advertising
- Car & Truck Expense
- Commissions & Fees
- Insurance
- Other Interest – on operating loans/no mortgage
- Legal & Professional Services
- Office Expense – supplies such as pens, paper, and postage
- Rent or Lease – vehicle, machinery & equipment
- Repairs & Maintenance
- Supplies
- Taxes & Licenses
- Travel & Meals
- Utilities
- Other Expenses

Notes

- Need to report business income regardless on if a 1099 is received
- If more than one business, need to complete separate Schedule C's
- Client should have record of income and expenses, may need to reconstruct
- Meals are 100% deductible, must involve a client or business contact
- Taxpayers have to pick if they want to use mileage or actual car and truck expenses
- Mileage rates
 - January 1 to June 30 - 58.5 Cents per mile
 - July 1 to December 31 - 62.5 Cents per mile
- Schedule C- <https://www.irs.gov/pub/irs-pdf/f1040sc.pdf>

Schedule C- Computing Mileage



Home: The place where you reside. Transportation expenses between your home and your main or regular place of work are personal commuting expenses.

Regular or main job: Your principal place of business. If you have more than one job, you must determine which one is your regular or main job. Consider the time you spend at each, the activity you have at each, and the income you earn at each.

Temporary work location: A place where your work assignment is realistically expected to last (and does in fact last) one year or less. Unless you have a regular place of business, you can only deduct your transportation expenses to a temporary work location outside your metropolitan area.

Second job: If you regularly work at two or more places in one day, whether or not for the same employer, you can deduct your transportation expenses of getting from one workplace to another. If you do not go directly from your first job to your second job, you can deduct the transportation expenses of going directly from your first job to your second job. You cannot deduct your transportation expenses between your home and second job on a day off from your main job.

Reconstructing Records

- Appointment books or calendars
- Online map tools
- IRS standard allowances
- Checkbooks and canceled checks
- Cash apps and accounting software
- Bank or credit card statements
- Lists of regular clients
- Partial receipts or sales tax records
- Cell phone records, call history, or computer logs
- Prior year returns

Qualified Business Income Deduction

- Deduction for pass-through entities
 - Schedule C businesses
 - K-1s
- Sole-proprietors can take up to 20% of the qualified business income
- Calculations don't affect the Schedule C or Schedule SE
- Taxable Income can't be reduced below zero
- The Deduction is the lesser of:
 - 20% of the qualified business income or,
 - 20% of the taxable income minus capital gains and qualified dividends
- Qualified Business income is reduced by Self-Employment Tax, Self-Employed Health Insurance Deduction and contributions to qualified retirement plans
- The deduction is calculated on Form 8995

Self-Employment Tax

- Is Social Security and Medicare tax to be paid by self-employed
 - Includes both the employee and employer portions
 - Contributes to the taxpayers coverage in the Social Security system so they can take Social Security when they retire
 - Self employment tax rate is 15.3%
 - When Schedule C is completed a Schedule SE is automatically created to calculate Self-Employment Tax
- Can deduct $\frac{1}{2}$ as an adjustment to income

Self-Employed Health Insurance Deduction

- Adjustment to Income
- The insurance must be paid under the self-employed business
- Can't be more than the net income of the business
- It is limited to the amount of the net business income and reduced by $\frac{1}{2}$ of the self-employment tax

Schedule K-1

- Three types of K-1's
 - 1041-Trusts and Estates
 - 1065-Partnerships
 - 1120S-S Corporations
- Items in scope from K-1's
 - Interest
 - Dividends
 - Net short-term capital gains
 - Net long-term capital gains
 - Royalty Income
 - Foreign Tax Credit
 - 199A Dividends

OOS = Out of Scope

Schedule K-1 (Form 1041) 2022
 Department of the Treasury Internal Revenue Service
 For calendar year 2022, or tax year beginning / / 2022 ending / /

Part III Beneficiary's Share of Current Year Income, Deductions, Credits, and Other Items

1	Interest income	11	Final year deductions
2a	Ordinary dividends	C	Short Term Cap Loss
2b	Qualified dividends	D	Long Term Cap Loss
3	Net short-term capital gain		Other Codes OOS
4a	Net long-term capital gain		
4b	28% rate gain	OOS	12 Alternative minimum tax adjustment
4c	Unrecaptured section 1250 gain	OOS	OOS
5	Other portfolio and nonbusiness income	OOS	
6	Ordinary business income	OOS	
7	Net rental real estate income	OOS	
8	Other rental income	OOS	13 Credits and credit recapture
9	Directly apportioned deductions	OOS	OOS
10	Estate tax deduction	OOS	14 Other information
			A Tax-exempt interest
			B Foreign Taxes
			Other Codes OOS

*See attached statement for additional information.
Note: A statement must be attached showing the beneficiary's share of income and directly apportioned deductions from each business, rental real estate, and other rental activity.

For IRS Use Only

Domestic beneficiary Foreign beneficiary

DRAFT AS OF July 26, 2022 DO NOT FILE

Box 14b does not appear in the Tax-Slayer Form 1041 K-1 entry screen. Instead make the following entries:

1. Enter amounts for Code B in Deductions>Credits>Foreign Taxes Paid.
2. Enter in state as needed.



Schedule K-1 (Form 1120S) - S Corporation income passes directly to shareholders.

Schedule K-1 (Form 1120-S) 2022
 Department of the Treasury Internal Revenue Service
 For calendar year 2022, or tax year beginning / / 2022 ending / /

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	OOS	13	Credits	OOS
2	Net rental real estate income (loss)	OOS			
3	Other net rental income (loss)	OOS			
4	Interest income				
5a	Ordinary dividends				
5b	Qualified dividends		14	Schedule K-3 is attached if checked	<input type="checkbox"/>
6	Royalties		15	Alternative minimum tax (AMT) items	OOS
7	Net short-term capital gain (loss)				
8a	Net long-term capital gain (loss)				
8b	Collectibles (28%) gain (loss)	OOS			
8c	Unrecaptured section 1250 gain	OOS			
9	Net section 1231 gain (loss)	OOS	16	Items affecting shareholder basis	
10	Other income (loss)	OOS	A	Tax-exempt interest	
			C	Nondeductible expenses Adjust or State as needed	
				Other codes	
			17	Other information	
11	Section 179 deduction	OOS			
12	Other deductions	OOS			
18	<input type="checkbox"/> More than one activity for at-risk purposes*				
19	<input type="checkbox"/> More than one activity for passive activity purposes*				
* See attached statement for additional information.					

Schedule K-1 (Form 1065) 2022
 Department of the Treasury Internal Revenue Service
 For calendar year 2022, or tax year beginning / / 2022 ending / /

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	OOS	14	Self-employment earnings (loss)	OOS
2	Net rental real estate income (loss)	OOS			
3	Other net rental income (loss)	OOS	15	Credits	
4a	Guaranteed payments for services	OOS	16	Schedule K-3 is attached if checked	<input type="checkbox"/>
4b	Guaranteed payments for capital	OOS	17	Alternative minimum tax (AMT) items	
4c	Total guaranteed payments	OOS			
5	Interest income				
6a	Ordinary dividends		18	Tax-exempt income and nondeductible expenses	
6b	Qualified dividends		A	Tax-exempt interest	
6c	Dividend equivalents		C	Nondeductible expenses Adjust or State as needed	
7	Royalties			Other Codes OOS	
8	Net short-term capital gain (loss)		19	Distributions	N/A Disregard
9a	Net long-term capital gain (loss)		20	Other information	
9b	Collectibles (28%) gain (loss)	OOS			
9c	Unrecaptured section 1250 gain	OOS			
10	Net section 1231 gain (loss)	OOS			
11	Other income (loss)	OOS			
12	Section 179 deduction	OOS	21	Foreign taxes paid or accrued	
13	Other deductions	OOS			
22	<input type="checkbox"/> More than one activity for at-risk purposes*				
23	<input type="checkbox"/> More than one activity for passive activity purposes*				
*See attached statement for additional information.					

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

C IRS center where partnership filed return:

D Check if this is a publicly traded partnership (PTP)

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

G General partner or LLC member-manager Limited partner or other LLC member

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's TIN _____ Name _____

I1 What type of entity is this partner?

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

Check if decrease is due to sale or exchange of partnership interest

K Partner's share of liabilities:

	Beginning	Ending
Nonrecourse	\$	\$
Qualified nonrecourse financing	\$	\$
Recourse	\$	\$

Check this box if item K includes liability amounts from lower-tier partnerships

L Partner's Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$
Other increase (decrease) (attach explanation)	\$
Withdrawals and distributions	\$
Ending capital account	\$ (If negative, OOS)

M Did the partner contribute property with a built-in gain (loss)?
 Yes No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$
Ending	\$

For IRS Use Only

1 No need to enter in TaxSlayer

2 Box 21 does not appear in the TaxSlayer Form 1065 K-1 entry screen. Instead make the following entries:
 1. Enter amounts from Codes P and Q in Deductions>Credits>Foreign> Taxes Paid.
 2. Enter in state as needed.

Examples from 4491



Darryl used his car only for personal purposes during the first 6 months of the year. During the last 6 months of the year, he drove the car a total of 18,000 miles. Of those miles, 15,000 miles were driven providing transportation through a ride-sharing service. He received a Form 1099-K showing the income he received from the ride-sharing business. Darryl can deduct the 15,000 miles using the standard mileage rate as well as any other ordinary and necessary business expenses, such as supplies, a cell phone, food and drinks for passengers, parking fees, tolls, roadside assistance plans, business insurance, and taxes.



Kiana runs a small business from her home. She has only one phone line and frequently makes long-distance calls for business. The cost of the phone line cannot be deducted, but Kiana can deduct the long-distance charges for her business calls.



Tim works as an independent contractor for ABC Construction Company. The company sent Tim a Form 1099-NEC that shows he received \$15,000 for the work he did for them. He also received cash payments of \$4,000 from several different individuals for the work he completed. He did not receive Forms 1099-NEC for the \$4,000. Tim must include the \$4,000 cash payments as self-employment income along with the \$15,000 from Form 1099-NEC.

Examples from 4491



Carson is single and has his own business. During the year, he paid qualified health insurance premiums of \$3,000. His Schedule C shows a profit of \$5,500 and his self-employment tax deduction is \$389 for a net of \$5,111 (\$5,500 – \$389). The full \$3,000 premium paid is deductible as self-employment health insurance because it is less than the net profit.



Barry makes his living as a handyman and earned \$17,438 during the tax year. In the same year, Barry bought a new ladder for \$450 and uses it exclusively in his business. In keeping his books and records, Barry uses an accounting procedure whereby he deducts amounts he pays for business equipment if the cost of the equipment is \$1,000 or less. Under the de minimis safe harbor, Barry can deduct the full cost of the ladder as a business expense, as well as any other equipment purchases for \$1,000 or less, by attaching the required statement to his timely filed tax return.



Wendy is a self-employed masseuse and does not maintain an office in her home. She does neck massages for office workers and travels to three office buildings each work day. It is 10 miles from home to the first office and 5 miles from the last office back home. These 15 miles are commuting miles and, therefore, not deductible. The 13 miles Wendy drives from the first office to the second office and 5 miles from the second office to the third office are deductible. Of the 33 miles driven each work day, 18 miles are deductible.

Examples from 4491

Sample Interview

Volunteer Says...	Jason Responds...
What kind of business do you have and were you the sole owner?	I install air conditioners and, yes, I own the business myself. No partners or employees.
Do you have a record of your business income and expenses for last year?	Yeah, I've got a separate checking account for my business. I had a pretty decent first year actually.
Do you use the cash method of accounting?	Yes. I have a printout of my year-end summary here.
And what were your expenses?	Well, I do the installations myself; I spend a lot of money on parts, tools that last less than a year, and equipment repairs. My expenses for the year were \$2,212.
Do you keep any parts in inventory?	No, I purchase the parts when an order is placed with me.
And you say you had a good year? In other words, did you make a profit?	That's correct.
Do you plan on deducting expenses for the business use of your home?	No, I don't.
Okay, and how much business income did you have? [On page 2 of the intake and interview sheet, indicate Jason's responses to these questions.]	My gross totaled \$30,762.



EXERCISE

Question 1: Based on the information in the sample interview, is Jason's return in scope for VITA/TCE?

- a. Yes
- b. No

Examples from 4491

Question 2: Daniel has his own business. He received Form 1099-NEC for \$13,000 for work he completed as an independent contractor. He also received cash payments that total \$2,500 for other jobs he completed for different individuals. Must Daniel report the cash payments of \$2,500 on his return?

- a. Yes
- b. No

Question 3: Ellen has a small business. The gross income from her business is \$40,000, her business expenses total \$11,500, and she must file a Schedule C. Is Ellen's tax return in scope for the VITA/TCE programs?

- a. Yes
- b. No

Resources

- Schedule C
 - <https://www.irs.gov/pub/irs-pdf/f1040sc.pdf>
 - <https://www.irs.gov/pub/irs-pdf/i1040sc.pdf>
- Link and Learn
 - https://apps.irs.gov/app/vita/content/09s/09_01_005.jsp?level=advanced
- Pub 4491
 - <https://www.irs.gov/pub/irs-pdf/p4491.pdf>
- Schedule SE
 - <https://www.irs.gov/pub/irs-pdf/f1040sse.pdf>
 - <https://www.irs.gov/pub/irs-pdf/i1040sse.pdf>
- Form 8995
 - <https://www.irs.gov/pub/irs-dft/f8995--dft.pdf>