

Schedule C/C-EZ

Background

The IRS presumes that anyone who receives a 1099-MISC with an amount in box 7 is self-employed and must file a Schedule C-EZ or Schedule C to report self-employment income. All self-employed taxpayers are considered to operate as sole proprietors unless specifically organized otherwise.

For married taxpayers filing jointly, if each individual spouse receives a 1099-MISC then each is considered a separate sole proprietor: each spouse should report business income on a separate Schedule C. The net amount of all Schedule Cs will appear on Form 1040, line 12.

Self-employed taxpayers who claim business expenses of **\$5,000** or less and who meet other criteria may report self-employment income on a Schedule C-EZ. All other self-employed taxpayers must file a Schedule C.

Payments reported in box 3 of a 1099-MISC may not be self-employment income, depending on circumstances. Once you determine the box 3 payments are not self-employment income based on your interview, they should be reported on Form 1040, line 21, "Other Income." Do not enter these amounts on a Schedule C or C-EZ.

Foundation Communities Policy

Volunteers who prepare Schedule C-EZs and Schedule Cs must complete Advanced tax preparer certification. Only VITA volunteers who have completed the required training and examination may assist clients with these forms. If no such certified preparer is available when a client requires assistance, talk to your site manager about available options.

See the attached chart for a summary of other restrictions on Schedule C-EZ/Schedule C preparation by VITA volunteers.

How To Assist Tax Clients

Tips for Completing Schedule C

Business Codes: Box B of the Schedule C requires that you identify the appropriate business code for the client's business. Each category of work performed by a client constitutes a separate proprietorship, and clients with multiple business ventures must file a separate C for each category of work. See the attached list of commonly used business codes.

Business Related Expenses: To determine expenses, remember that all business expenses must be reasonable and necessary and must be paid by the taxpayer during the tax year. Caution the client that while VITA volunteers do not need to see receipts in order to prepare a return, the IRS may later require such documentation during an audit.

Vehicle expenses: Calculate business vehicle expenses using the standard mileage method, not actual vehicle expenditures. To claim business mileage, the client must drive her own vehicle to different work sites—commuting mileage (miles driven from and to home) is not deductible. Explain to the client that the standard mileage rate includes all amounts paid for gas, oil, repairs and maintenance, vehicle inspection, insurance, depreciation of the vehicle, etc. Parking and tolls are the only additional vehicle expenses allowed. A taxpayer may not claim the standard mileage rate and then add additional amounts paid for gasoline, tires, repairs, etc.

Self-employment tax: Taxpayers with a profit from self-employment income are liable for self-employment tax. This tax is imposed by the Federal Insurance Contributions Act (FICA) and is used to fund Social Security and Medicare. The taxpayer receives an adjustment (deduction) of one-half the self-employment tax shown on Form 1040, line 27, to determine AGI. The liability for self-employment taxes may be reduced through withholding from wage income or by claiming refundable tax credits, such as EIC and the additional child tax credit.

Other Local Services for Self-Employed Taxpayers :

Foundation Communities

Coaching for small businesses

<http://www.foundcom.org/get-financially-stable/>

BIGAustin

Free classes for entrepreneurs

<http://bigaustin.org/>

Schedule C-EZ/Schedule C VITA Service Restrictions

Tax Issue	Schedule C-EZ Restrictions	Schedule C Restrictions
Preparer Certification	Advanced	Advanced
Number of business enterprises	One only	Unlimited
Business Structure	Sole proprietor only	
Accounting Method	Cash basis only	
Total Business Expenses	May not exceed \$5,000	May not exceed \$25,000
Inventory/Cost of Goods Sold	Not allowed: Refer to professional preparer	
Employee Expenses	Not allowed: Refer to professional preparer	
Business Loss	Not allowed. May not claim prior-year loss carry forward.	Not allowed. May not claim prior-year loss carry forward.
Depreciation Expense	Not allowed	Not allowed
Business Use of Home Expense	Not allowed	Not allowed

Common Box B Business Codes

Administrative & Support Services	Document preparation services	561410
	Facilities support services	561210
	Janitorial services	561720
	Landscaping services	561730
	Office administrative services	561110
	Telephone call centers (including telemarketing)	561420
	Waste management & remediation services	562000
Food Services	Limited-service eating places	722210
	Special food services (including food service contractors & caterers)	722300
Arts, Entertainment & Recreation	Independent artists, writers, & performers	711510
	Promoters of performing arts, sports, & similar events	711300
Construction of Buildings	Nonresidential building construction	236200
	Residential building construction	236100
	Drywall & insulation contractors	238310
	Electrical contractors	238210
	Finish carpentry contractors	238350
	Flooring contractors	238330
	Framing carpentry contractors	238130
	Glass & glazing contractors	238150
	Masonry contractors	238140
	Painting & wall covering contractors	238320
	Plumbing, heating & air-conditioning contractors	238220
	Poured concrete foundation & structure contractors	238110
	Roofing contractors	238160
	Siding contractors	238170
	Site preparation contractors	238910
	Structural steel & precast concrete construction contractors	238120
	Tile & terrazzo contractors	238340
	Other building equipment contractors	238290
	Other building finishing contractors	238390
Other foundation, structure, & building exterior contractors	238190	
All other specialty trade contractors	238990	
Health Care & Social Assistance	Home health care services	621610
	Child day care services	624410
	Individual & family services	624100
	Vocational rehabilitation services	624310
Information: Data Processing Services	Data processing, hosting, & related services	518210
	Other information services (including Internet publishing)	519100
Personal & Laundry Services	Barber shops	812111
	Beauty salons	812112
	Dry cleaning & laundry services	812320
	Nail salons	812113
	Parking lots & garages	812930
	Pet care (except veterinary)	812910
	Other personal care services	812190

Repair & Maintenance	Automotive body, paint, interior, & glass repair	811120
	Automotive mechanical electrical repair & maintenance	811110
	Other automotive repair maintenance (including oil change, car washes)	811190
Technical Services	Bookkeeping services	541219
	Computer systems design & related services	541510
Transportation	Charter bus industry	485510
	General freight trucking, local	484110
	General freight trucking, long distance	484120
	Specialized freight trucking (including household moving vans)	484200
	Taxi & limousine service	485300
	Couriers & messengers	492000