



Business Income

A screenshot of the IRS Form 1040 and Schedule C/SE for the year 2021. The form is titled "1040 U.S. Individual Income Tax Return (99) 2021" and includes the Department of the Treasury and Internal Revenue Service (IRS) logo. The filing status section shows options for Single, Married filing jointly, Married filing separately (MFS), and Head of household. The main section is titled "SCHEDULE C Profit or Loss From Business (Sole Proprietorship)" and "SCHEDULE SE Self-Employment Income (Form 1040)". The "Part I Self-Employment Tax" section includes a note about church employee income and instructions for reporting net farm profit or loss and social security retirement or disability benefits.

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

SCHEDULE C (Form 1040)		Profit or Loss From Business (Sole Proprietorship)		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)		▶ Go to www.irs.gov/ScheduleC for instructions and the latest information.		2021 Attachment Sequence No. 09
▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.				
Name of proprietor		Social security number (SSN)		
A	Principal business or profession, including product or service (see instructions)	B Enter code from instructions		
C	Business name. If no separate business name, leave blank.	D Employer ID number (EIN) (see instr.)		
E	Business address (including suite or room no.) City, town or post office, state, and ZIP code			
F	Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶			
G	Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on losses	<input type="checkbox"/> Yes <input type="checkbox"/> No		
H	If you started or acquired this business during 2021, check here ▶	<input type="checkbox"/> Yes <input type="checkbox"/> No		
I	Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions	<input type="checkbox"/> Yes <input type="checkbox"/> No		
J	If "Yes," did you or will you file required Form(s) 1099? ▶	<input type="checkbox"/> Yes <input type="checkbox"/> No		
Part I Income				
1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked	<input type="checkbox"/>	1	
2	Returns and allowances		2	
3	Subtract line 2 from line 1		3	

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?

Schedule C

Complete Basic Information About your Business and Questions About the Operation of Your Business for every Schedule C.

Select Income to enter any income for the business that was not reported on Form 1099- MISC, such as cash income or income from a Form 1099-K.

Basic Information About Your Business	←	EDIT
Questions About the Operation of Your Business	←	BEGIN
Income	←	EDIT
Cost of Goods Sold	Out of Scope	BEGIN
General Expenses	←	BEGIN
Car And Truck Expenses		BEGIN
Depreciation	Out of Scope	BEGIN
Other Expenses	←	BEGIN
Qualified Business Income Deduction	←	BEGIN
Expenses for Business Use of Your Home	Out of Scope	BEGIN
Restart Schedule C Guide		BEGIN
CONTINUE		

Most business expenses are entered in the General Expenses section.

Select Other expenses to enter any expenses not listed under General Expenses.

Qualified Business Income Deduction - See Tab F

When Schedule C Is in Scope for VITA/TCE

- What are the conditions [Schedule C](#) 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 [Schedule C Instructions](#)

Schedule C - Expenses

Advertising \$ <input type="text"/>	Pension and profit sharing \$ <input type="text"/>
Contract Labor \$ <input type="text"/>	Rent or lease of equipment \$ <input type="text"/>
Commission and fees \$ <input type="text"/>	Rent or lease of property \$ <input type="text"/>
Depletion \$ <input type="text"/>	Repairs and maintenance \$ <input type="text"/>
Employee benefit programs \$ <input type="text"/>	Supplies \$ <input type="text"/>
Health Insurance (will carry automatically to worksheet) \$ <input type="text"/>	Taxes and licenses \$ <input type="text"/>
Insurance (other than health) \$ <input type="text"/>	Travel \$ <input type="text"/>
Mortgage interest \$ <input type="text"/>	Meals and entertainment (50%) Enter 100% of the expenses. \$ <input type="text"/>
Other interest \$ <input type="text"/>	Meals and entertainment (80%) Enter 100% of the expenses. \$ <input type="text"/>
Legal and professional services \$ <input type="text"/>	Utilities \$ <input type="text"/>
Office expense \$ <input type="text"/>	Wages (less employment credits) \$ <input type="text"/>

Note: See Tab E, Adjustments for information about the self-employed health insurance deduction.

Cancel Continue

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

Part II Expenses. Enter expenses for business use of your home only on line 30.			
8	Advertising	8	
9	Car and truck expenses (see instructions).	9	
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13	
14	Employee benefit programs (other than on line 19)	14	
15	Insurance (other than health)	15	
16	Interest (see instructions):		
a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	
18	Office expense (see instructions)	18	
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):		
a	Vehicles, machinery, and equipment	20a	
b	Other business property	20b	
21	Repairs and maintenance	21	
22	Supplies (not included in Part III)	22	
23	Taxes and licenses	23	
24	Travel and meals:		
a	Travel	24a	
b	Deductible meals (see instructions)	24b	
25	Utilities	25	
26	Wages (less employment credits)	26	
27a	Other expenses (from line 48)	27a	
b	Reserved for future use	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a ▶	28	
29	Tentative profit or (loss). Subtract line 28 from line 7	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: _____ and (b) the part of your home used for business: _____ Use the Simplified		

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