

## Income – Business

As an AARP Foundation Tax-Aide Counselor, this lesson helps you prepare an accurate return for taxpayers with business income. Self-employment income and income from a business or profession operated as a sole proprietor or independent contractor are included. Tax returns with business expenses greater than \$25,000 are out of scope along with other limited conditions.

### Learning Objectives

- Report business income, including self-employment income
- Identify the lines on Form 13614-C that impact business income
- How to use Schedule C
- Learn the business expenses that are within the scope of the AARP Tax-Aide program
- Identify "red flags" when preparing a Schedule C tax return with EIC (also covered in EIC lesson)
- Calculate and report the Qualified Business Income (QBI) deduction
- Understand the taxpayer's recordkeeping requirements

### Getting Started:



Study the associated IRS VITA/TCE Training Guide, Chapter 10.

#### Resources:

[Volunteer Training Guide – Pub 4491](#)  
[Volunteer Resource Guide – Pub 4012](#)  
[www.irs.gov](http://www.irs.gov)

Form 1040, Page 1 Income Section:

- [Form 13614-C](#), Page 2, Part III
- [Schedule C](#)
- [Schedule SE](#)

#### Navigating TaxSlayer

[Volunteer Resource Guide – Pub 4012](#),  
**Tab O**

#### TaxSlayer Videos

- TaxSlayer Videos are on the Practice Lab first page
- Find the **Entering Basic Income Part 1 video** under **Section 4**

Tax-Aide/NTTC: **Schedule C Guidelines Summary** part of the Syllabus package (in the Portal Library)

#### Feedback:

Please email: [selfstudy@aarpfdntaxaide.org](mailto:selfstudy@aarpfdntaxaide.org)  
Appreciate suggestions and comments.



Open the Volunteer Resource Guide Tab D and find the pages that relate to business and self-employment income.

### Hints from NTTC Modifications to the IRS Training Guide

#### Other Interest

Business interest includes the business portion of interest on a car loan – it can be added to the standard mileage rate.

#### Business vehicle expenses

In addition to the standard mileage rate, the business portion of car loan interest, car washes, parking and tolls can be deducted.

#### Schedule C or C-EZ

Only Schedule C is in scope for Tax-Aide as it prints the details of the taxpayer's expenses. To force TaxSlayer to print and e-file Schedule C (instead of C-EZ), enter \$1 as beginning inventory and \$1 as ending inventory in the cost of goods section.

**Special note about training or education expense:** The taxpayer can deduct the costs of qualifying work-related education as a business expense if they are self-employed. This is education that meets at least one of the following two tests:

- The education is required to keep his or her present business, status or job. The required education must serve a bona fide business purpose of his or her business.
- The education maintains or improves skills needed in his or her present work.

However, even if the education meets one or both of the above tests, it isn't qualifying work-related education if:

- It is needed to meet the minimum educational requirements of his or her present trade or business, or
- It is part of a program of study that will qualify him or her for a new trade or business.

A business expense deduction can result in lower income tax and lower self-employment tax. It may also have a positive effect on the earned income credit or premium tax credits, if any.

**Out of scope:** taxpayers who have transactions involving Bitcoins or other virtual currencies.

### Practice Lab

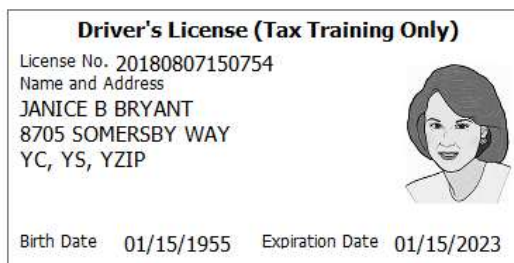
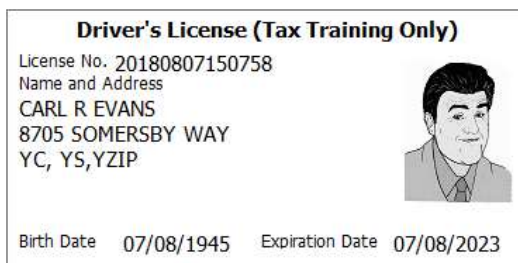
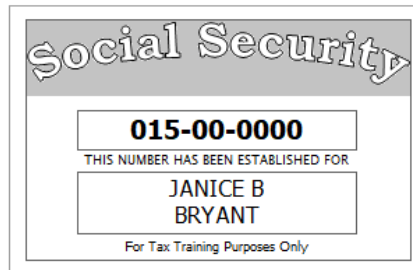
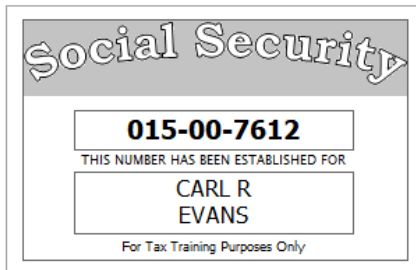
Open **TaxSlayer Practice Lab** and login.

Find and view **Advanced Tax Topics Part 1 video** in the Practice Lab, Home Page, Section 4.

### TaxSlayer Exercise:

Create a new return with this detail:

Since Practice Lab returns cannot be efiled, the Primary Taxpayer's SSN are different for each Exercise. However, the spouse and dependent SSN can be the same.



Hypothetical situation:

- Carl and Janice are married and will file Married Filing Jointly, no dependents
- Carl has Medicare and Jane purchases health insurance from a local agent
- Taxpayers ask to use the Standard Deduction and want their refund mailed to them
- Input Janice's business income based upon the following.

Janice started a small business on September 1, 2018, typing medical transcripts. She worked and received a Form 1099-MISC from Heartfelt Medical Center. She also received cash

## Income – Business

payments from various local doctors. Janice maintained a business ledger and provided a summary of income and expenses.

<input type="checkbox"/> CORRECTED (if checked)				
PAYER'S name, address, city, state, ZIP code HEARTFELT MEDICAL CENTER 674 WELLNESS RD YC, YS, YZIP		1 Rents	<b>2018</b> Form 1099-MISC	<b>Miscellaneous Income</b>
		2 Royalties		
		3 Other Income		
PAYER'S Federal identification number 26-0123456	RECIPIENT'S identification number 015-00-7001	4 Federal income tax withheld	<b>Copy B For Recipient</b>	
		5 Fishing boat proceeds		
RECIPIENT'S name, address, city, state, ZIP code JANICE B BRYANT 8705 SOMERSBY WAY YC, YS, YZIP		6 Medical and health care payments	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
		7 Nonemployee Compensation \$1,309.00		
		8 Substitute payments in lieu of dividends or interest		
		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale > <input type="checkbox"/>		
		10 Crop Insurance proceeds		
Account number (see instructions)		FATCA filing requirement <input type="checkbox"/>	11	12
		13 Excess golden parachute payments	14 Gross proceeds paid to an attorney	
15a Section 409A deferrals	15b Section 409A income	16 State tax withheld	17 State/Payer's state no.	18 State income
Form <b>1099-MISC</b>				

### Janice Bryant – Summary of income and expenses:

Income:	Heartfelt Medical Center:	\$1,309.00
	Doctors:	\$30,145.00
Expenses:	Paper:	\$58.34
	Printer cartridge:	\$89.49
	Liability insurance:	\$279.00
	Advertising:	\$86.00
	Cost of Janice's health insurance:	\$7,200.00
Put vehicle (Ford sedan) in service 1/1/2017 (Janice has a log):		
Mileage:     Commuting – 0,     Business – 654,     Other – 6,346		

Find answers in the file: *Answers to Practice Lab Self-Study Exercises* in the Self-Study 2018>H. Answers, etc. Module.

### Self Employed Health Insurance Line 29

- In scope
- Includes Medicare premiums
- Limited to:
  - Schedule 1 Line 12, Business Income
  - minus Schedule 1 Line 27 Deductible part of Self-Employment Tax
- Out of scope if insurance purchased through marketplace and taxpayer is eligible for Premium Tax Credit

### Qualified Business Income Deduction (QBI) (Form 1040 Line 9):

- A sole proprietor can deduct the lesser of 20% of net Schedule C income or taxable income (less capital gain) as a deduction on the tax return
- Schedule C and Schedule SE calculations are not affected by the deduction
- Taxable income is not reduced below zero by the 20% deduction
- The 20% deduction is limited for higher incomes
- The deduction will also be limited for specified service trades or businesses

For taxable income that does not exceed the applicable threshold amount, the QBI deduction is the lesser of:

- 20% of qualified business income (net profit reported on a Schedule C) or
- 20% of taxable income (adjusted gross income minus standard or itemized deduction) minus net capital gains before the QBI deduction.

Hopefully TaxSlayer handles in TY2018

### Scope Limitations:

- No net loss
- Business expenses of \$25,000 or less per Schedule C
- Can have more than one Schedule C if more than one business
  - Do not combine businesses
  - If more than one business, need more than one Schedule C

- Only sole proprietor
  - No employees OR paid contract labor for services
  - No 1099 payments
- No SEP/SIMPLE contribution
- No depreciation, amortization, or asset write-off that requires Form 4562
- Can expense on Schedule C assets up to \$2,500 each
  - Form 4562 not needed
  - De minimis rule is in scope
- No deduction for business use of home, such as:
  - Rent
  - Utilities
  - Homeowner/renter insurance
  - Not even the IRS simplified method!
- Cash method of accounting only
- Must materially participate in business
- Not a bartering business
  - Exchange of services or property
  - Value received is income!
- No prior year unallowed passive activity loss
- No inventory (resale business)
  - Goods purchased for resale
  - Goods produced for resale
  - Even if bought for immediate resale or a particular job, it is still inventory
- Line 4, Cost of Goods Sold – out of scope

### **Business Mileage - commuting versus deductible travel miles**

- First and Last trip of the day are commuting miles and cannot be deducted
- Travel in between 1st and last trip are deductible
- Self-employed person, can claim first/last mileage if there is an out of scope deductible home office
- Standard mileage rate method acceptable
- Out-of-scope: actual expense method

## Learning Review

## Business including Self-Employment

1. Which of these items are in scope for Schedule C for Tax-Aide. a. <i>Depreciation</i> b. <i>Employees</i> c. <i>Inventory</i> d. <i>Net losses</i> e. <i>Expenses greater than \$25,000</i>	
2. Tracey earned \$350 baby-sitting last year. She does not have to pay self-employment tax on these earnings. True or False	
3. Tom is a painter. He may have two or more jobs going on the same day and makes separate trips to the paint store for supplies. Tom has meticulous records of all the miles he drives for his business (i.e., between home and client, between clients, and to the paint store). He is unsure what miles he is allowed to deduct. What do you tell him?	
4. John is a full-time insurance agent and provides a W-2 which is marked as a statutory employee in Block 13. How is this income reported?	
5. John has a 1099-MISC from his church with \$2,750 reported in box 3 Other Income. Upon questioning, he states that he does handyman tasks for the church and for others regularly. How do you report this income in TaxSlayer?	
6. Nancy supplements her family income by selling Avon cosmetics. What probing questions do you ask to determine if this return is in scope?	
7. Jane is self-employed and pays for her own health insurance. Where can this be deducted?	

### Answers to Learning Review:

1. None of these. (Pub 4012 Tab D, Schedule C-EZ Business Income)
2. True. There is no Self-Employment Tax for earnings under \$400. (Pub 17 Chapter 30)
3. He can deduct mileage between jobs and between jobs and the paint store, but any trip that begins or ends at home is considered commuting. (Pub 4012 Tab F, Deductible Transportation Expenses)
4. In TaxSlayer, enter the W-2 and check the statutory box. TaxSlayer will then ask you to create a Schedule C, whereon you can enter associated business expenses. Because Social Security and Medicare taxes have already been withheld, statutory employee income is not subject to the self-employment tax, even though it is reported on Sch C. (Pub 4491 Ch 10)
5. Although John's 1099-MISC reported the income in box 3 Other Income, it is clear from the interview that this was payment for work performed as a handyman and is therefore self-employment income which must be reported on Schedule C. In TaxSlayer you must enter that income in the Non-Employee Compensation block (of the 1099-MISC screen) and then create a new Schedule C when prompted. You should also ask John if he had any expenses associated with this work. (Pub 4012 Tab D-13 and Pub 17 Chapter 1)
6. Some direct sellers act merely as sales representatives and receive commissions; they are in scope. A buy-sell business is out of scope. Does she buy and resell? (Tax-Aide Scope Manual)
7. Jane may be able to take the Form 1040 Schedule 1 Line 29, Self-Employed Health Insurance Deduction. The insurance plan must be established under Jane's business and meet other requirements. Another option is that Jane can deduct the expenses on Schedule A if she itemizes. (Form 1040 Instructions for Line 29 and also Pub 535)