



Tax Credit Alliance
OF NEBRASKA

Business Income & Schedule C



**CENTER ON CHILDREN,
FAMILIES, AND THE LAW**

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 2024)
		\$		For calendar year
		\$		
		3 Other income		4 Federal income tax withheld
		\$		\$
PAYER'S TIN	RECIPIENT'S TIN	5 Fishing boat proceeds	6 Medical and health care payments	
		\$	\$	
RECIPIENT'S name		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	
Street address (including apt. no.)		9 Crop insurance proceeds		10 Gross proceeds paid to an attorney
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
		\$		\$
Account number (see instructions)		16 State tax withheld	17 State/Payer's state no.	18 State income
		\$		\$
		\$		\$

CORRECTED (if checked)

Miscellaneous Information

Copy 1
For State Tax Department

Form **1099-MISC** (Rev. 1-2024) 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
		(Rev. January 2022)	
		For calendar year	
		20__	
		1a Gross amount of payment card/third party network transactions	2 Merchant category code
		\$	
		1b Card Not Present transactions	4 Federal income tax withheld
		\$	\$
Check to indicate if FILER is a (an):		Check to indicate transactions reported are:	
Payment settlement entity (PSE) <input type="checkbox"/>		Payment card <input type="checkbox"/>	
Electronic Payment Facilitator (EPF)/Other third party <input type="checkbox"/>		Third party network <input type="checkbox"/>	
		3 Number of payment transactions	5a January
		\$	\$
			5b February
			\$
			5c March
			\$
			5d April
			\$
			5e May
			\$
			5f June
			\$
			5g July
			\$
			5h August
			\$
			5i September
			\$
			5j October
			\$
PSE'S name and telephone number		5k November	5l December
		\$	\$
		\$	\$
Account number (see instructions)		6 State	7 State identification no.
			8 State income tax withheld
			\$
			\$

Payment Card and Third Party Network Transactions

Copy B
For Payee

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.

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

Nonemployee Compensation

Copy B
For Recipient

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 this income is taxable and the IRS determines that it has not been reported.

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

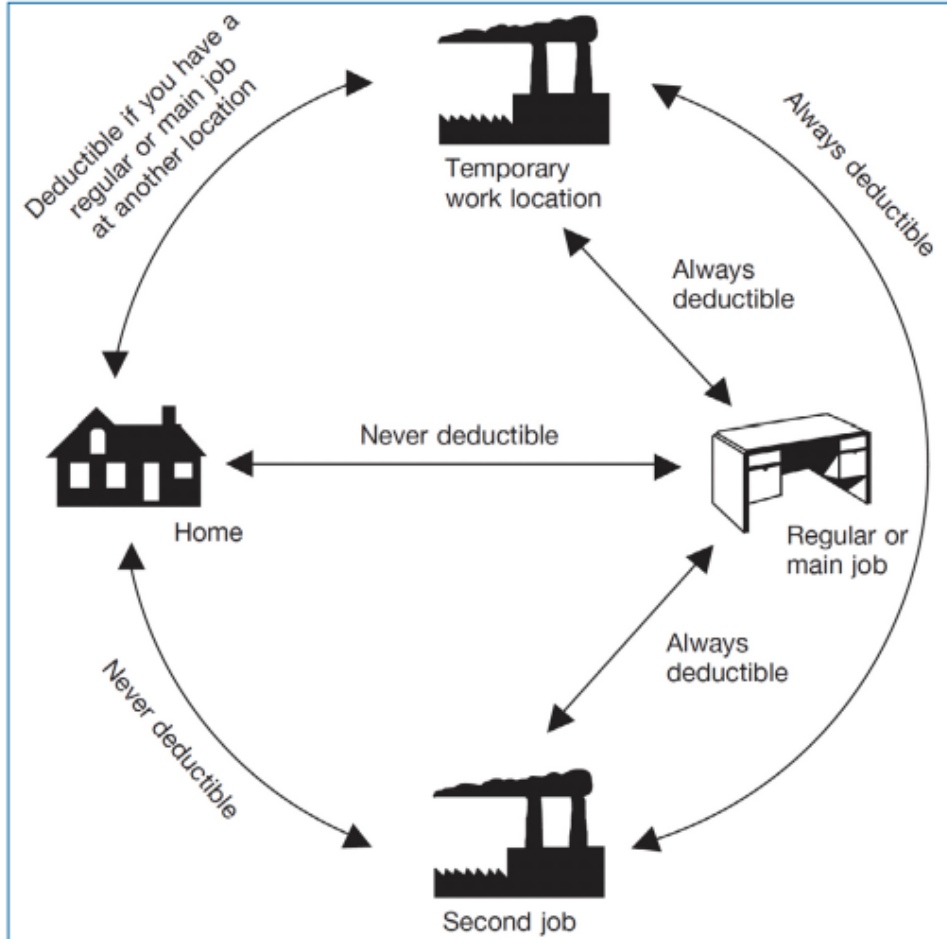
Business Expense

- 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 50% 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 rate - 65.5 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. For overnight travel expenses, see [IRS Topic 511 Business Travel Expenses](#)

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
- If purchased on the Marketplace and are eligible for the self-employed health insurance deduction it is out of scope

1099-K Additional Information

- Will now receive a 1099-K if there are gross payments greater than \$600 not matter how many transactions
- May receive a 1099-K for all transactions but may not need to report it all as income from a payment settlement entity (PSE) (i.e. Paypal, Cashapp, Venmo, etc. or eBay, Etsy, Amazon, etc.)
- If received in error the taxpayer will need to contact the entity
- If they will not adjust the 1099-K an adjustment can be made on the tax return by reporting the income from the 1099-K as income and then offset it with an adjustment to income in other adjustments (adjustment will be made if it is not for the sale of good or services)
- Individuals will need to pay taxes if the 1099-K is for the sale of personal items
- Reference Pub 4012 D24-D25
 - <https://www.irs.gov/pub/irs-pdf/p4012.pdf>

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

661117
OMB No. 1545-0047

Schedule K-1
(Form 1041)

Department of the Treasury
Internal Revenue Service

2022

For calendar year 2022, or tax year

beginning / / 2022 ending / /

Beneficiary's Share of Income, Deductions, Credits, etc.
See back of form and instructions.

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% cap gain	12 Relative foreign tax adjustment
4c Unrecaptured section 1250 gain	OOS
5 Other portfolio and nonbusiness income	OOS
6 Ordinary business income	OOS
7 Net rental real estate income	13 Credits and credit recapture
8 Other rental income	OOS
9 Directly apportioned deductions	OOS
10 Estate tax deduction	14 Other information
OOS	A Tax-exempt interest
	B 1 Foreign Taxes
	Other Codes OOS

Part I Information About the Estate or Trust

A Estate's or trust's (employer identification) number

B Estate's or trust's name

C Fiduciary's name, address, city, state, and ZIP code

D Check if Form 1041-T was filed and enter the date it was filed _____

E Check if this is the final Form 1041 for the estate or trust

Part II Information About the Beneficiary

F Beneficiary's identifying number

G Beneficiary's name, address, city, state, and ZIP code

H Domestic beneficiary Foreign beneficiary

For IRS Use Only

*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 Paperwork Reduction Act Notice, see the Instructions for Form 1041. www.irs.gov/form1041 Cat. No. 113800 Schedule K-1 (Form 1041) 2022

OOS = Out of Scope

- Box 14b does not appear in the TaxSlayer Form 1041 K-1 entry screen. Instead make the following entries:
 - Enter amounts for Code B in Deductions>Credits>Foreign Taxes Paid.
 - Enter in state as needed.



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

671121
OMB No. 1545-0023

Final K-1 Amended K-1

Schedule K-1 (Form 1120-S) **2023**
Department of the Treasury
Internal Revenue Service

For calendar year 2023, or tax year
beginning / / 2023 ending / /

Shareholder's Share of Income, Deductions, Credits, etc. See separate instructions.

Part I Information About the Corporation		Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items	
A Corporation's employer identification number		1 Ordinary business income (loss)	13 Credits
B Corporation's name, address, city, state, and ZIP code		2 Net rental real estate income (loss)	14 Qualified dividends
C IRS Center where corporation filed return		3 Other net rental income (loss)	15 Alternative minimum tax (AMT) items
D Corporation's total number of shares		4 Interest income	
Beginning of tax year		5a Ordinary dividends	
End of tax year		5b Qualified dividends	
		6 Royalties	<input type="checkbox"/> Schedule K-1 is attached if checked
		7 Net short-term capital gain (loss)	15 Alternative minimum tax (AMT) items
		8a Net long-term capital gain (loss)	16 Items affecting shareholder basis
		8b Collectibles (28%) gain (loss)	A Tax-exempt interest
		8c Unrecaptured section 1250 gain	C Nondeductible expenses Adjust or State as needed
		9 Net section 521 gain (loss)	17 Other information
		10 Other income (loss)	
E Shareholder's identifying number		11 Section 179 deduction	
F Shareholder's name, address, city, state, and ZIP code		12 Other deductions	
G Current year allocation percentage %			
H Shareholder's number of shares			
Beginning of tax year			
End of tax year			
I Loans from shareholder			
Beginning of tax year	\$		
End of tax year	\$		
For IRS Use Only		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.	

For Paperwork Reduction Act Notice, see the Instructions for Form 1120-S. www.irs.gov/Form1120S Cat. No. 112050 Schedule K-1 (Form 1120-S) 2023

2. No need to enter in TaxSlayer

651123
OMB No. 1545-0043

Schedule K-1
(Form 1065)
Department of the Treasury
Internal Revenue Service

2023

For calendar year 2023, or tax year
beginning / / 2023 ending / /

Partner's Share of Income, Deductions, Credits, etc.
See separate instructions.

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)

Part II Information About the Partner

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

H3 What type of entity is this partner?

H4 If this partner is a reverse-179 plan (N/A for PEOs/POs/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. See instructions.

K1 Partner's share of liabilities:

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

K2 Check this box if item K1 includes liability amounts from lower-tier partnerships

K3 Check if any of the above liability is subject to guarantees or other payment obligations by the partner. See instructions

L Partner's Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$
Other income (losses) (attach explanation)	\$
Withdrawals and distributions	\$
Ending capital account	\$ <i>if negative, OOS</i>

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 754(j) Gain or (Loss)

Beginning	\$
Ending	\$

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

1 Ordinary business income (loss)	OOS	16 Self-employment earnings (loss)	OOS
2 Net rental real estate income (loss)	OOS	18 Qualified dividends	
3 Other net/rental income (loss)	OOS	19 Tax-exempt interest	
4a Guaranteed payments for services	OOS	20 Nondeductible expenses	Adjust or State as needed 3
4b Guaranteed payments for capital	OOS	21 Other Codes	OOS
4c Total guaranteed payments	OOS	22 Distributions	N/A Disregard
5 Interest income		23 Other information	
6a Ordinary dividends		24 Foreign taxes paid or accrued	4
6b Qualified dividends		25 More than one activity for at-risk purposes*	
6c Dividend equivalents		26 More than one activity for passive activity purposes*	
7 Royalties		*See attached statement for additional information.	
8 Net short-term capital gain (loss)		27 For IRS Use Only	
9a Net long-term capital gain (loss)			
9b Collectibles (28%) gain (loss)	OOS		
9c Disproportionate Section 1250 gain	OOS		
10 Net section 1221 gain (loss)	OOS		
11 Other income (loss)	OOS		
12 Section 179 deduction	OOS		
13 Other deductions	OOS		

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/form1065 Cat. No. 11294R Schedule K-1 (Form 1065) 2023

3. No need to enter in TaxSlayer
4. Box 21 does not appear in the TaxSlayer Form 1065 K-1 entry screen. Instead make the following entries:
 - a. Enter amounts from Line 21 in Deductions>Credits>Foreign>Taxes Paid.
 - b. 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-dft/i1040sc--dft.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>