



## Lesson 2

# **Schedule C and Other Small Business Taxes Sponsored by SCORE**

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A collage of images showing diverse small business workers. On the left, a woman in a white shirt holds a chalkboard sign that says "OPEN". In the center, a woman in an apron smiles. To her right, a man in a striped shirt and apron stands with his arms crossed. Further right, a woman in a pink shirt is working. Next to her, a man in a light blue shirt and black face mask holds a cup of ice cream. On the far right, a woman in a grey shirt smiles. The background is a stylized city street with buildings, including one with a "LAUNDRY" sign.

# **IRS Small Business Taxes**

**David Higgins  
Tax Specialist**



## Your Presenter

- David Higgins
- Tax Specialist
- 14 years working for the IRS
- Currently in Communications and Liaison
- Previously:
- Collections Representative
- Revenue Officer



# SCORE's Business Success Resources

## SCORE

Our mission is to foster vibrant small business communities through mentoring and education.

National non-profit organization with 300 chapters and 10,000 volunteers.

Greater Seattle Chapter has over 100 volunteers with a variety of different backgrounds and expertise.

## SCORE Mentors

Meet one-on-one with expert business mentors in many business specialties. Mentors advise, educate and encourage business owners to help them develop and be successful in their businesses.

<https://www.score.org/seattle/local-mentors>

## SCORE Small Business Workshops

<https://www.score.org/seattle/local-workshops>



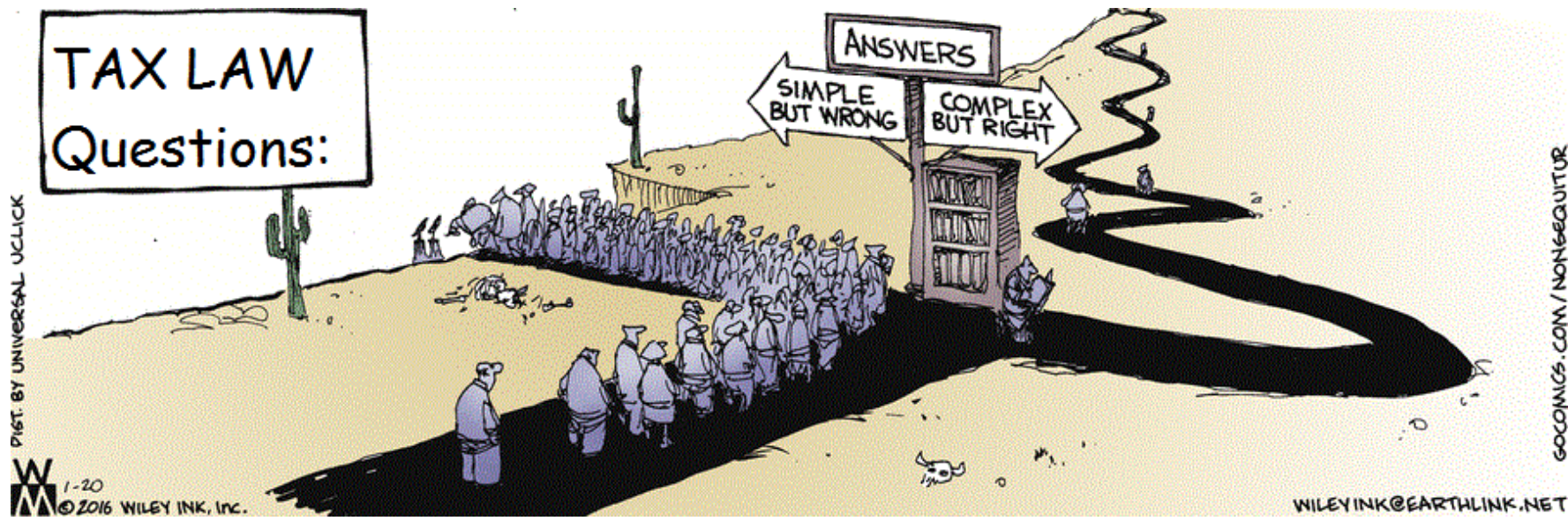
SCORE Website  
Information, Business  
plan templates,  
newsletters, etc.  
Online Webinar  
Training

[Home page | SCORE](#)

SBA Website  
[Seattle | U.S. Small  
Business  
Administration  
\(sba.gov\)](#)



# Tax Questions: Please ask in the Chat





## Disclaimer

This class provides an overview of certain provisions for general informational purposes only and **is not itself tax guidance.**

The content in this presentation is based on tax guidance on [IRS.gov](https://www.irs.gov).

This deck relies on simplifications and generalizations to convey high-level points about tax provisions. Please **refer to guidance** issued by the IRS for detailed information on the rules associated.



# Overview

- Overview of qualified business income (QBI) deduction
- Overview of Form 1040, Schedule C
- Calculate gross profit and gross income
- Identify and deduct expenses
- Calculate net profit or loss
- Cover areas of interest on Form 1040
- Discuss self-employment tax and estimated tax



# Selecting a Business Structure



- File
- Pay
- Refunds
- Credits & Deductions
- Forms & Instructions

## Business Structures

English | [Español](#) | [中文\(简体\)](#) | [中文\(繁體\)](#) | [한국어](#) | [Русский](#) | [Tiếng Việt](#) | [Kreyòl ayisyen](#)

### Individuals

#### Businesses and Self-Employed

##### Small Business and Self-Employed

Employer ID Numbers

Business Taxes

Reporting Information Returns

Self-Employed

Starting a Business

When beginning a business, you must decide what form of business entity to establish. Your form of business determines which income tax return form you have to file. The most common forms of business are the sole proprietorship, partnership, corporation, and S corporation. A Limited Liability Company (LLC) is a business structure allowed by state statute. Legal and tax considerations enter into selecting a business structure.

- [Sole Proprietorships](#)
- [Partnerships](#)
- [Corporations](#)
- [S Corporations](#)
- [Limited Liability Company \(LLC\)](#)

For additional information, refer to Small Business Administration's [Choose a business structure](#) webpage.

### Related Topics

- [Starting a Business](#)

### Videos

- [Small Business Taxes: The Virtual Workshop](#)



# Selecting a Business Structure – Filing Requirement Information



File Pay Refunds Credits & Deductions Forms & Instructions

Search

Small Business Events

Online Learning

Large Business

Corporations

Partnerships

Charities and Nonprofits

International Taxpayers

Governmental Liaisons

Federal State Local Governments

Indian Tribal Governments

Tax Exempt Bonds

## Filing Requirements:

### Chart 1 - S Corporation

If you are an S corporation then you may be liable for...	Use Form...	Separate Instructions...
Income Tax	<a href="#">1120S</a> <a href="#">1120S (Sch. K-1)</a>	<a href="#">Instructions for Form 1120S</a> <a href="#">PDF</a> <a href="#">Instructions for Form 1120S Sch. K-1</a> <a href="#">PDF</a>
<a href="#">Estimated tax</a>	<a href="#">1120-W</a> (corporation only)	<a href="#">Instructions for Form 1120-W</a> <a href="#">PDF</a>
<a href="#">Employment taxes:</a> <ul style="list-style-type: none"> <li>Social security and Medicare taxes and income tax withholding</li> <li>Federal unemployment (FUTA) tax</li> <li>Depositing <a href="#">employment taxes</a></li> </ul>	<a href="#">941</a> or <a href="#">943</a> for farm employees)  <a href="#">940</a>	<a href="#">Instructions for Form 941 Employers QUARTERLY Federal Tax Return</a> <a href="#">PDF</a>  <a href="#">Instructions for Form 943 Employers Annual Federal Tax Return for Agricultural Employees</a> <a href="#">PDF</a>  <a href="#">Instructions for Form 940 Employers Annual Federal Unemployment (FUTA) Tax Return</a> <a href="#">PDF</a>
Excise Taxes	Refer to the <a href="#">Excise Tax</a>	

- [About Publication 542, Corporations](#)
- [About Publication 583, Starting a Business and Keeping Records](#)

### Videos

- [S Corporations Webinar](#) [↗](#)



# Qualified Business Income (QBI) (Sec.199A) Deduction

- For eligible owners of:
  - Sole Proprietorships
  - Partnerships
  - S Corporations
  - Trusts and estates
- Eligible owners of these business:
  - May deduct up to 20% of QBI
  - Plus 20% of Qualified Real Estate Investment Trust (REIT)
  - Qualified Publicly traded partnership (PTP) Income



## Qualified Business Income (QBI) (Sec. 199A) Deduction (cont. 1)

- C Corporation income or providing services as an employee not eligible for this deduction
- Effective for tax years beginning after December 13, 2017
- QBI is the net amount of qualified items of:
  - Income
  - Gain
  - Deduction
  - Loss from any qualified trade or business
- Includable items must be effectively connected with the conduct of a trade or business within the U.S.



## Qualified Business Income (QBI) (Sec. 199A) Deduction (cont. 2)

- QBI computing must account for any deduction attributable to the trade or business
- QBI equation includes (but is not limited to):
  - Deductible part of self-employment tax
  - Self-employed health insurance
  - Deductions for contribution to qualified retirement plans
    - SEP, SIMPLE, and qualified plan deductions



# Completing Schedule C Part I

## SCHEDULE C (Form 1040)

Department of the Treasury  
Internal Revenue Service (99)

## Profit or Loss From Business

(Sole Proprietorship)

▶ Go to [www.irs.gov/ScheduleC](http://www.irs.gov/ScheduleC) for instructions and the latest information.

▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

OMB No. 1545-0074

# 2021

Attachment  
Sequence No. 09

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"/>
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



## Business Terms — Schedule C

- Gross Receipts and Returns and Allowances
- Cost of Goods Sold
- Gross profit and gross income
- Bartering
- Expenses
  - Car and Truck, Depreciation
  - Legal and professional services & office expenses
  - Supplies
  - Travel, meals and entertainment
- Net profit or loss



# Gross Receipts and Returns & Allowances

- Gross Receipts:
  - Income from the sale of products or services
- Returns and Allowances:
  - Cash or credit refunds
  - Rebates and other allowances
- If business has no resale products
  - No returns or allowances deducted from gross receipts



# Cost of Goods Sold

- Cost to buy or make product
- Some of your sales may be from inventory that you carried over from earlier years
- Calculating cost of goods sold:
  - Cost of inventory at beginning of year
  - + Cost of goods purchases or manufactured
  - Cost of merchandise for personal use
  - Cost of items available for sale
  - Value of inventory at year's end
  - Cost of goods sold



# Gross Profit and Gross Income

- Gross profit
  - Subtract returns and allowance from total gross receipts
  - Subtract costs of goods sold from that difference
- Gross income
  - Sum of gross profit and other income
- For more information:
  - Refer to the instructions for Schedule C



# Bartering

- Exchange goods or services without exchanging money
- Include fair market value of goods and services as income of both parties
- Income is taxable in the year goods or services received
- IRS Publication 525, *Taxable and Nontaxable Income*



# Completing Schedule C Part II - Expenses

- Expenses must be considered:
  - Ordinary and necessary business expenses in order to be deducted
- IRS Publication 535, *Business Expenses*



# Car and Truck Expense

- Business use only
  - Base deduction on full cost of operating it
- Business and personal use
  - Divide expenses based on mileage used
- Do not include commuting to and from place of business
- Deduction using:
  - Actual business expenses
- or
  - Standard mileage rate



## Car and Truck Expense (cont.)

- Actual business expenses include:
  - Gas, oil, repairs, insurance, depreciation, tires and license plates
- Standard Mileage Rate
  - Multiply business mileage by standard rate
  - Find current year standard rate on [IRS.gov](https://www.irs.gov)
- Claimed actual expenses for first year of business use – standard mileage rate not available in subsequent years
- Under either method, parking fees & tolls deductible
- Schedule C instructions for more information



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***Small Business Owners***

***Check out the  
IRS resources  
designed to help  
new and existing  
small businesses.***



***[www.irs.gov/smallbiz](http://www.irs.gov/smallbiz)***



# Depreciation

- Deduction to recover the cost, or other basis of business property (useful life greater than one year)
- Land, inventory and property placed in service and retired in same year are not depreciable
- Starts when property first used for business
- Ends when no longer used, or cost fully recovered



## Depreciation (cont.)

- Modified Accelerated Cost Recovery System (MACRS)
  - Most tangible property
- Section 179 Deduction
  - Election to recover cost of certain property in year placed in service
  - Limited to amount of taxable income from any active trade or business
  - Does not apply to property held for production of income or use in not for profit activity
- Publication 946, *How to Depreciate Property*



# Depreciation Tax Cuts and Jobs Act (TCJA)

- Changes to expensing and depreciation
  - Section 179
  - First-year depreciation deduction, which is often referred to as “Bonus Depreciation”
- Form 4562 instructions for more information



# Legal and Professional Services & Office Expenses

- Accountant and attorney Fees
- Tax advice and tax prep
- Office supplies and postage



# Supplies Expense

- Deduct only to the extent consumed and used within a year
  - Cost of materials and supplies
  - Books, professional instruments, equipment, etc.
- If the usefulness extends beyond a year
  - Must recover their costs through depreciation



## Travel, Meals, and Entertainment

- TCJA generally eliminated the deduction for activities considered entertainment, amusement, or recreation
- Deduct 50% of the cost of business meals
- Deduct 100% of food or beverage expenses paid to restaurants - January 1, 2021 to December 31, 2023
- Owner or employee of business is present and food or beverages are not considered lavish
- Meals may be provided to a current or potential business customer, consultant, or business contact
- Food & beverages during entertainment events – Not considered entertainment if purchased separately



## Travel and Meals

- Lodging and transportation expenses for overnight travel while away from your tax home
- Tax home refers to your main place of business regardless of where you maintain your family home
- Meals expenses include:
  - Meals away from home for business
  - Meals that are business-related
  - Standard meal allowance can be used for your daily meals and incidental expenses



## Travel and Meals (cont. 1)

- Must keep records to prove the time, place and business purpose of travel
- Standard meal allowance is the federal meals and incidental expenses (M&IE) rate:
  - U.S. General Services Administration's website – [GSA.gov](http://GSA.gov) and go to "Per Diem Look-up"
- Publication 463, *Travel, Gift and Car Expenses*
- Publication 535, *Business Expenses*



# Net Profit or Loss

- Calculate net profit or loss:
  - The amount by which the gross income is more or less than the expenses for the same period
    - Gross profit (Part I)
    - + Other income (Part I)
    - Gross income (Part I)
    - Total expenses (Part II)
    - Business use of home (Part II)
    - Net Profit or Loss
- Schedule C instructions



# Possible deductions on Form 1040

- **Health Insurance**
  - Not covered by an employer's subsidized health insurance plan, may be able to deduct 100% of your health insurance premium
  - Applies to individual or family health insurance plan
- **Retirement Plans**
  - If self-employed or a partner, may be able to take a deduction for self-employed SEP, SIMPLE, or qualified plans
  - Publication 560, *Retirement Plans for Small Businesses*



# Deducting Start-up Costs

- Business start-up costs are amounts paid or incurred in connection with:
  - Creating an active trade or business
  - Investigating the creation or acquisition of an active trade or business
- Publication 535, *Business Expenses*



# Self-Employment and Estimated Tax

- Self-employed people who are sole proprietors or partners in a partnership, may be subject to self-employment tax
- Self-employment tax:
  - Social Security and Medicare taxes
  - Must file Form 1040, Schedule SE
- Do a paycheck checkup - check tax withholding
- Use the Tax Withholding Estimator on [IRS.gov](https://www.irs.gov)



## Self-Employment and Estimated Tax (cont. 1)

- When self-employed, may have to pay estimated taxes throughout the year
- Estimated tax payments are used to make payments against any self-employment tax and income tax liabilities
- Publication 505, *Tax Withholding and Estimated Tax*
- Form 1040-ES, *Estimated Tax for Individuals*
- Have salaries and wages – Use Form W-4, *Employee's Withholding Allowance Certificate*
- Use the Electronic Federal Tax Payment System (EFTPS) – [EFTPS.gov](http://EFTPS.gov)



## Self-Employment and Estimated Tax (cont. 2)

- Each year the combined amount of wages, tips and net earnings subject to Social Security withholdings change
- Wages plus self-employed income:
  - Subtract wages from the maximums to see how much self-employment income is taxable
  - Use Schedule SE
- Combined wages, tips, and net earnings are subject to any combination of the 2.9% Medicare part of self-employment tax, Social Security tax, or railroad retirement (tier 1) tax



# Review

- Basics of Schedule C
- Determine gross profit and income
- Identify deductible expenses
- Calculate net profit or loss
- Form 1040 areas of interest
- Self-employment and estimated tax
- IRS Publication 334, *Tax Guide for Small Business (For individuals who use Schedule C)*
- Small Business and Self-Employed Tax Center at **[IRS.gov/smallbiz](https://www.irs.gov/smallbiz)**



## Contact Information

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# Communication & Liaison Stakeholder Liaison





# Thank you for participating



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