MyFreeTaxes Self-Employed Tax Guide

For Gig Economy Entrepreneurs

Table of Contents

About United Way

United Way brings people together to build strong communities where everyone thrives.

As one of the world's largest privately funded charities, we serve 95% of U.S. communities and 37 countries and territories; our humanitarian aid supports 48 million people every year. Through United Way, communities tackle tough challenges and work with private, public, and nonprofit partners to boost education, economic solutions, and health resources.

United Way is the mission of choice for 1.5 million volunteers, 6.8 million donors, and 45,000 corporate partners in more than 1,100 communities worldwide. Together, we are building resilient, equitable communities across the globe. Learn more at UnitedWay.org. Follow us: @UnitedWay and #LiveUnited.

About MyFreeTaxes®

MyFreeTaxes helps people file their federal and state taxes for free while getting the assistance they need. United Way provides MyFreeTaxes in partnership with the IRS's Volunteer Income Tax Assistance (VITA) program to help filers prepare their tax returns on their own or have their return prepared for them for free.

For millions of Americans, tax refunds and credits are essential to their financial stability and success. These credits maximize filers' refunds and provide important opportunities for individuals and families to build financial stability. For many households, their tax refund may be the biggest check they receive all year. For entrepreneurs, filing taxes can make or break their financial bottom line.

Since 2009, MyFreeTaxes has helped more than 1.3 million people file their taxes for free while claiming over $1 billion in refunds and saving over $260 million in filing fees.

About Civitas Strategies

Founded in 2009 by Gary Romano, Civitas Strategies, is a management consultancy focused on increasing the impact of mission-driven organizations, both for-profits and nonprofits. The pandemic of 2020 uncovered countless crippling vulnerabilities for small businesses. As a result, we shifted our work to focus more intensively on the business basics required for small businesses to survive and thrive. Our work across the country since then includes business coaching, technical assistance, and grant administration support to small business owners which includes sole proprietors and corporations.

Introduction

Small business and self-employment play a critical role in our economy, generating income and wealth that supports the financial needs of entrepreneurs, employees, and their families. However, the costs and stress associated with filing business-related taxes limit the positive financial impacts of self-employment for many entrepreneurs.

In 2021, the gig economy included over 59 million workers in the US. The gig economy includes a variety of independent contractors, typically taking on short-term assignments such as Lyft or Uber drivers, DoorDash and other food app delivery drivers, Instacart workers, promoters, brand ambassadors, graphic designers, freelance writers, and more. Often, gig economy entrepreneurs have other full or part-time “regular” jobs where they work as employees, but increasing numbers are making their self-employment gigs their only jobs.

United Way created this guide to help more self-employed people, including small business owners engaged in the gig economy, easily and accurately file their taxes for free. Designed for both full-time and part-time entrepreneurs, this guide takes you through the steps of getting ready to self-prepare your taxes using online software.

This guide has two parts.

Part I: Getting Ready for Tax Season focuses on what you need to know about taxes and how to prepare for tax season.

Part II: Filing Your Return Online offers step-by-step instructions on how to use MyFreeTaxes to complete your return online.

This guide will help you take each step in your tax-filing journey. The layout is in a simple question-and-answer format based on the questions frequently posed by other entrepreneurs. To answer the questions, we drew upon official US Internal Revenue Service (IRS) guidance as well as other nationally recognized sources.

Why Care About Your Taxes?

Taxes are an important consideration for any business. Through taxes, we all contribute to our government at the national, state, and local levels. Paying taxes and following IRS regulations is important. It's also important to take advantage of all the deductions and tax credits for which you are eligible. This will reduce your taxes, maximize your profit, and allow you to continue investing in your business.

Effective tax preparation can also head off the long-term cost of an audit. Though only a relatively few people are audited every year, if you are audited, the cost in time and money can be great.

The best way to avoid an audit is to keep in mind common "red flags," or issues that often lead to an audit. The most common red flags for gig economy workers are:

PRO TIP Keeping good records throughout the year will make tax preparation easier.

- Not including your gig economy income on your taxes — such as leaving out a 1099 you received from one app-based service even though you reported the income from your "day job."
- Taking off too many expenses or ones that are high — like claiming $40,000 in cell phone expenses when your gig doesn't require high phone usage.
- Taking a very large loss on your business or having losses year after year — businesses will take a loss from time to time (we'll review that later), but you want to avoid having losses that are far in excess of what you earned. After all, if your business regularly loses more money than it earns, the IRS may be curious about why you continue to operate it!
- Not reporting payments from apps such as Zelle, Cash App, or Venmo.
- Claiming 100% use of your vehicle. Many of you may have a van or car you use for your business — that's allowed. However, reporting that the vehicle is only used for work (and never for personal reasons) can draw attention since it is less common.

As you can see, many red flags can be easily avoided through proper preparation for your taxes.

How to File Your Taxes for Free

MyFreeTaxes helps people file their federal and state taxes for free while getting the assistance they need. United Way provides MyFreeTaxes in partnership with the IRS's Volunteer Income Tax Assistance (VITA) program and is designed to help filers prepare their tax returns on their own or have their return prepared for them for free.

How does it work?

It's easy! Head to MyFreeTaxes.com to get started. Once there, use our quick and easy tool to indicate whether you prefer to prepare your own taxes online or want to have your taxes prepared for you. After you tell us how you want to file, we'll ask a few simple questions and connect you to the free tax filing options for which you are eligible.

Over 70% of people are eligible for IRS-sponsored free tax filing services such as the Volunteer Income Tax Assistance (VITA) program, so there's a good chance you qualify. In the off chance that you're not eligible for free tax filing through VITA, we'll connect you to alternative free tax filing options so you can still file for free.

Have questions or need support while using one of the tax filing options we recommend? Visit the MyFreeTaxes Support page to receive assistance from IRS-certified tax specialists via phone, email, or live chat, or refer to our FAQs and filing guides.

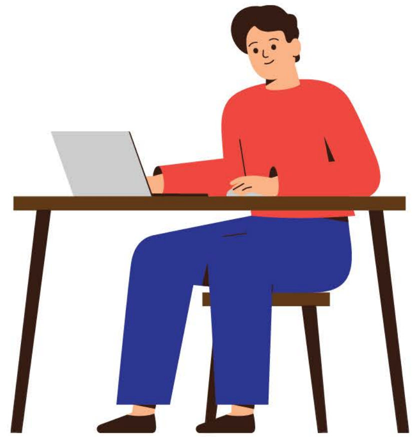
What is the IRS VITA program?

For over 50 years, the IRS Volunteer Income Tax Assistance (VITA) program has provided free tax preparation services to qualifying individuals. In 2021, tens of thousands of VITA volunteers at 2,800 VITA sites across the nation prepared nearly one million returns for eligible filers and generated $1.7 billion in refunds.

Most VITA sites provide services in person, but United Way's MyFreeTaxes program provides VITA services virtually, enabling you to file your taxes for free from the convenience of your laptop, smartphone, or other digital device.

Part I:

Getting Ready for Tax Season



Part 1 Table of Contents

What is included on my tax form?

There are different types of business tax forms. Let's go over the most common ones.

A sole proprietor or self-employed individual is both the owner and the only employee. Income for a sole proprietorship is reported on a Schedule C form as part of your personal 1040 tax return. If you have more than one business activity, you will need more than one Schedule C. For example, a craft business on Etsy and also drive for Uber and Lyft, you will fill out two Schedule C forms.

A Limited Liability Company is a business structure that offers protections from some liabilities and has tax flexibility. At the time of creation and typically once a year, the LLC owner can declare how they will be taxed. LLCs with a single owner can use the same process as a sole proprietor, but they can also choose to use an S-Corporation or C-Corporation process or, if there is more than one owner, a partnership (all are described below).

An S-Corporation is a small business type where any profit is "transferred" directly to your personal tax return (so you don't pay corporate taxes on it). An S-corporation uses a Form 1120S (income tax return for S-Corporation) and will show the "pass through" income to the owner on a Schedule K-1 (individual owner shares).

A C-Corporation is often called a "regular" corporation. The C-corporation uses Form 1120 (corporation income tax return) and will have profit taxed as a corporation before you can claim it as personal income (and it gets taxed again). Few small businesses will benefit from their business being taxed this way.

A partnership is formed between one or more business owners who share the costs and the profit from the business. Partnerships use a Form 1065 to report their earnings.

Though this guide focuses on Sole Proprietors/Self-Employed Individuals who submit a Schedule C, there are three parts of business tax forms that they all have in common:

- You first report your revenue (all the money you received from your business);
- You show all your expenses (the things you paid for to keep your business running); and
- Finally, you calculate the amount that remains. If it is positive, you made a profit; if negative, then a loss.

EIN vs. SSN

In the early stages of running a sole proprietorship, most business owners usually use their own social security number as the tax identification number for the business. This is a quick and simple way to get your business up and running without having to do any additional paperwork.

However, you can also get an **Employer Identification Number (EIN)** from the IRS. This number functions like a social security number for your business. It is an identification number issued by the IRS specifically for your business.

The advantage of an EIN is that it will limit the number of documents with your social security number on it, which can help you to keep your personal identification number safe and prevent it from being misused. Sole proprietors must get an EIN if they wish to hire employees, and if you want to open a business bank account with most banks.

Schedule C

SCHEDULE C (Form 1040)
Department of the Treasury
Internal Revenue Service

Profit or Loss From Business
(Sole Proprietorship)
Go to *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
2022
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)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)
G Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses ☐ **Yes** ☐ **No**
H If you started or acquired this business during 2022, check here ☐
I Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions ☐ **Yes** ☐ **No**
J If "Yes," did you or will you file required Form(s) 1099? ☐ **Yes** ☐ **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 ☐	**1**
2	Returns and allowances	**2**
3	Subtract line 2 from line 1	**3**
4	Cost of goods sold (from line 42)	**4**
5	**Gross profit.** Subtract line 4 from line 3	**5**
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	**6**
7	**Gross income.** Add lines 5 and 6	**7**

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	**8**	**18**	Office expense (see instructions)	**18**
9	Car and truck expenses (see instructions)	**9**	**19**	Pension and profit-sharing plans	**19**
10	Commissions and fees	**10**	**20**	Rent or lease (see instructions):	
11	Contract labor (see instructions)	**11**	**a**	Vehicles, machinery, and equipment	**20a**
12	Depletion	**12**	**b**	Other business property	**20b**
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	**13**	**21**	Repairs and maintenance	**21**
			22	Supplies (not included in Part III)	**22**
			23	Taxes and licenses	**23**
			24	Travel and meals:	
14	Employee benefit programs (other than on line 19)	**14**	**a**	Travel	**24a**
15	Insurance (other than health)	**15**	**b**	Deductible meals (see instructions)	**24b**
16	Interest (see instructions):		**25**	Utilities	**25**
a	Mortgage (paid to banks, etc.)	**16a**	**26**	Wages (less employment credits)	**26**
b	Other	**16b**	**27a**	Other expenses (from line 48)	**27a**
17	Legal and professional services	**17**	**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 Method Worksheet in the instructions to figure the amount to enter on line 30	**30**
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Schedule 1 (Form 1040), line 3,** and on **Schedule SE, line 2.** (If you checked the box on line 1, see instructions.) Estates and trusts, enter on **Form 1041, line 3.** • If a loss, you **must** go to line 32.	**31**
32	If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both **Schedule 1 (Form 1040), line 3,** and on **Schedule SE, line 2.** (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on **Form 1041, line 3.** • If you checked 32b, you **must** attach **Form 6198.** Your loss may be limited.	**32a** ☐ All investment is at risk. **32b** ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P **Schedule C (Form 1040) 2022**

Let's take a closer look at the **Schedule C** to show where the different sections are for reporting data on your business. Your tax software will enter these numbers based on your submissions, but it can be helpful to know your way around this important document.

Part I is where your sales are totaled and your cost of goods sold is reported so you can see your gross profit.

Part II is where your business expenses are reported. There are over a dozen categories to help you stay organized, such as advertising, car and truck expenses, legal and professional services, rent, travel and meal expenses, and other costs.

This last section is where your net profit is calculated (Line31) by subtracting your total expenses (from Part II) from the total revenue (in Part I).

How Much Money Did I Make?

The first section of your taxes is all about revenue, that is, how much money you made. Getting this information is easy if you have an accounting system. If not, no worries, you can use the revenue worksheet below to calculate it.

Start by gathering your records. You are likely to have three types of records for revenue:

PRO TIP Your W-2 employment income (like from your "day job") should be reported in the income section of your tax return, not on Schedule C.

1099 forms — these are evidence that another business paid you for services, such as a 1099-NEC received for providing services on a consulting contract totaling $1,200 . You will also receive a 1099-K if you received more than $600 in business payments from apps like Square, Zelle, or PayPal.

Bank records — showing additional funds you may have received from other sources. Keep in mind, even if you didn't receive a 1099, you still need to report the income.

Your own documents — such as your books or accounting system that have revenue recorded.

Then fill out the revenue worksheets. Include each 1099 and other income you have received. Again, don't include your w-2 employment wages here.

PRO TIP If you have more than one business, you will need to complete a Schedule C for each one if the businesses are not closely related in nature.

Revenue Worksheets

Click the link to access the digital version of this worksheet that you can download and use.

1099-NEC INCOME	
1099-NEC Payer Name	**Amount**
Total (add all 1099-NECs)	

PRO TIP Make sure all your revenue records match. That is, the amount sale receipt to a customer should be the same amount they paid per your bank records and is the amount you report to the IRS.

OTHER PAYMENTS & FEES (INCLUDING CASH)	
Business Line *Note 1099-K's that you receive will be captured here	**Total Amount Made**
Total (add all amounts made)	

TOTAL REVENUE	
Total Payment	**Amount**
Total 1099-NEC Payments	
Total Other Payments & Fees	
Total Revenue (add them all up)	

How Much Money Did I Spend?

Now that you have your business income, you need to collect your expenses, i.e., what you spent money on for your business in 2022. You will need records of your costs, ideally receipts showing payment for expenses, but in most cases you can also use canceled checks, invoices, or credit card and bank records. It is critical that any proof of an expense show:

- That you paid the expense.
- The amount you paid.
- The date you paid it.
- A description of the item purchased, or service received.

PRO TIP The IRS understands you may not have a receipt for every expense, so look closely at one or more documents that show the information they need: That you paid the expense; the amount you paid; the date you paid it, and a description of the item purchased, or service received.

To collect your expenses, begin with collecting all your receipts. Next, go month by month in your records for 2022:

- Review your credit card bills.
- Check app-based system payments (such as Venmo, Zelle, PayPal, and Square Cash).
- Look at your bank statements and checks.

With your accumulated expenses you can now fill out the expense worksheet. The worksheet uses the expense categories for a Schedule C and details what is most relevant to gig economy workers, but it can also be used for any corporate or partnership tax return as well.

You should hold onto all proof of payments through tax season and at least four years after. It's great to have paper copies as well as electronic ones, even if that is just snapping a picture of each with your phone.

PRO TIP Each year, create a folder for each of the expense categories above. Throughout the year, place receipts in the correct folder and update your expense sheet.

Expense Worksheet

Click the link to access the digital version of this worksheet you can download and use.

CATEGORY	DESCRIPTION	TOTAL EXPENSES
Advertising	Costs to promote your business including online and print ad costs, brochures, mailers, and flyers.	
Car & Truck	Expenses related to use of your vehicle for your business. You will most likely use the total mileage calculation in the Mileage Log resource in this document.	
Commission and Fees	This is the best place to report any commissions and fees paid to the company you partner with to operate your business (such as Uber or Lyft fees, or barber or hairstylist salon booth/chair rental fees).	
Contract Labor	This is for any contractors you use (workers you pay using a 1099). If you paid a contractor $600 or more in a year, you will need to send them a 1099 form to document the expense.	
Employee Benefit Programs	Do you have a company health or accident insurance program? This includes programs associated with your business (not your personal expense) like group-term life insurance, and dependent care assistance programs.	
Insurance (other than health)	Include your general liability insurance and workers compensation insurance if you have employees. Don't include your health insurance (that will be later in this table) or homeowner's insurance (that will be in the section on deducting the business use of your home).	
Interest Paid	Includes interest you paid directly related to your business (we'll talk about mortgage interest later in the section on the business use of your home). Deductible interest can include interest on business credit cards (not personal ones) and business loans such as the Economic Injury Disaster Loan or an SBA 7a loan.	
Legal Fees & Professional Services	Should include any fees paid to a lawyer, accountant, or tax preparer as well as membership fees for professional associations.	
Office Expenses	All office supplies, postage, cleaning supplies and personal protective equipment, apps and software that cost less than $200 (those that are more than $200 will be under Other Expenses). Also add in larger purchases, like computers, telephones, copiers, and furniture that cost less than $2,500. If any single purchase of equipment or furniture is more than $2,500 you will need to consult current depreciation rules in the What is Depreciation? Section. In 2022, there are special depreciation rules that will allow businesses to elect to deduct the full cost of these higher-cost equipment. Most online tax software, including those available through MyFreeTaxes, will walk you through using these elections. However, you can also choose to seek guidance from a tax preparer.	

Pension & Profit Sharing	Do you have a company retirement program? If so, include the employer contributions you made for the benefit of your employees to a pension, profit-sharing, or annuity plan (including SEP, SIMPLE, and SARSEP plans).	
Repairs & Maintenance	Includes any repairs and maintenance of the space or equipment you use. For example, if you need to fix a wall in your home office. This will be uncommon for gig workers to have. Do not include car repairs here, that will go under Car and Truck expenses.	
Rent or Lease (see instructions)	For equipment rent or lease only. Costs for renting your home will be included in the section on deducting the business use of your home.	
Supplies	Includes items you use with your business. For example, if you purchase shopping bags for your customers or containers and utensils for take-out food. Other examples include chargers, cords, and cleaning supplies purchased for your business.	
Taxes & Licenses	Such as a business registration fee or fees for licensure.	
Travel & Meal	Meals that you consume while traveling to conduct business activity, such as while out at a conference or an off-site meeting. It can also include your airfare, train tickets, rental car, and toll costs. Lodging costs are also included, such as hotels.	
Wages	For all of your business's W-2 employees (not contractors). Note that paying yourself is not included as wages here. You are allowed to take an owner's draw or salary from your self-employment. However, paying yourself is not deductible, so you will not report that as an expense on your tax return. The IRS considers all income that you receive from your business as a self-employed individual as your pay, as noted in Part I, Revenue, of the Schedule C.	
Other Business Property	This is where commercial office rent or leases would be recorded.	
Other Expenses	Covers anything else that is deductible but not listed. The most common are business costs associated with cell phone use, software, or apps that cost more than $200 (otherwise they can be listed as an office expense). If you have a dedicated business cell phone, it is fully deductible. If you use the phone for personal purposes, however, you will only be able to deduct the business-related portion of phone use. This is also where you will include accessibility and financing expenses such as screen readers, online service fees, bank and merchant fees, and credit card processing fees.	
Total (add up all expenses)		

How Do I Include Vehicle Costs?

Many gig economy workers use their own car or truck to conduct their business. This could be as simple as the personal car you also use in your GrubHub deliveries or a Cadillac Escalade you specifically purchased for Uber Black and other luxury driving gigs. Vehicle costs can add up, so keeping records of costs and knowing how to deduct them is important.

There are two ways to deduct your vehicle expenses:

> The **Standard Mileage Rate** provides a simple cost per mile that is used to calculate your deduction.

> The **Actual Expense** method uses all the costs of your car.

Here are the pros and cons of each option:

Pros/Cons	Standard Rate	Regular (Actual Cost) Method
Pros	Easy to do Fewer records to collect and keep.	May result in a higher deduction especially if you use your car for work a great deal.
Cons	Limited to a set rate per mile.	Takes time to collect all the expenses and you need to hold onto the receipts.

Regardless of the method you use, you need a simple log with:

- The date.
- The distance you traveled.
- Where you went.
- The purpose (business or personal) as specifically as possible.

Note that Uber and Lyft's driver app will record on-trip mileage, or how many miles you drive when you have a passenger in the car. However, the app will not track miles driven to get to a passenger. You should be sure to keep your own records because the mileage associated with those activities are deductible.

An example Mileage Log can be found in the resource section of this guide. There are also apps such a Mile IQ and Everlance which can automatically track your trips and make them easier to log. The costs of these apps can also be deducted under Other Expenses.

If you use the **Standard Rate**, you take the total miles you drove in the year and multiply it by the IRS rate. In 2022, there are two rates. From January 1, 2022 to June 30, 2022, the rate is 58.5 cents per mile. Due to increased gas prices, the rate increased. From July 1, 2022 to December 31, 2022, the rate is 62.5 cents a mile.

For example, if an app driver accrued 150 miles from January 1 to June 30, 2022 and 340 miles from July 1 to December 31, 2022, their deduction would be:

Time	Miles	Rate	Deduction
January 1 to June 30, 2022	150	58.5 cents a mile	$87.75
July 1 to December 31, 2022	340	62.5 cents a mile	$212.50
		TOTAL DEDUCTION	$300.25

Keep in mind, when you use the standard rate, you can still deduct parking fees and tolls accumulated as you are working.

PRO TIP Parking tickets and other violation fees are not deductible.

If you use your car a lot for your work, you may want to use the **Actual Expense** method. It requires more record keeping but could result in a larger deduction. With the actual expense method, collect receipts or other proof of payments for all expenses related to your car. The Vehicle Expense Worksheet included below can help you collect the total amount of your vehicle expenses.

If you have a dedicated work vehicle, all expenses will be business expenses. If you use your vehicle for both work and personal expenses, you will need to multiply the total of your actual expenses by the percentage of miles driven for work. To determine this, take your mileage log and divide the miles driven for work by the total miles driven in the year. Then multiply your total expenses by this percentage.

Here's an example: an app driver logged 14,500 miles while working. Overall, they drove their car for work and personal reasons for 35,000 miles over the year. They had $19,000 in expenses.

First, the driver will divide their miles driven for work, 14,500, by the total miles driven, 35,000, to come up with 0.41 or 41%. They will then multiply their total expenses of $19,000 by 41% to determine their deduction, which would be $7,790.

Here is a worksheet that you can use to log your actual vehicle expenses, which will help you complete this portion of your Schedule C.

Vehicle Expense Worksheet

Click the link to access a digital version of this worksheet you can download and use.

CATEGORY	DESCRIPTION	TOTAL EXPENSES
Licenses & Registration fees	The cost of getting and renewing a license, inspections, and registration costs.	
Gas & oil	The costs of gas or diesel fuel as well as oil and oil changes for the car. This can also include charging costs for electric vehicles.	
Tolls	Payments for accessing toll roads, highways, and bridges.	
Lease payments	Payments for a leased vehicle used for work.	
Repairs & Maintenance	For the vehicle including preventative "checkups."	
Garage Fees and Parking	To keep the vehicle on a regular basis (like an off-street parking garage in a city) or temporarily (such as airport parking while you wait to pick up a ride).	
Insurance	For the vehicle even if not required by your state.	
Total (add up all expenses)		

Deprecation of Your Vehicle

Another consideration if you are using the Actual Expense method is depreciation. If you use a vehicle for your gig work 50% or more of the time, you may want to also deduct part of the overall wear and tear on the car. You can learn more about this in the What is Depreciation? section.

Uber and Lyft drivers, check out this great resource from the Get it Back Campaign for even more tax tips for your business: Tax Deductions for Rideshare (Uber and Lyft) Drivers and Food Couriers

How Do I Include the Costs of My Home?

Gig economy workers may use part of their home for their business. For example, if you are a virtual assistant, you may have a home office.

The first and most important thing to consider is if the space in your home is exclusively used for business. To qualify under the exclusive use test, you must use a specific area of your home only for your business. The area used for business can be a room or other separately identifiable space. The space does not need to be marked off by a permanent partition, i.e., you don't need to have a wall around your home office as long as the area you use is distinct. If part of your home is only used for your business and nothing else, it passes the exclusive use test.

Additionally, the space must be your primary business location. If you are a driver, for example, your home is still likely your primary business location since it is where you keep all your records and run the business.

If the space is partially used for business and partially for personal purposes, it won't qualify as exclusive use. Generally, you cannot deduct home expenses as business expenses if you do not pass the exclusive use test.

There is an exception: If you do not qualify under the exclusive use test, but you store inventory or product samples in your home and meet all the following criteria, then you can deduct expenses for the business use of your home.

- You sell products at wholesale or retail as your trade or business.
- You keep the inventory or product samples in your home for use in your trade or business.
- Your home is the only fixed location of your trade or business.
- You use the storage space on a regular basis.
- The space you use is a separately identifiable space suitable for storage.

Remember, if you do not qualify for the exclusive use test, you must meet all the requirements above to be able to be eligible to deduct business use of home.

Let's review. You can deduct the costs of your home from your taxes if one of two criteria are met.

1. The area of your home that you use for your business is only used for your business and is distinct. This passes the exclusive use test.

Or

2. The area of your home that you use for your business does not pass the exclusive use test but does qualify for an exception because the area is used for storage and meets each of the five criteria listed above.

Let's look at a few examples:

- Erica does freelance translation on weekends. Depending on the day she sets up her laptop in one room or another. Since none of the spaces are being exclusively used, she can't deduct them.

If Erica decided to set up a separate room in her apartment that she only uses as an office for her translation work, this would qualify as an exclusive space.

- Jeremiah is a rideshare driver. He pays his personal and work bills at his kitchen table once a month. This would not qualify because the space is not used exclusively for business purposes.

  If Jeremiah decided to set up a small desk in the corner of his living room for doing his work-related bills and keeping all the records for his app driving. In this case, the area of the living room with and around the desk would qualify as exclusive use.

- Vanessa has an online craft business. She has a space she only uses for crafting and stores supplies in an area in her basement only used for crafting supplies.

  In this case, Vanessa can count both the crafting area and the storage area in her home office deduction. Her crafting area qualifies under the exclusive use test. Her storage area does not qualify under the exclusive use test but does qualify for the exception.

Taking the Business Use of the Home Deduction

There are four steps you need to follow to take the business use of the home deduction.

Let's run through all of them:

Step 1: Calculating the space in your home you use for business

Typically, space is measured in square feet. You can then take the space used in your home for business purposes and divide it by the total square footage of your home to get a percentage. When measuring the space used in your home for business purposes, combine the space that qualifies under the exclusive use test and the space that qualifies via the exception rules, as described in the prior section.

Space used for your business ÷ total square footage of your home x 100 = percentage of your home that you use for business

For example: A gig worker uses 200 square feet of her 1,100 square foot home for her business. If she divides 200 by 1,100 she gets 0.18. By multiplying 0.18 by 100, she calculates that 18% of her home is used for her business.

Step 2: Understand both options for taking your deduction

The IRS provides two options for deducting the business use of your home:

> **Regular Method** which accounts for all the actual expenses associated with your home (we'll talk about how to do that in Step 3).

> **Simplified Method** where the deduction based on a set rate form the IRS if you are using 300 square feet or less of space in total.

Here are the pros and cons of each method:

Pros/Cons	**Regular (Actual Cost) Method**	**Simplified Method**
Pros	May result in a higher deduction especially if you use a larger percentage of your home.	Easy to do. No time needed to collect and record expenses. If you own your home and sell it, the depreciation of your home will not be taxed.
Cons	Takes time to collect all the expenses and you need to hold onto the receipts. Any depreciation of your home associated with the business will be taxed when you sell your home.	Limited to $5 a square foot.

The Regular Method requires you to keep track of the actual costs of your home and then calculate the portion of those costs you are allowed to deduct as a business expense. This calculation is explained in Step 3.

To use the Simplified Method, you just need to know the total square footage of the space in your home that you use for your business. The Simplified Method allows you to deduct $5 per square foot. So, if you have a home office that occupies 200 square feet, your deduction would be:

Total square feet: 200 x $5 per square foot = a $1,000 deduction.

Step 3: Collecting allowable expenses for your home when using the Regular Method

Please note: expenses that are for your home but are 100% related to your business should be entered in the expense worksheet. Since these are direct expenses, you'll deduct the whole amount.

In this step, we are focused on **indirect expenses** related to your home. Indirect expenses are things that have both a business and personal use. For example, your utility bill may be an indirect expense if you use your home for business purposes, since some of your electricity was used for your business and some for your personal use. Since indirect expenses have both a business and personal use, you need to calculate the portion that is related to your business when determining the deduction amount you can take.

The table below includes many common indirect expenses you may have incurred for business use of your home.

Your deduction will be the total of all the indirect business expenses multiplied by the percentage of your home used for the business, which you calculated in Step 1.

Let's continue our example from Step 1 where you used 200 square feet of your home for business and the total home size is 1,100 square feet. Let's also say that your indirect costs were $14,000.

First, determine the percentage of the home used for the business by dividing 200 by 1,100 and getting 0.1818 or 18.18%.

Next, you would multiply the total indirect costs by percentage. So, 18.18% of $14,000, resulting in a deduction of $2,545.20.

PRO TIP Make sure, just like with any expense, you have records of the direct and indirect expenses for your home.

Step 4: Deciding which method to use

In most cases, we recommend people choose to use the method that allows them to take the largest deduction. Remember, if you decide to use the Regular Method, you should only include expenses if you have receipts or documents to support your calculation.

In our example, the Simplified Method would allow you to take a deduction of $1,000 and the Regular Method would allow you to take a deduction of $2,545.20.

Indirect Home-Based Business Expenses

Click the link to access a digital version of this worksheet that you can download and use.

INDIRECT EXPENSE	NOTES	TOTAL AMOUNT	DEDUCTIBLE AMOUNT (TOTAL AMOUNT X BUSINESS USE %)
Rent	The full amount you paid over the year.		
Mortgage Interest & Mortgage Insurance Payments	Not mortgage principal		
Real Estate Property Taxes			
Electricity			
Gas			
Oil			
Water			
Home Phone, Internet, & Cable			
Common Area Repairs	Such as repairing the front steps of your home if they are used by clients when they stop by to meet with you.		
Cleaning & Lawn Care Services			
Homeowner's or Renter's Insurance			
Other			
Total			

Great! I am ready to file my taxes. How do I get started?

Decide if you want to file your own taxes for free or if you need a paid tax preparer.

Part II: Filing Your Return Online will help you use MyFreeTaxes to prepare your return for free using online software. This is a great option for people who want to avoid paying tax preparation costs or surprise fees. Head to MyFreeTaxes.com to get started.

However, if your tax situation is especially complicated and you choose to use professional tax preparation services, it is important to find a service that is right for you. Here are some things to consider if you make the choice to pay for tax preparation service.

Make sure your tax preparation service is qualified.

All tax preparers should have an IRS Preparer Tax Identification Number (PTIN). Paid tax preparers are required to register with the IRS so be sure to ask for this in advance as they are not allowed to prepare your tax return without one. You can use this IRS directory to verify a preparer's PTINs and credentials.

Ask if your tax preparer has any professional credentials. Enrolled agents (licensed by the IRS), certified public accountants, or attorneys all work as tax preparers. Other qualified preparers may be participants in the Annual Filing Season Program, bookkeepers, or certified financial planners.

You can search for qualified tax preparers in your area on the IRS Directory of Federal Tax Return Preparers.

Look at your tax preparation service's history and experience.

Experience counts when looking for a qualified tax preparation service. In addition to checking for length of previous experience, make sure your tax preparation service has knowledge that is relevant to your specific circumstances.

Ask if your tax preparer is part of any professional organizations or takes any continuing education classes to keep up-to-date.

Make sure your tax preparer knows your state and local tax requirements in addition to federal return requirements.

Evaluate your tax preparation service's costs.

It is important to properly evaluate the cost of your paid tax preparation options, as many paid tax preparation services may cost more than you realize. Here is some information that can help you ensure you don't pay more than you intend.

Approximately how much might it cost to use paid tax preparation options?

- If you are a self-employed business owner and choose to use paid online software to file your return, you may pay $60-$250 depending on the features you choose (e.g., audit protection).
- If you have a basic self-employed return and choose to hire a paid tax preparer to file your return for you, the average cost is $400 for the Form 1040 and Schedule C. This

amount increases if you add itemized deductions and any other forms, such as quarterly estimated tax forms.

Remember, the entry cost is just the cost to file your forms, and the price may be higher if you elect to add on additional services like those described above.

Do not leave your original tax documents with the tax preparer.

Have the preparer scan or photocopy your documents if they need to work on your return while you are not there. You want to avoid leaving your important original tax documents with a preparer as you may have trouble getting them back. You may need your original documents later if you need to amend or resubmit your return or if you get audited.

Get a copy of your completed return as soon as it has been submitted.

You should keep a copy of your completed return for your own records. You may need a copy of your tax return to prove your income when applying for a loan or other financial product, and the easiest time to obtain a copy of your return is immediately after your preparer completes it.

Other Questions to Ask

- Is my tax preparer available after tax season?
- Do they have a clear, upfront fee schedule?
- Do they know how to deal with an audit?
- Exactly how much time do they require to prepare and deliver a tax return?
- How do you get a copy of your tax return?

Once my taxes are completed, what should I do next?

First, make sure that you get written confirmation that your state and federal taxes were submitted, either by your tax preparer or through your online tax software.

Make sure you have your own copy of your filed tax return as well as all the documents that were included in your filing. It's good to have a copy for your records and you never know when you might need a copy quickly.

While several of the online tax programs allow you to login at any time and print or download a copy of your return, tax preparers may or may not be easy to reach outside of tax season. In addition to the hard copy of all the documents in your tax return, we recommend that you have electronic copies as well. Digital copies can be made by scanning hard copies and converting them to PDF files, or taking photos of the documents with your phone, and saving the files on a secure device.

> **PRO TIP** You can use the IRS Get Transcript Tool to access your tax records online. Here, you can see your prior year adjusted gross income (AGI) and get all transcript types such as a **Tax Return Transcript** and **a Wage & Income Transcript**.

Finally, make sure all the original documents submitted to your tax preparer are returned to you. Keep all receipts, proof of payments, 1099s, and all other tax-related documentation for at least four years.

How can my business benefit from filing my taxes?

Taxes are often associated with confusing and overwhelming forms, anxiety about future audits, and fears of a large tax bill. But tax season can be an opportunity for small business owners to save money, prevent future issues, and provide the documentation you need to grow your business, like a business loan.

> **PRO TIP** You can use Google Drive to store your tax return and related documents digitally!

When you are self-employed, you do not have paystubs to show a bank when you are seeking a loan. Giving them your bank records will not be sufficient. What most lenders look for are financial statements that show your business's income and your tax returns to show your personal income history. Often, lenders will use Line 31 (Net Income) on your tax return to prove your income for a mortgage or business loan.

What business resources can I access for more training on taxes and other business topics?

America's SBDC represents America's nationwide network of Small Business Development Centers (SBDCs) – the most comprehensive small business assistance network in the United States and its territories. Sponsored by the US Small Business Administration (SBA), they provide management assistance to small business owners in the form of one-on-one counseling, training seminars, assistance with SBA loans, and technical assistance.

Small business owners and aspiring entrepreneurs can go to their local SBDCs for FREE face-to-face business consulting and at-cost training on a variety of topics. There are nearly 1,000 local centers available to provide no-cost business consulting and low-cost training to new and existing businesses. SBDCs help local businesses start, grow, and thrive.

You may also call 211 to get connected to additional resources and services that can help you, your family, and your business.

Year-Round Tax and General Business Resources

Now that you've filed your tax return this year, consider changes you might make to help the process go even smoother next year! The following pages include additional resources that may help you learn more about certain tax topics and business practices that can improve your business operations and tax filing experience.

Resource 1: Mileage Log

Resource 2: Assessing Last Year's Taxes

Resource 3: Payroll Taxes (for businesses with employees)

Resource 4: Quarterly Estimated Tax Payments (for self-employed individuals)

Resource 5: What to look for in a business bank account?

Resource 6: How can I create a simple financial system for my business?

Resource 7: What is depreciation?

Resource 1: Mileage Log

Click the link to access the digital version of this worksheet you can download and use.

DATE	DISTANCE	LOCATION	PURPOSE
11/2/2022	5.5 miles	Logan Airport	Picking up client

TOTAL DISTANCE (ADD UP ALL YOUR ENTRIES)	MULTIPLY BY THE IRS PER MILE RATE	TOTAL EXPENSE AMOUNT
	0.585 (1/1 through 6/30/2022) **0.625 (7/1 through 12/31/2022)**	

The IRS standard mileage rates for 2022 are available here:
https://www.irs.gov/newsroom/irs-increases-mileage-rate-for-remainder-of-2022

Resource 2: Assessing Last Year's Taxes

We have developed a simple rubric so that you can evaluate your own past federal tax returns for deductions and potential audit risks as you plan to create your 2022 taxes.

All you need to do is get your last Schedule C tax return. Then use the table on the following pages to look at each line on the form. Items in red are ones to be cautious about. Yellow should require some additional thinking to ensure you have the right information. Green items are common entries and deductions.

There are several different terms associated with the tax return process. To help make this process more understandable, we have created a glossary that includes some common terms.

Disclaimer: The information in this rubric does not constitute tax advice. Individuals should always seek professional advice or actual guidance from the Internal Revenue Service (IRS) if they have any questions regarding their tax returns.

GLOSSARY

Money coming into your business

Revenue/Income is the total income your business makes by selling goods or delivering a service. This will be reflected on Line 7.

Net Profit, also known as Taxable Income, is how much money is left after all your business costs are deducted from all of your revenue. This will be reflected on Line 31 as a positive dollar amount. Profit = revenue *minus* expenses.

Money going out/costs to conduct your business

A Loss is when your costs to conduct business exceeds the income that you had come in. This is the opposite of profit, reflected on Line 31 as a negative dollar amount.

Expenses refer to any amount of money that you spend on anything within your business. The IRS categorizes allowable expenses on lines 8 through 27a.

Depreciation is a way to allocate the costs of a fixed asset over the period in which the asset is useable to the business. You record the full transaction when the asset is bought, but the value of the asset is gradually reduced by subtracting a portion of that value as a depreciation expense each year. Noteworthy things that depreciate are vehicles, homes or other buildings, furniture, and equipment. Businesses will enter their depreciation expenses on Line 13.

Money you owe as a result of doing business

Tax Liability for sole proprietors is the amount of tax they are required to pay. In their case, 92.35% of their net profit is first subject to a self-employment tax of 15.3%. The remaining profit is taxed as income, at their individual tax rate. The lower your profit, the lower your tax liability will be.

Money the government owes your business

Deductions can help reduce your tax liability. You can deduct certain expenses which will subtract the cost of the expenses from your taxable income. Allowable expenses are already categorized on Lines 8 through 26. However, you may have other expenses that do not fit into those categories. Those other expenses should go on Line 27a. The result of using deductions is to lower your tax liability (the amount of taxes you owe).

A Refund is owed to you if you paid the IRS more than you owed during the prior year. For example, if your quarterly estimated tax payments paid during the year add up to more than you owe when you file your tax return, then the IRS will owe you a refund The difference will come back to you in the form of cash paid via direct deposit or check.

An inspection of your tax records

If the IRS issues an audit, they are investigating whether the financial information reported on your taxes accurately reflects your financial records and is reported according to tax laws. Some tax filing mistakes increase the likelihood that the IRS will select your return for review. If your return is selected for review (audited), you will be asked to provide documentation supporting the information you recorded on your tax return.

Assessing Last Year's Taxes
A 2022 Form 1040 Schedule C Tax Form Rubric – Gig Economy

LINE ENTRIES	COMMONLY USED FOR GIG WORKERS?	NOTES
Gross receipts (Line 1)	**Required**	Enter all revenue earned for the year, this includes cash payments, 1099-K and 1099-NEC forms received.
Cost of goods sold (Line 4)	**Yes, use caution**	This can be a common entry for some businesses but for others can be a red flag. Costs of goods sold are ones that are used in the creation of something you sell. If you had a crafts business, this could include fabric, thread, and similar items.
Gross profit (Line 5)	**Required**	This is the amount in Line 1, less the costs of goods sold (line 4)
Advertising (Line 8)	**Yes**	Enter all expenses for ads, flyers, business cards, and promotional materials.
Car and truck expenses (Line 9)	**Yes, use caution**	Gig workers can deduct the actual expenses of operating their car for business (lease payments, gas, oil, repairs, insurance, license plates, tolls, parking, etc.) calculating the percentage of miles driven for business. Alternatively, they can perform the Standard Mileage rate calculation: multiply the number of business miles driven by 58.5 cents for 1/1-6/30 and 62.5 cents for 7/1-12/31 then add to this amount your business portion of car loan interest and parking fees and tolls. You must be able to document how you came to the total entered.
Commissions and fees (Line 10)	**Yes**	Many app companies charge a commission or fee to the worker, these are deductible here. In fact, your 1099-K will include commission fees that you paid as your gross revenue, so be sure that you claim your deduction for those fees otherwise you are taxed on income you never received.
Contract labor (Line 11)	**No**	Enter all payments you made to 1099 contractors.
Depletion (Line 12)	**No**	Workers using this expense are encouraged to seek professional advice.
Depreciation (Line 13)	**Yes, use caution**	Depreciation must be applied only for business use of certain property. See What is Depreciation? for more information.
Employee benefit programs (Line 14)	**No**	If you offer employee benefits, enter amounts paid for employee benefits (i.e., health plans, supplemental insurance, life insurance). This is not a typical expense for gig workers. Workers using this expense are encouraged to seek professional advice.

Insurance (other than health) (Line 15)	Yes, use caution	Enter amounts paid for liability insurance and any other business-related insurance.
Mortgage Interest (Line 16a)	No	Enter amounts paid in mortgage interest on an owned business property. If you are using the business use of the home deduction, this interest is already included in that calculation.
Other interest (Line 16b)	Yes, use caution	This refers to other interest such as business (and not personal) credit card interest.
Legal and professional services (Line 17)	Yes	Enter amounts paid for legal and other services such as accounting, consulting, tax prep, etc.
Office expense (Line 18)	Yes	Enter amounts paid for office supplies and postage.
Pension and profit sharing (Line 19)	No	This must be a company sponsored program (i.e., not the worker's personal or spouse's retirement plan). Providers using this expense are encouraged to seek professional advice.
Vehicle Rent or lease (Line 20a)	Yes, use caution	Enter the business portion of your vehicle rental or lease cost for a temporary car. If you regularly use a leased vehicle this cost is likely already captured in Car and Truck Expenses (Line 9).
Other business property rent or lease (Line 20b)	Yes, use caution	Enter the amounts paid for renting business property.
Repairs and maintenance (Line 21)	Yes, use caution	Commercial property repairs and maintenance, typically under $2,500 can be entered here. Repairs made to exclusive use areas of home can be entered here. If the repairs are associated with the business use of your home, you will enter only the percentage attributable to your business use and those will be included in the business use of home line, not this one.
Supplies (Line 22)	Yes	Enter the amounts for materials and supplies (i.e. – waters, snack cleaning supplies, etc.)
Taxes and Licenses (Line 23)	Yes	Enter the amounts for license fees.
Travel (Line 24a)	Yes	Enter amounts for lodging and transportation associated with business travel (i.e., trade show or seminar attendance).
Deductible meals (Line 24b)	Yes, use caution	Enter the amounts for your meals while on business travel or business-related meetings. Keep in mind, if you are driving for work and grab a meal along the way, that is not deductible.
Utilities (Line 25)	No	Enter amounts paid for utilities for a business-related building. For many workers, this is already in the business use of the home calculation.

Wages (Line 26)	No	Enter the total salaries and wages for the year for W-2 employees.
Other expenses (Line 27a)	Yes	Enter amounts for all other expenses that do not fall into the above categories (i.e., an insulated carrier for food delivery or blankets for the trunk of your car, your cell phone).
# of expenses claimed		This number should never be zero. There will always be expenses to claim for your active business.
Total expenses (Line 28)		The sum of all claimed Schedule C expenses.
Business Use of Home (Yes or No?) (Line 30)		Sole-proprietors with a dedicated home office or those who store products and goods in their home can claim a percentage of their home expenses as business expenses. Note that if there is an expense that is 100% business use, that expense should be fully claimed on the applicable expense line. There is the option to calculate this using the Simplified Method or Regular Method.
Business Use of Home percentage (%)		When using the Regular Method, space is measured in the square feet of your home. You can then take the space used in your home for business and divide it by the total square footage of your home to get a percentage.
Business Use of Home Deduction amount ($) (Line 30)		Your indirect expenses multiplied by your business use of home percentage.
Net profit or loss (Line 31)		This is your revenue minus expenses.

Resource 3: Payroll Taxes (for businesses with employees)

Learn how to understand your payroll tax obligations as an employer

What are Payroll Taxes?

Payroll taxes are taxes that employees and employers must pay on wages, salaries, and tips. The employee pays their portion of these taxes through a payroll deduction and the employer pays the rest directly to the IRS. Typically, the employer will report payroll taxes using Form 941, Employer's Quarterly Federal Tax Return.

There are different types of payroll taxes:

1. Federal income tax
2. Social Security and Medicare (also known as FICA)
3. Federal Unemployment (also known as FUTA)

How much are Payroll Taxes and when are they due?

Some payroll taxes are a fixed percentage of wages, and some are dependent on the employee's tax bracket. There are also various due dates for these taxes. Here is a helpful chart that describes the tax, the amount, who is responsible for paying it, and when it's due:

Tax Type	Amount	Due Date	Responsible Party
Federal income tax	Varies, based on individual withholding status.	Withheld from each paycheck issued; paid to the IRS from employer monthly if you reported $50,000 or less in taxes July 1 – June 30 of the previous tax year and semi-weekly (twice a week) if total taxes reported were more than $50,000.	Employee, however, employer must withhold based on W-4 received.
FICA	Social Security – 12.4%		Employer and Employee each pay 6.2%
	Medicare – 2.9%		Employer and Employee each pay 1.45%
FUTA	6% on the first $7,000 in wages paid per employee, each year.	Quarterly	Employer

What forms must be completed?

- Form W-4 – completed by employee to let the employer know how much payroll tax to withhold. The amount withheld will be calculated based on their marital status, number of dependents, and any additional withholding they may choose. This is completed once an employee is hired, prior to their first paycheck and can be updated by the employee if their tax situation changes.

- Form W-2- you must file Forms W-2 to report wages paid to employees. This must be issued by January 31st to any employee with wages withheld during the previous tax year.

- Form 941 – used to report income taxes, Social Security tax, or Medicare tax withheld from employee's paychecks and can be used to pay the employer's portion of Social Security or Medicare tax. This is due quarterly by the last day of the month that follows the end of the quarter:

Quarter	Months in the Quarter	Form 941 Due Date
1	January, February, March	April 30th
2	April, May, June	July 31st
3	July, August, September	October 31st
4	October, November, December	January 31st

- Form 940 – used to report any FUTA tax. The due date for filing the Form 940 is January 31.

What about part-time workers?

Part-time workers and workers hired for short periods of time are treated the same as full-time employees for federal income tax withholding and social security, Medicare, and FUTA tax purposes.

What about family employees?

One of the advantages of operating your own business is hiring family members. However, employment tax requirements for family employees may vary from those that apply to other employees. View the Family Help resource to learn about the tax requirements for family employees

For more information, review IRS Publication 15, Employer's Tax Guide.

How to determine if someone is an employee or 1099 contractor?

Employees and contractors are treated very differently under federal and state law. Contractors are considered independent business people. They pay their own employment taxes and the employer usually has fewer legal obligations to the individual, such as providing paid time off. Employees, on the other hand, come with greater costs, like employment taxes and benefits.

There are rules that determine if a person should be considered an employee or a contractor and there can be harsh fines if you misclassify an employee as a contractor.

In determining if you have a contractor or employee, you should look at the three essential elements of the definition of employment: service, wages, and direction and control.

1. **Service (Type of Relationship)**– Does the person work on a project-by-project basis (like a contractor)? Does the person work for other businesses or just for you?

2. **Wages (Financial)**— How is the person paid? For example, is the person paid every week for a set number of hours (which indicates an employee), or does the work vary (like a contractor)? Do they have regular expenses that are reimbursed (like an employee)?

3. **Direction (Behavioral)** — How much control do you have over their day-to-day work? For example, do you set the requirements around their work hours, the equipment or tools to be used, or the training needed? (If yes, then this person is likely an employee.)

PRO TIP Don't use Forms 1099 to report wages and other compensation you paid to employees; report these on Form W-2.

For more guidance, run through the IRS list of 20 factors that indicate if someone is a contractor or an employee.

Resource 4: Quarterly Estimated Tax Payments (for self-employed individuals)

What are quarterly estimated taxes?

Quarterly estimated taxes are estimated self-employment (SE) tax payments you may need to make to the IRS four times a year. Self-employment taxes are taxes that freelancers, independent contractors, and other business owners pay towards Medicare and Social Security. W-2 employees have these taxes taken out of their paychecks by their employer however self-employed people need to pay these taxes to the IRS themselves. Typically, the deadlines for these payments are on the 15th of April, June, and September of the current year, and January of the following year:

Payment Period	Due Date
January 1 – March 31	April 15th
April 1 – May 31	June 15th
June 1 – August 31	September 15th
September 1 – December 31	January 15th of the following year

Making quarterly estimated self-employment tax payments during the year means that you pay most of your tax during the year, as you receive income, rather than owing one large amount at the end of the year. These payments are based on your estimated income for the current year.

View When to Pay Estimated Tax for more information.

Do I have to pay quarterly estimated taxes?

Self-employed individuals generally have to make estimated tax payments if they expect to owe tax of $1,000 or more when their income tax return is filed.

If your net earnings for the year are greater than $15,000, you will likely owe at least $1,000 in self-employment taxes and therefore will be required to make quarterly estimated self-employment tax payments. This assumes you have no dependents and no other personal credits on your income tax. If you do, then you may be able to have a higher net earnings before you're subject to making quarterly payments.

Find more information on whether you will need to pay quarterly estimated taxes in the IRS FAQ.

Key Terms

Self-employment tax - a Social Security and Medicare tax primarily for individuals who work for themselves. The SE tax rate is 15.3% (12.4% for social security tax and 2.9% for Medicare tax) and it is applied to 92.35% of your net earnings from self-employment.

Quarterly estimated tax - Estimated tax is the method used to pay your self-employed Social Security and Medicare taxes and income tax. Those who are not self-employed will have an employer withholding these taxes for them and paying these taxes at regular intervals to the IRS. Because you do not have an employer doing that for you, you need to pay them yourself, quarterly.

Income tax - self-employed individuals generally must pay self-employment tax as well as income tax. Income tax is tax on personal income. For a self-employed person, their personal income is their net profit (Line 31 of the Schedule C). Income tax is also paid on all other types of income you may have (for example, capital gains). Your income tax rate will depend on a number of things such as your filing status, household income, and whether you have any dependents.

To avoid making quarterly payments, you can also have your spouse withhold enough in taxes to cover your Social Security/Medicare and income taxes. If you are single or you have a spouse who is unemployed or self-employed, you will most likely need to file quarterly estimated taxes.

You can also make monthly estimated tax payments which may be easier to budget than paying a larger amount quarterly.

How much do I pay each quarter?

Any self-employed business must pay a 15.3% self-employment tax that is made up of both the employee and employer portions of the Medicare and Social Security taxes, and the amount is calculated with the 1040 estimated tax form. You must pay at least 90% of the taxes you owe for the quarter to avoid paying a penalty.

To get a rough estimate of how much you owe each quarter, add up all your income and multiply it by 20%. If you pay that 20% and it's more than you actually owe, you will get a refund at the end of the year. If it's too little, you will owe some additional taxes when you file your tax return. It's unlikely that you will face a penalty if you pay greater than 20% of your income in taxes each quarter.

For Example:

DESCRIPTION	EXAMPLE AMOUNT	YOUR AMOUNT
Self-Employed Net Income (Schedule C, Line 31) This is your profit after deducting business expenses from your revenue.	$15,000	
Self-Employed Income Subject to Self-Employment Tax This is 92.35% of your net income	$13,853 ($15,000*0.9235)	
CREDITS		
Self-Employment Tax Credit Self-employed individuals receive a 50% credit on their SE tax	$1,060 ($2,120*0.5)	
Other credits Enter any additional credits that you are expecting to receive when you file your tax return, this can be the Earned Income Tax Credit, Child Tax Credit, Child and Dependent Care Tax Credit, American Opportunity Tax Credit	$0	

TAX OWED & QUARTERLY ESTIMATED TAX		
Tax Owed This is the amount you get when you subtract all expected credits from all anticipated tax owed (this is SE tax plus any other personal tax liability). **If this amount is over $1,000 you must make quarterly estimated payments. If it's below $1,000 you do not have to make quarterly estimated payments.**	$1,060 ($2,120-$1,060)	
Quarterly Estimated Payments This is the amount you may be required to pay to the IRS quarterly.	$265.00 ($1,060/4)	

Resource 5: What to look for in a business bank account?

Learn about Opening a Business Bank Account

Setting up a business account is the best first step to ensuring that you're clearly separating your personal and business revenue and expenses. Once set up you will easily "see" what money is in your business versus your own pocket, and it will be easier for you to do your bookkeeping and taxes.

This resource, and the following resource, will walk you through the basics of developing a financial system for your business. The basics just consist of two big steps — getting a business bank account and adopting a bookkeeping system.

Getting a business bank account can be quite simple. As an independent worker, you have multiple options. You are not required to have a traditional business bank account, however the best practice is that you at least have a separate account for your personal and business finances. You may want to use the bank that holds your personal accounts already or you may want to look for the best deal for your business. We recommend that you look at two or three options to be sure you are making the right choice.

What are the features of a Business Bank Account?

Typically, a business bank account requires you to have an Employer Identification Number (EIN) and offer features that do not come with a standard personal account. Some of those features include:

- Protection services for you and your customers
- Allows for credit card payments to you directly, not through a payment processor
- Credit options that will allow your business to grow or use in emergencies
- Helps establish your business credit

For more features and details on business bank accounts, view Open a Business Bank Account by the U.S. Small Business Administration.

Choosing a Bank

In selecting a bank for your business account, first and foremost, relationships are important. Make sure the bank will be responsive to your needs and your questions and provide the opportunity to grow over time. Once you've established a relationship with your bank, you may be eligible for financial supports such as a business loan or a line of credit that could help you to grow your business. Look for a bank that offers these services.

Think about how the bank treats you from the moment you first walk in the door. Do they seem eager to talk? Does the employee appear to want your business? If the bank isn't excited to see you when you are a prospective customer, they are not very likely to be there when there's an issue and you need them the most.

If a bank appears friendly and welcoming, you should consider four other points:

1. **Does the bank require you to deposit a certain amount of money to open the account?**
   Understanding how much money may be tied up in the account is important. If the bank requires you to keep a minimum balance, it will then be money that you cannot access easily if you have bills to pay or want to pay yourself.

2. **Are there fees associated with the account? What are they?**
   Banks make money by charging fees for their services, but these seemingly small fees can add up quickly. You will need to factor them into your routine expenses.

3. **How many checks can you write a month? How many deposits can you make?**
   Some banks will place limits on the number of checks, transactions, and deposits that can be made during each billing period. After you reach your thresholds, the bank will charge a fee for each transaction. Again, this is going to erode how much money you're making, so it's imperative that you know what the fees are and whether they fit the style of your business.

4. **Will you need a debit or credit card for your business? Do you want the ability to use a credit card that is issued by your bank?**
   These are important services, and again, going to the earlier point, may also come with fees, so you want to look very closely at these.

Decision Time

Review the account options, services, and fees at two, three, or four banks, setting aside any that don't pass the "relationship" test. Then consider the remaining banks -what is the best deal? Think about how much money you are willing to have tied up (i.e., the minimum balance) and how high the fees will be per month, by estimating based on your current banking.

For example, Marta is considering two banks, Bank A and Bank B. Bank A has a higher minimum deposit of $500, but their fees are lower. Based on the number of checks Marta writes a month and that she doesn't need a debit card, Marta calculates that the fees for Bank A would only be $5 a month. Bank B has higher fees, totaling $8 a month, but no minimum deposit.

The account Marta chooses will depend on her personal and business needs, finances, and preferences.

There are Trustworthy, Affordable Options for a Personal Bank Account, too! Having a safe, affordable, personal bank account is essential to your financial wellbeing. If you don't already have a bank account, we recommend opening an account that meets the Bank On National Account Standards. These accounts take the stress out of banking by charging only $5 or less per month with no overdraft or insufficient fund fees and include convenient features like Bill Pay or free checks you can use to help pay rent and other bills without using expensive money orders. These accounts are also great options for anyone with a limited or challenging banking history.

You can review the full list of available Bank On certified accounts you can open online here. Unsure how to open a bank account? Check out United Way's My Smart Money guide to getting a bank account for easy-to-follow instructions.

Resource 6: How can I create a simple financial system for my business?

Learn about Basic Bookkeeping

At the heart of any successful business is a good financial accounting system.

An accounting system is critical because it lets you know where your money is, where it is going, and how much you're making. Having this information readily available will let you pay yourself without putting your company at risk, manage cash flow so that you always have enough money to pay your bills, and know when it's time to expand your business.

Developing a bookkeeping system

Once you have your business bank account in hand, you can start to think about a basic system for bookkeeping. Bookkeeping is very important because it will help you understand where your money is coming from as it flows into your business (tracking revenues), where it is going to (monitoring expenses), and how much profit you're making (managing cash flow). Profit is how much money is left after you pay all your bills.

Step 1

Determine how you will account for funds coming in and going out.

There are two basic methods in accounting — one is an **accrual method**, which is more complex and is based on when an expense or a revenue is taken on, or *accrued*. For example, if using the accrual method, the moment you receive your credit card bill, the amount owed would be taken from your assets (versus when you actually pay the bill). If using the **cash method**, this amount would be taken from your assets when the bill is paid. The cash method is more common for businesses and is less challenging, as it is based on when things are paid or received.

Let's look at revenues. Let's say a client owes you $300. Under the accrual method, that $300 is considered income at that time. Under the cash method, the $300 wouldn't be considered income until the client gave you the check and you deposited it. For most small businesses, the cash method is both simpler and more helpful because it's going to let you know exactly *when* money is coming in and out of your account. This method is more comfortable because it will in many ways match the act of balancing your checkbook — just in a bigger way.

Step 2

Determine how you will record your transactions.

After deciding how you will account for funds, determine how you're going to record your transactions. For many small businesses, it will be easy to record transactions on a sheet of paper or on a spreadsheet, such as Microsoft Excel or Google Sheets. Set up some simple categories to start.

Begin with your income. Determine what the key revenue streams are for your business — that is, the sources from which you primarily receive your money. This may be direct sales to customers, wholesale sales, professional fees, speaking events, and more. Each one of these will be a separate revenue stream to account for.

Next, list your expenses. This may include items like payroll, lease payments, rent, repairs, cleaning, supplies, inventory, and other categories that match your business. Try to limit the number of categories — you don't need to detail every category that might occur. Focus on the categories you have right now; you can always add more later. With too many categories, the list could become overwhelming, making it difficult to account for spending or revenue.

You can use this example list to categorize your income sources:

Revenue Categories
Income category #1
Income category #2
Income category #3
Fees
Other

You can use this example list to categorize your expenses:

Expenses Categories
Personnel
Taxes
Mortgage/Rent
Utilities
Car lease
Phone
Supplies
Inventory
Cleaning
Insurance
Loan payments
Bank fees
Other

Step 3
Set a schedule to record and review your transactions.

You should set a time to update your books, at least every month. Start by looking at all your revenue sources: cash, credit cards, app payment systems like Venmo or Zelle, and checks written to you. Enter each one into your income on your spreadsheet. Next, record your expenses. Look through your receipts, bank and credit card statements, and invoices from people you have paid. Any of these proofs of payment can help you to not only record these costs, but more importantly, ensure that you're recording the correct amount for each one.

Though it may seem tedious to record each transaction, it is important in terms of understanding your profitability by tracking exactly where your money is coming and going. Once you have recorded your revenue and expenses for the month, you will then total each category. Subtracting your revenue from your expenses will give you an idea of how much profit you made that month. You may want to consider holding onto some of that profit, leaving it in the business for a rainy day or to help pay your bills.

You can use this helpful template to record and track your monthly revenue:

What revenue did I receive?			
Date	**Description of what I was paid**	**Amount Received**	**Category**
	Total		

You can use this helpful template to record and track your monthly expenses:

What did I pay for?			
Date	**Description of what I paid for**	**Amount Paid**	**Category**
	Total		

Bookkeeping Pro Tip:
Label your receipts so that you remember which category they belong in.

Accounting Pro Tips:
Stick to a regular schedule! Make sure you regularly update your records, whether monthly, every other week, or every week. This will save time and headaches in the future. Leaving your expenses and revenue to pile up will not help you. You can't understand how your business is doing on a moment's notice, nor will you be able to keep up with your accounting system if it involves an intimidating pile of receipts and statements.

Consider an electronic system. It can be tedious to do accounting by hand. So, you may want to create a simple spreadsheet or even get an online system.

When looking for online systems like QuickBooks, FreshBooks, or Xero, consider their ease of use, cost, and complexity. Many of you with a small business may not need QuickBooks or other more complicated systems. Perhaps a simpler, less expensive system that is easier to use would be preferred and work better for your goals.

Make sure you keep all your records, whether you take photos or scan each receipt and statement and save them electronically, or just store everything in a box. It is important to save these documents in case you are audited by the IRS. It also allows you to go back and check your information, if needed.

Resource 7: What is depreciation?

Understanding depreciation and how it impacts your financials.

Depreciation can be confusing, but if you make any single asset purchases or property improvements over $2,500 for your business, such as cars, furniture, computers, a new roof, or have a dedicated home office in a home that you own, you need to understand depreciation and how it can impact your business.

Depreciation impacts the timing of revenue and expenses which may increase your taxes when you make a large purchase or improvement but lowers your taxes in future years. Typically, when you have an expense, it is fully deducted in that year "offsetting" the same amount of earnings.

For example, let's say you buy a $100 table. You made $100 and you get to deduct $100, so the impact on your taxes is $0 – since the $100 was spent on a deductible expense.

Depreciation changes this offset. Let's say you used $20,000 in revenue to purchase a new van. In this case, your taxes would reflect the $20,000 in revenue, but you would only be able to deduct $4,000 in the first year (we'll explain why later). As a result, you would have $16,000 in taxable revenue (that is, the $20,000 - $4,000 in depreciation leaves $16,000 in revenue).

In this resource, we'll review the basics of depreciation and how it works so you can understand when you need to prepare for higher taxes and when you don't.

This document should not be considered tax advice. Please consult with an accounting professional for specific guidance and information regarding depreciation for your business.

What is depreciation?

Whenever you make a business purchase that you will use for more than one year, the Internal Revenue Service (IRS) requires it to be depreciated. This means that you will deduct the cost on your business taxes over time, rather than only the year when you purchase it. Instead of getting all the deduction in one year, you get it slowly, over several years.

Key Terms

Asset - property you acquire to help produce income for your business. Assets are subject to depreciation. An asset is a single item, not a group of items. For example, an office sofa that costs $3,000 rather than 10 chairs that were $300 each.

Basis – the full cost of an asset to you, includes purchase price, sales tax, freight and other costs.

Depreciation - an annual income tax deduction that allows you to recover the cost or other basis of certain property over the time you use the property. Usually, you must depreciate single item purchases over $2,500.

Improvement – a renovation that enhances the value of or improves the life of property.

Repair – fixing the normal "wear and tear" of an item, such as replacing shingles that fell off, but not the whole roof.

Business Use of Home Percentage – a calculation that allows sole-proprietors with a dedicated home office or those who store products and goods in their home to claim a percentage of their home expenses as business expenses. You must first apply this percentage to the item or property before calculating allowable depreciation.

Depreciation can apply to many things in your business including:

- Furniture
- Appliances such as dishwashers
- Computers
- Buildings that you own and renovations
- Vehicles

What is the difference between renovation and repair? A renovation is a structural change to the foundation, roof, floor, or exterior or load-bearing walls of a facility or extending an existing facility to increases its floor space. If an existing facility's function or purpose is significantly changed, this is considered a renovation as well. A repair service or part restores an existing building or piece of equipment to optimal working condition. A repair does not change the function or purpose of what is being fixed. A repair is never depreciated, but a renovation always is.

What is subject to depreciation?

To determine if a purchase that you make for your business is subject to depreciation you need to ask the following questions.

1. **Is the item "ordinary and necessary" for your business? – that is, do you need this to run your business?**

   If it is, then move to the next question. If the item is not "ordinary and necessary" for your business, then it is a personal expense that is not deductible on your business taxes at all.

2. **Can the item last more than one year?** – For example, paper towels will likely be used up in a year, so they would not be eligible. However, a car or a newly installed piece of equipment would be items that will last more than one year.

   If the item can last more than a year, then move to the next question. If the item cannot last more than one year, then treat it as a typical business expense that would not be subject to depreciation.

3. **Is the value more than $2,500?** – Any item, even one that could last for years, that has a value of less than $2,500 is considered a "safe harbor" and can be deducted all in one year and without being subject to depreciation. Keep in mind, that this is a per-item limit. For example, if you purchased 50 chairs for $100 each, even though the total bill was $5,000, each chair is less than $2,500 so depreciation will not need to be applied.

   If the value is more than $2,500, then move to the next question. If it is less than $2,500, then treat it as a typical business expense.

4. **Is this a repair or maintenance cost?** – Costs to repair or maintain items for your

business can be expensed in one year and will not be subject to depreciation. For example, let's say you have your roof shingles of your commercial property repaired and it cost $3,500. As a repair, you would still be able to deduct it in one year and depreciation will not be applied.

If it is not a repair or maintenance cost, you'll need to depreciate the item. If it is a repair or maintenance cost, report it as an expense on your tax return.

5. **How do I depreciate an item?** – Once you have identified a depreciable item, you need to determine how you can expense it.

   The most basic way to figure out how much you can expense each year is called straight line depreciation (though there are some other methods your tax professional may use).

   In this calculation, you take the total cost of the item and divide it by the total number of years that the IRS says is the life of the item. Here are some common useful life values from the IRS:

   - Office furniture, fixtures, and equipment - 7 years
   - Automobiles – 5 years
   - Land improvements – 15 years
   - A building (or house) used in part or whole for business – 39 years

   You can find the current list of all life values in IRS Publication 946, here.

For example, a land improvement such as a new driveway is considered by the IRS to have a 15-year life. So, if you paid $15,000 for the new driveway, you could deduct $1,000 a year in depreciation for it, for 15 years ($15,000 divided by 15).

Accelerating depreciation

Another option in addition to straight line depreciation is to accelerate your depreciation faster which allows you to expense your purchase quicker. Namely, you can accelerate your depreciation through three special rules:

1. **Section 179 depreciation** is allowable for physical property used for your business more than 50% of the time. Examples of allowable property are office equipment, furniture, vehicles, and most other assets that are not buildings, or improvements to your building.

   As another example, for a vehicle, such as a van for transporting inventory, you will need to show that the miles driven for business purposes are at least 50% or of the total miles driven for a year if you are using this method (alternatively, you can depreciate the car based on the percentage of use for business versus personal driving using straight line depreciation).

   For the 2022 tax year, you can write off up to $1.08 million in eligible Section 179 expenses. The one exception is cars that have a limit to a single-year deduction based on weight. For vehicles under 6,000 pounds, it is $11,200. For vehicles over 6,000 pounds, but less than 14,000 pounds, it is $26,200. You also need to make sure you prorate your costs based on the percentage of business use. For example, if you take the total miles driven in the year for your car and 65% of the miles are for your business, you can only depreciate 65% of the purchase price.

2. **Bonus Depreciation** allows you to deduct 100% of certain assets in one year without an upper limit on the total amount you can deduct. To qualify for Bonus Depreciation, the item needs to have a useful life of 20 years or less (so it does not apply to your home office) and be used for business 50% or more of the time.

   One exception, similar to Section 179 depreciation, is tis for vehicles. For vehicles under 6,000 pounds, you can expense $19,200. Vehicles over 6,000 pounds, but less than 14,000 pounds, do not have a limit. Just like Section 179 depreciation, you need to use the vehicle for your business at least 50% of the time based on the total miles driven and the amount of depreciation must be adjusted by the business use.

   Bonus depreciation will continue to be 100% through the end of 2022. In the following years, the percentage of depreciation allowed will decrease (starting in 2023 when you will be limited to 80% of value) until it ends completely in December 2026.

3. The **Safe Harbor for Small Taxpayers** can provide another vehicle for accelerating depreciation. This rule comes out of the IRS Tangible Property Regulations and allows business owners with a home office to deduct repairs or improvements (including leasehold improvements) to the home or a facility that are the lessor of $10,000 or 2% of the unadjusted basis (that is the value of the property less the value of the land).
   For example, let's say you owned a restaurant building that was worth $350,000 and the land is worth $50,000. The unadjusted basis would be $300,000. Two percent of the unadjusted basis would be $6,000. So an improvement, like adding an awning that was $5,500, could be deducted in one year since the cost of the awning was less than $6,000.

   For home offices, you need to also include the business use of home calculation. So, let's say a home is valued at $400,000 and the land is $65,000. The unadjusted basis would be $335,000. Further, let's assume the business use of home calculation shows the business owner is using the home for business 35% of the time. Now, the unadjusted basis would be $117,250 (that is 35% of $335,000). Two percent of $117,250 is $2,345. So, costs under $2,345 related to repair or renovation could be deducted in one year rather than depreciated over time.

If you use this rule, make sure you or your preparer include a statement with your tax return reading:
"Section 1.263(a)-3(h) De Minimis Safe Harbor Election

Your name ________________

Your address _________

EIN or Social Security Number _________

For the year ending December 31, 20__ I am electing the safe harbor election for small taxpayers under Treas. Reg. Section 1.263(a)-3(h) for the following: (list your improvements)."

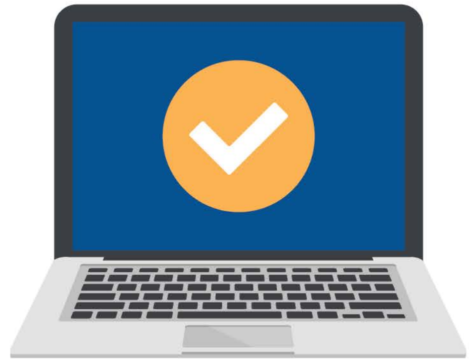
It is important to note that state limitations can vary, so depreciation, as described above, may only apply to your federal tax return.

Record Keeping

It is critical to have clear records of your purchases for the depreciation that include what you purchased, when, the total cost, and any indication of the amount of business use (for example was it 100% for business or a mix of business and personal use). It is also important to keep records of your remaining depreciation so that you know to apply it to future years.

Part II:

Filing Your Return Online



Part 2 Table of Contents

Why Tax Prep Software is a Good Idea for Small Business Owners & Self-Employed Entrepreneurs

Many self-employed people can prepare their own taxes. Using tax software is a great way to save yourself time and money. It also can give you peace of mind, since many calculations are performed for you and there are automated cross-checks to ensure you are properly accounting for your revenue and expenses. According to the IRS, filing electronically helps you avoid common and costly errors. Best of all, it puts you in the driver's seat of this essential business responsibility - filing your annual tax return.

Q: How do I know if I am self-employed?

A: If your business is taxed as a sole proprietorship, you are self-employed. You will file a Schedule C to report your business revenue and expenses and pay a self-employment tax of 15.3% on your business profit, after deductions.

How to File for Free

MyFreeTaxes helps people file their federal and state taxes for free, including free access to online preparation software to complete and submit your return. This guide focuses on TaxSlayer® because most of our users file using this software.

How to Use this Guide

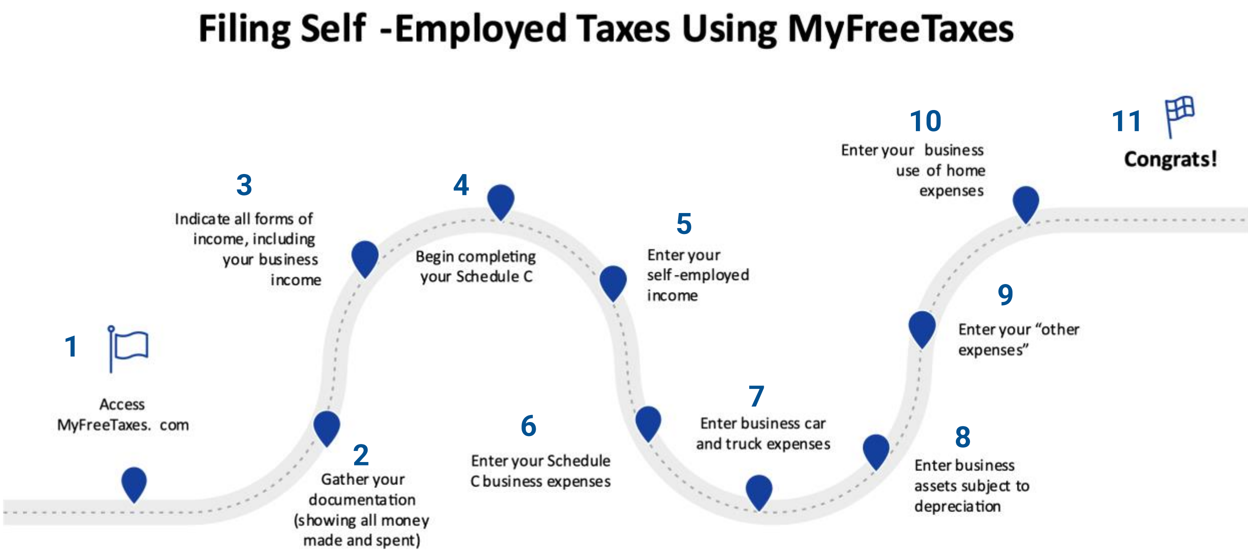
You may feel a bit intimidated by the idea of doing your own taxes for your business, but this guide will help you have a hassle-free experience that can save you money, minimize the risk of audit, and help you set goals to improve your business practices for many years to come. You'll come out of tax season more confident about your return and your understanding of it.

This guide builds on the *MyFreeTaxes Self-Employed Tax Guide: For Gig Economy Entrepreneurs (Part 1: Getting Ready for Tax Season)* and is intended for self-employed people. While there are many examples of gig economy entrepreneurs, here is a short list of who that may include:

- Rideshare drivers
- Food app drivers
- Instacart shoppers
- Airbnb host
- Freelance professional services marketplace worker
- Freelance writer
- Babysitter
- Pet sitter or dog walker
- Cleaner
- Brand ambassador
- Graphic designer

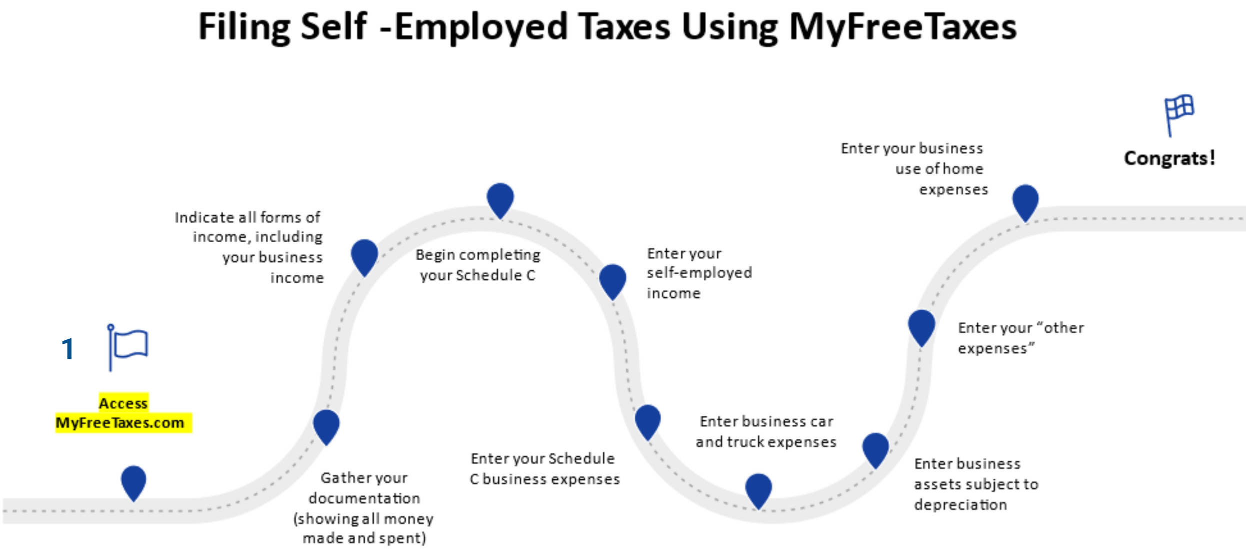
It's best to use this guide as a reference while you're preparing for and completing your tax return. The goal of this guide is to help you to accurately report your business revenue and expenses while claiming important deductions. This guide is primarily focused on helping you complete your Schedule C, which is the portion of your tax return where you report your business income and expenses. If you need assistance with other parts of your tax return, you can access assistance at MyFreeTaxes.com/Support.

The roadmap below lists the steps in your journey to file self-employed taxes using MyFreeTaxes. Look for this roadmap throughout the guide to chart your progress.



Access MyFreeTaxes.com

When you access MyFreeTaxes, you will be asked to choose how you want to file your taxes.

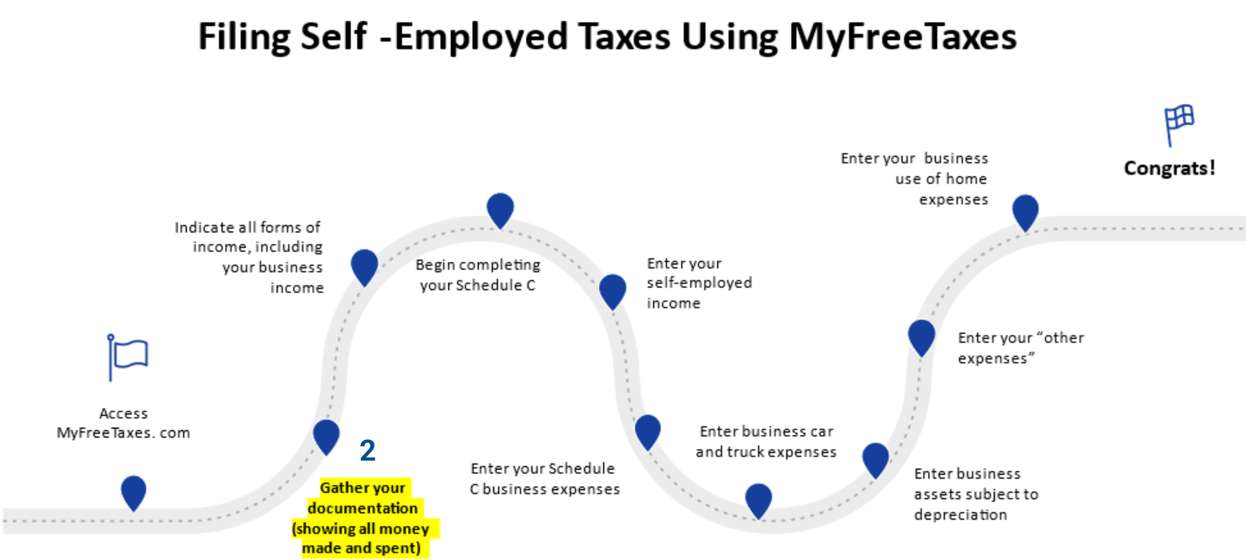


You may choose "**File My Own Taxes**" or "Have My Taxes Prepared For Me". For this guide, we used the "**File My Own Taxes**" option because many small business owners are not eligible for the "Have My Taxes Prepared For Me" option.

Gather your documentation

You will need to enter basic demographic information about yourself (and your spouse and dependents, if you have any):

- Name
- Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN)
- Date of birth
- Marital status
- Dependents
- Address
- Other information to help determine your personal tax credits, including if you are a U.S. citizen; were a student last year; can be claimed as a dependent on another person's taxes, or have any dependents to claim on your taxes.
- Other information to help determine your personal tax credits and liabilities.



Next, to help prepare your business taxes with ease, you want to be sure that you have your revenue and expense records up-to-date and handy. Perhaps you have an accounting system where this data can be pulled, or you have a recordkeeping system with this information. You will generally need:

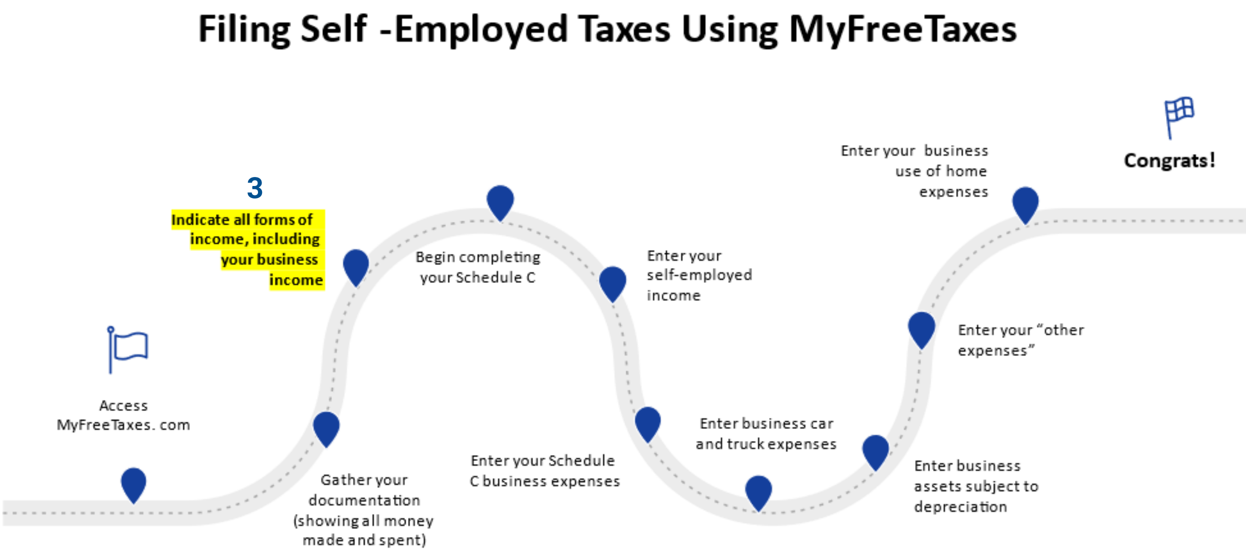
- 1099 forms
- Bank and credit card records
- Canceled checks

- Receipts that show what customers paid you
- Paid receipts or invoices for goods or services that you purchased for your business
- Payroll records, if applicable
- Mileage records documenting the business use of your vehicle
- Business Use of Home percentage calculation if you use part of your home for your business

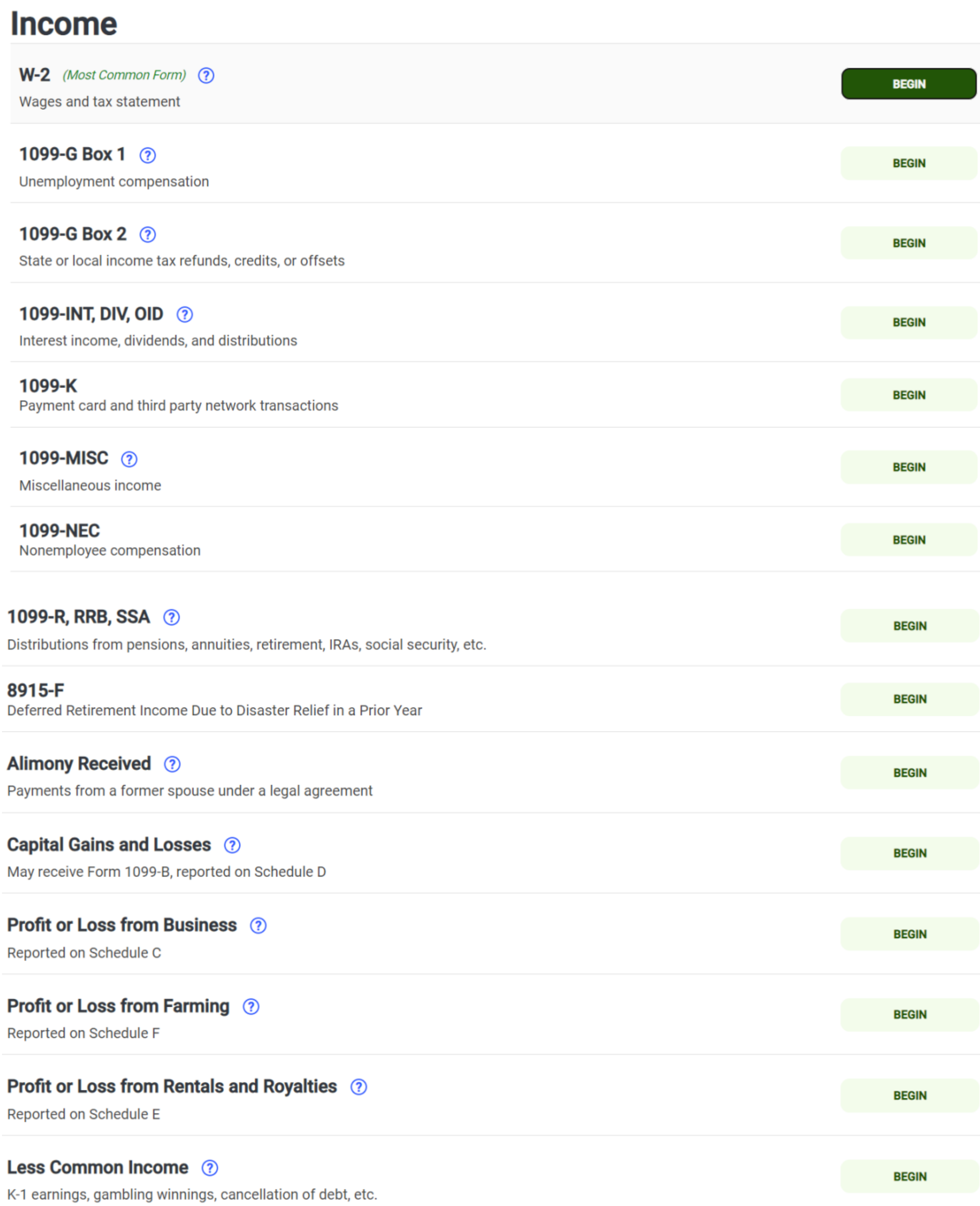
Having these records, will help you determine what tax forms you will need.

Indicate all forms of income

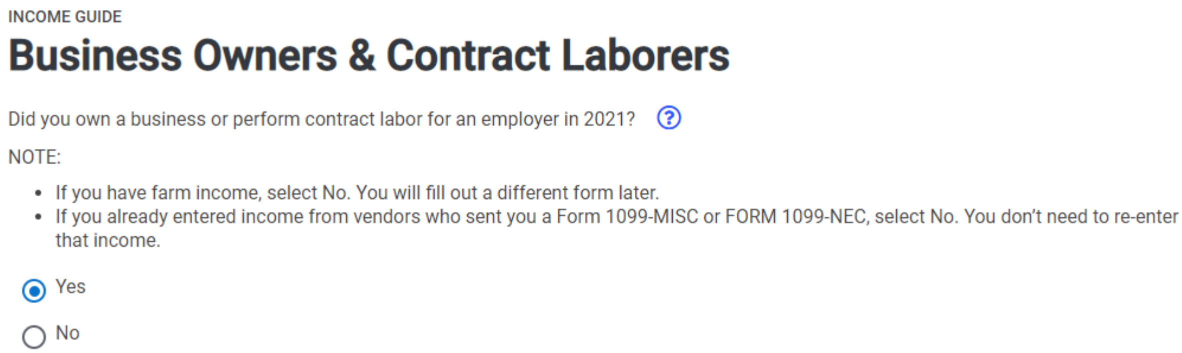
After entering basic demographics about yourself, you will be prompted to enter your forms of income. We recommend that you choose the "**I want to be guided**" option so you can be taken through a simple questionnaire to determine if any of the forms listed below apply to your tax situation.



Alternatively, if you choose "**Select my Forms**", you will then be shown a list of various income types and the associated tax forms. If you have one of these forms, you will click **BEGIN** to be guided through entering the information from that form into the tax prep system.



In order to be directed to complete the Schedule C, you must answe “**yes**” to this question:



INCOME GUIDE

Business Owners & Contract Laborers

Did you own a business or perform contract labor for an employer in 2021?

NOTE:

- If you have farm income, select No. You will fill out a different form later.
- If you already entered income from vendors who sent you a Form 1099-MISC or FORM 1099-NEC, select No. You don't need to re-enter that income.

Yes

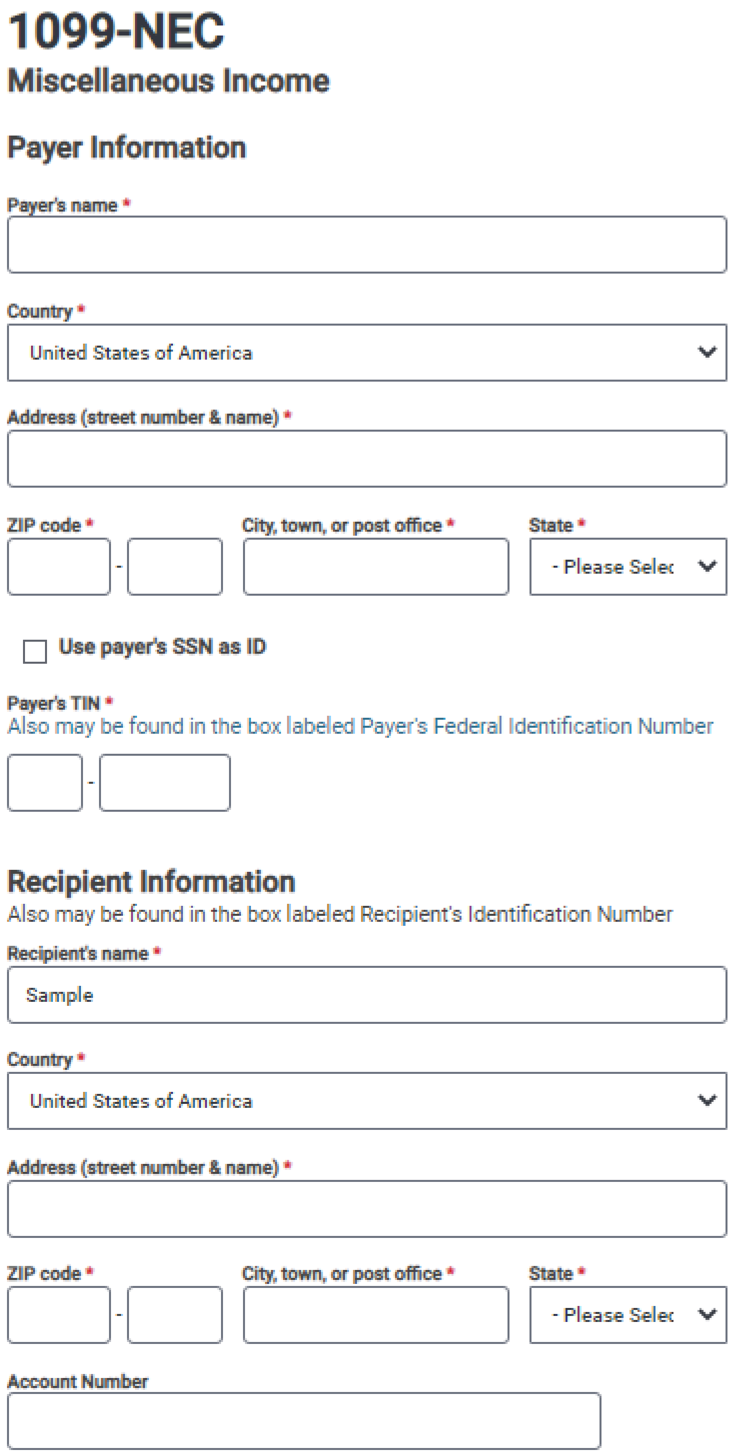
No

You will then need to begin inputting the revenue for your business(es). If you have more than one distinct business or gig, you will enter a separate Schedule C for each of them. To determine if your gigs can be entered on the same Schedule C or a separate one, think about the type of work that is being performed for them. If it's similar or related work, those services can be treated as one Schedule C, if they are not related, they will need to be separated. For example, if you drive for both Uber and Lyft, you can enter your revenue and expenses on one Schedule C because those are both part of your driving services gig.

Your revenue should include all the money you took in for your business from all sources, even if you are not issued a 1099. This should include cash and money from cash or payment transfer apps used for your business.

- **Profit or Loss from Business.** This is how you will report self-employed income. This will form your **Schedule C.** Remember that your income includes cash and checks received from customers and clients. The bulk of your business revenue and expenses will be here. Later in this guide, we cover this form in detail and guide you step-by-step.
- **1099-NEC.** Here you will enter details from the [1099-NECs] that you received. That stands for nonemployee compensation. Likely you will receive a 1099-NEC for business-related payments over $600 in which you were contracted to do a certain job. For instance, if you performed a catering job, and you were issued a 1099-NEC, you would include those here.

The software uses the same labels that you will see on a 1099-NEC that was issued to you. You will just need to enter the information from your form into the system.



1099-NEC
Miscellaneous Income

Payer Information

Payer's name *

Country *
United States of America

Address (street number & name) *

ZIP code * - City, town, or post office * State *
- Please Selec

Use payer's SSN as ID

Payer's TIN *
Also may be found in the box labeled Payer's Federal Identification Number

Recipient Information
Also may be found in the box labeled Recipient's Identification Number

Recipient's name *
Sample

Country *
United States of America

Address (street number & name) *

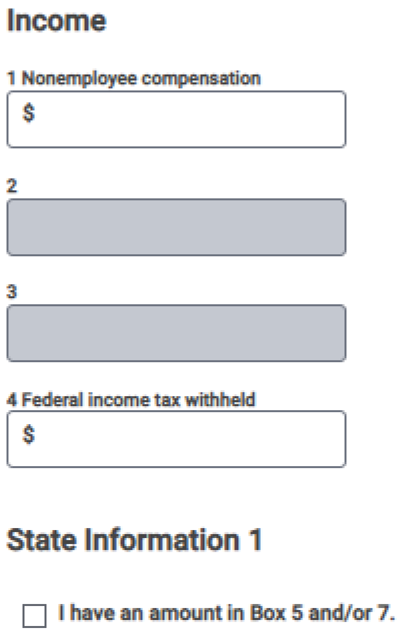
ZIP code * - City, town, or post office * State *
- Please Selec

Account Number

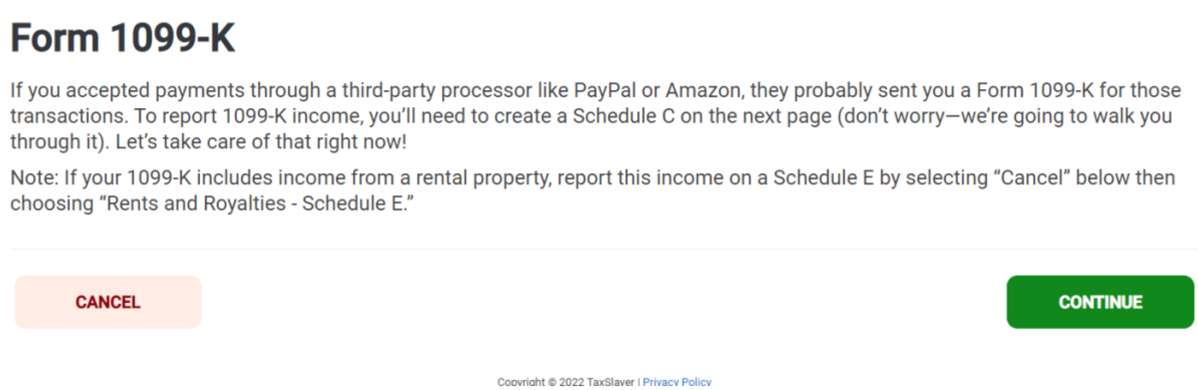
Payer – the company that paid you

Recipient – your business information

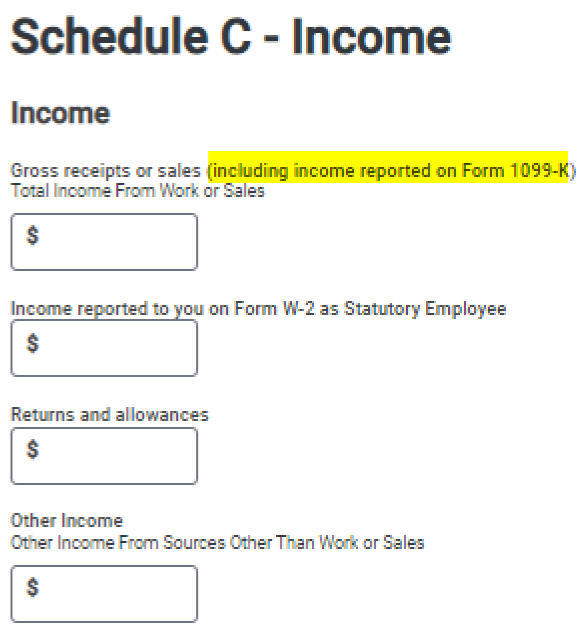
TIN – tax ID number (such as an EIN)



- **1099-K**. If you accepted $600 or more in business payments through a third-party payment processor like Square, Venmo, or Cash App you should receive a 1099-K. You will also receive this form if you received $600 or more in payments from rideshare companies and other online platforms that you work through and that issue payments to you like Etsy and Turo. This form covers any self-employed income you received through this payment processor for the tax year. If you worked for multiple app companies or used multiple apps to process customer payments, you will receive multiple 1099-Ks.



Because 1099-K payments are only issued for business transactions, the system will prompt you to enter your 1099-K income when you are completing your Schedule C. So, keep your 1099-K(s) handy, because you will enter that income as part of your gross receipts on the **Schedule C – Income** page.


Schedule C - Income

Income

Gross receipts or sales (including income reported on Form 1099-K)
Total Income From Work or Sales

$

Income reported to you on Form W-2 as Statutory Employee

$

Returns and allowances

$

Other Income
Other Income From Sources Other Than Work or Sales

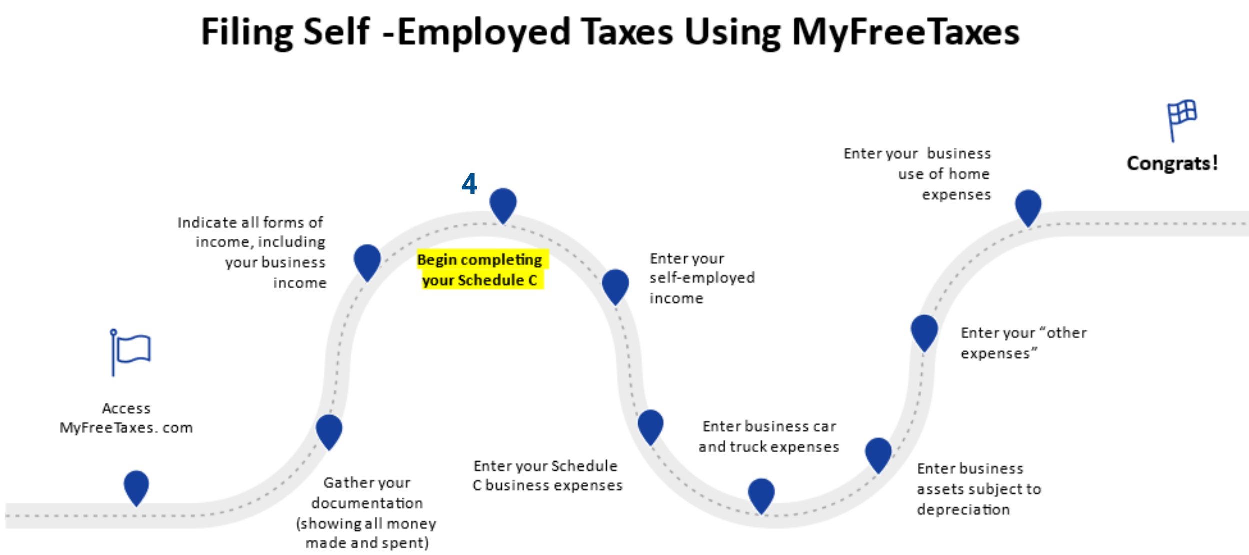
$

PRO TIP See the ***MyFreeTaxes Self-Employment Tax Guide: For Gig Economy Entrepreneurs, Part 1*** for some helpful worksheets that you can use to organize your income so that you can readily enter it into the tax prep system. They can also keep your taxes organized.

The system also lists **Less Common Income** as an option. This usually will not be applicable to your business earnings as it is referring to prizes or awards. Be sure to list any grants that you received as Form 1099-NEC income and not less common income. Doing that will be sure that it is taxed correctly as your self-employed income.

Begin compiling your Schedule C

Now, it's time for you to begin to enter the remainder of your gross income and business expenses for your **Schedule C**.



We recommend that you choose the "**Guide Me**" option so that you can be guided through the completion of your Schedule C.

First, you will be directed to enter basic information on your business such as the name, tax ID (such as your Employer Identification Number – EIN, if you have one), address, and business type.

If you don't have an EIN, consider getting one for privacy reasons. But you can only use a newly issued EIN if it was created within the tax year of your return. So, if you created an EIN on January 15, 2023, you could not use it for your 2022 tax return. Once your EIN is created, you will keep the same one to file annually.

Schedule C

This business belongs to
Sample D

Name and Address

Business Name
Leave blank if no separate business name.

Employer ID
Leave this field blank if you're using an SSN as your EIN.

-

Address (street number & name)

ZIP code - City, town, or post office State

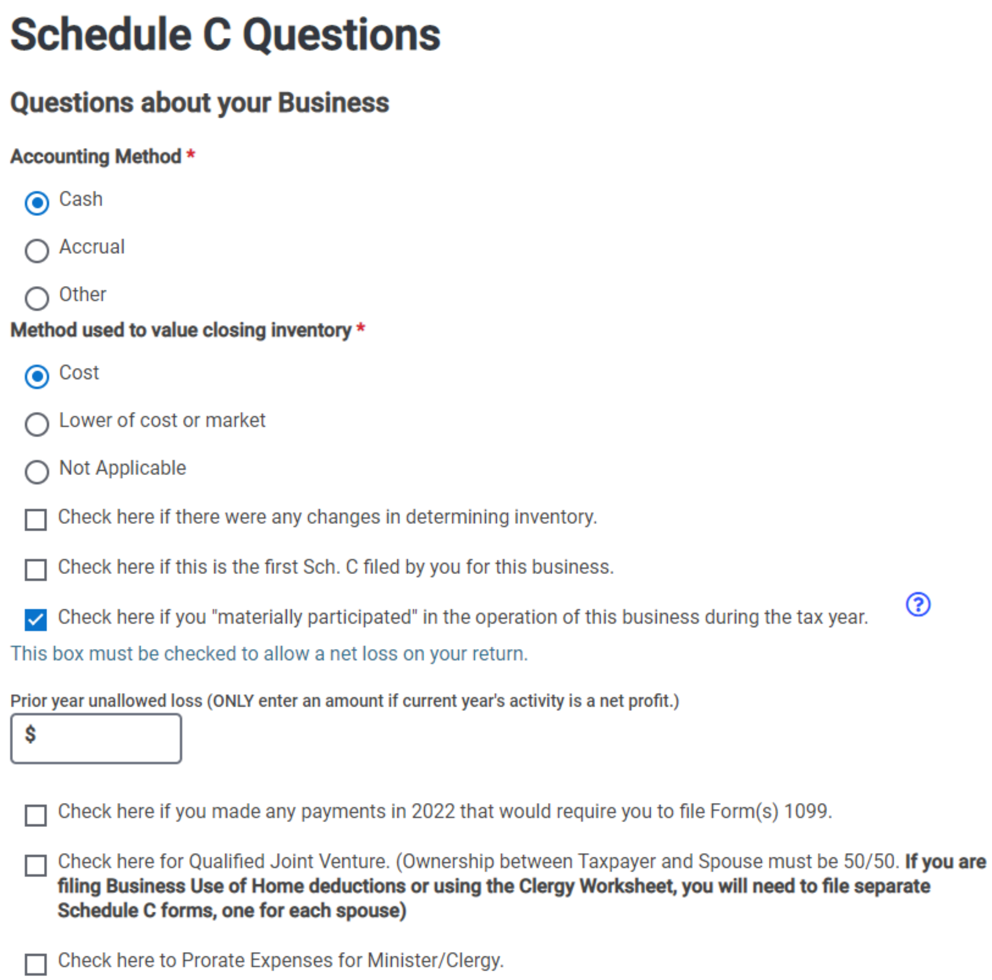
- Please Select

Business Type

Business Code
Click here for a list of Business Codes

If you do not know the code for your business, you can click the "Business Code" link and enter keywords for your business and select the closest match from the list.

Next, you will see questions about your business. The first question is your accounting method. This is a required entry on tax filings, businesses must state if they use the Cash or Accrual accounting method. The Cash Method is the most common accounting method for gig workers. This means that your transactions are accounted for at the time you receive a payment or when you pay an expense. You can opt to select the accrual or another method if it applies but it is uncommon for many sole-proprietors.



Schedule C Questions

Questions about your Business

Accounting Method *

- Cash
- Accrual
- Other

Method used to value closing inventory *

- Cost
- Lower of cost or market
- Not Applicable

- Check here if there were any changes in determining inventory.
- Check here if this is the first Sch. C filed by you for this business.
- Check here if you "materially participated" in the operation of this business during the tax year.

This box must be checked to allow a net loss on your return.

Prior year unallowed loss (ONLY enter an amount if current year's activity is a net profit.)

$

- Check here if you made any payments in 2022 that would require you to file Form(s) 1099.
- Check here for Qualified Joint Venture. (Ownership between Taxpayer and Spouse must be 50/50. **If you are filing Business Use of Home deductions or using the Clergy Worksheet, you will need to file separate Schedule C forms, one for each spouse)**
- Check here to Prorate Expenses for Minister/Clergy.

You'll then need to select a closing inventory method which is how you value sellable inventory remaining at the end of an accounting period. Cost refers to the purchase cost of inventory, and market value refers to the replacement cost of inventory. This only applies to those who hold inventory, if this is not applicable to your business, you will select "Not Applicable".

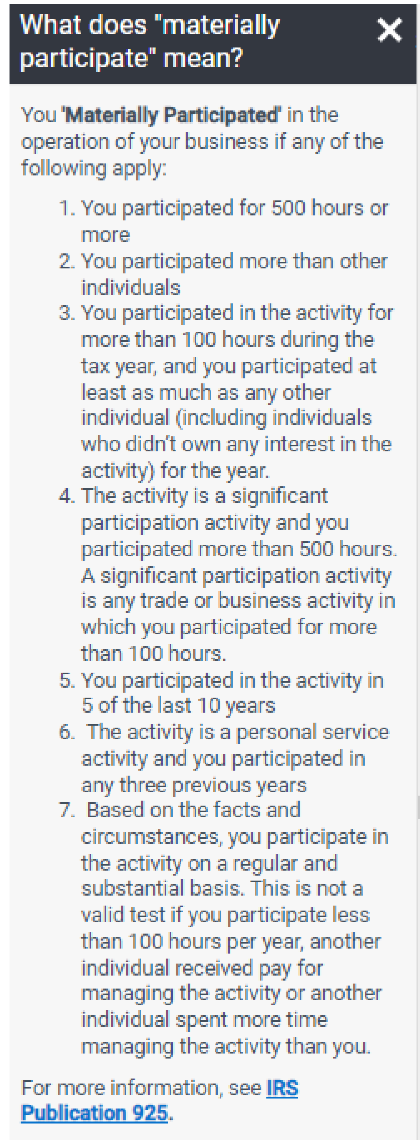
Next, you'll check the box if you "materially participated" in the operation of your business during the tax year. This answer will usually be "yes".

Then, you will check off any remaining boxes that apply to your business.

For instance, if you made any payments in the tax year that would require you to file Form(s) 1099, you would check the box to indicate that. If you issued a form 1099 to someone that you contracted to perform a service, like cleaning, or a consultant, and you paid them more than $600, you will check the box.

Note – In some cases, sole-proprietors issue 1099 to employees or helpers. If you issued any 1099, enter it as contract labor.

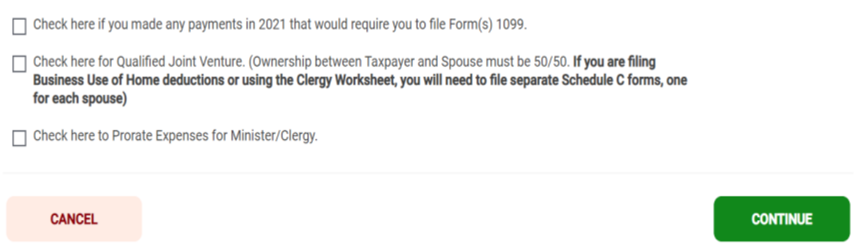
Be mindful that you are classifying your employees properly. Typically, if you direct how someone works, they are an employee. For more information on classifying staff, see [Resource 3: Payroll Taxes (for businesses with employees)] in [Part 1 of this guide].


What does "materially participate" mean?

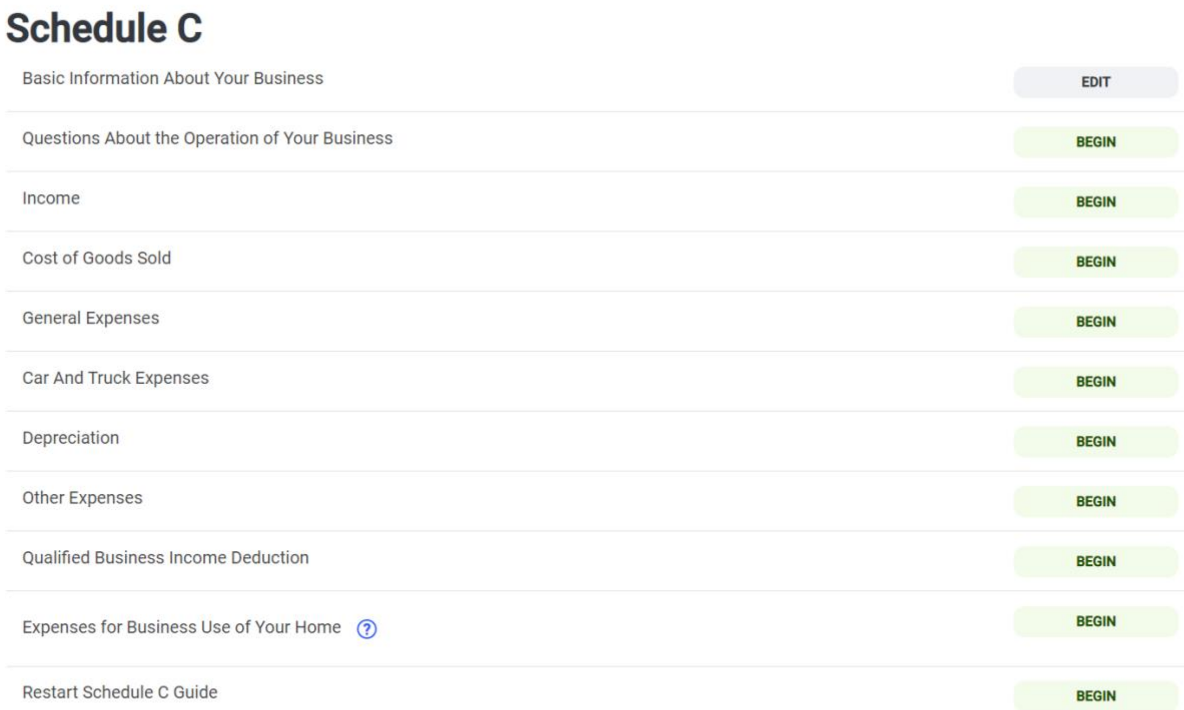
You **'Materially Participated'** in the operation of your business if any of the following apply:

1. You participated for 500 hours or more
2. You participated more than other individuals
3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other individual (including individuals who didn't own any interest in the activity) for the year.
4. The activity is a significant participation activity and you participated more than 500 hours. A significant participation activity is any trade or business activity in which you participated for more than 100 hours.
5. You participated in the activity in 5 of the last 10 years
6. The activity is a personal service activity and you participated in any three previous years
7. Based on the facts and circumstances, you participate in the activity on a regular and substantial basis. This is not a valid test if you participate less than 100 hours per year, another individual received pay for managing the activity or another individual spent more time managing the activity than you.

For more information, see **IRS Publication 925**.



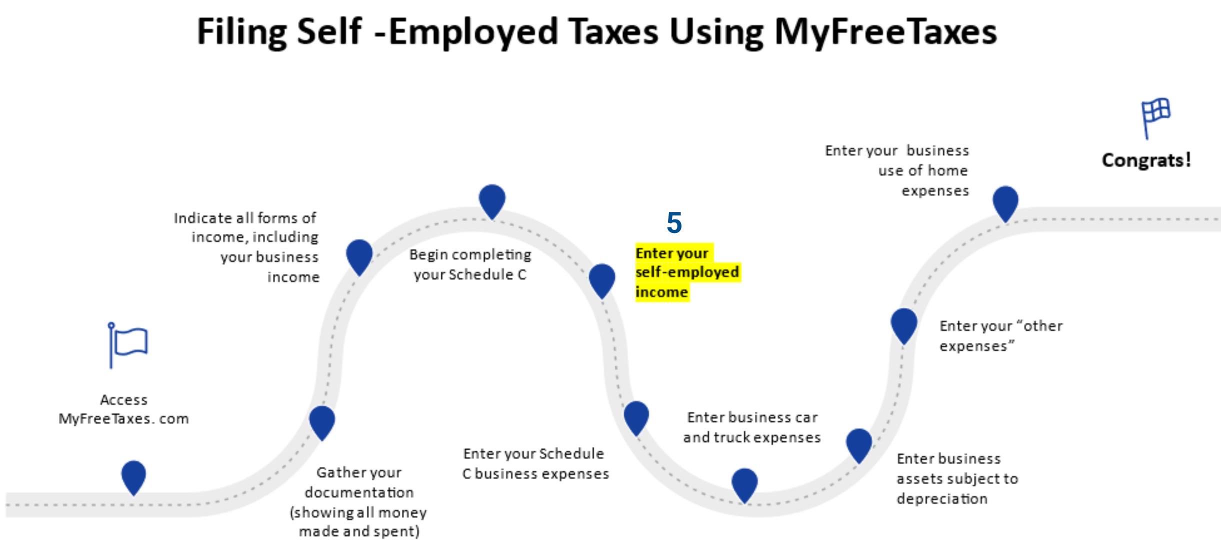
Note that if you log out and later log back in, you will see the Schedule C menu options. There, you can move through the menu on your own, or you can **Restart Schedule C Guide** and you will be guided through the completion of your Schedule C.

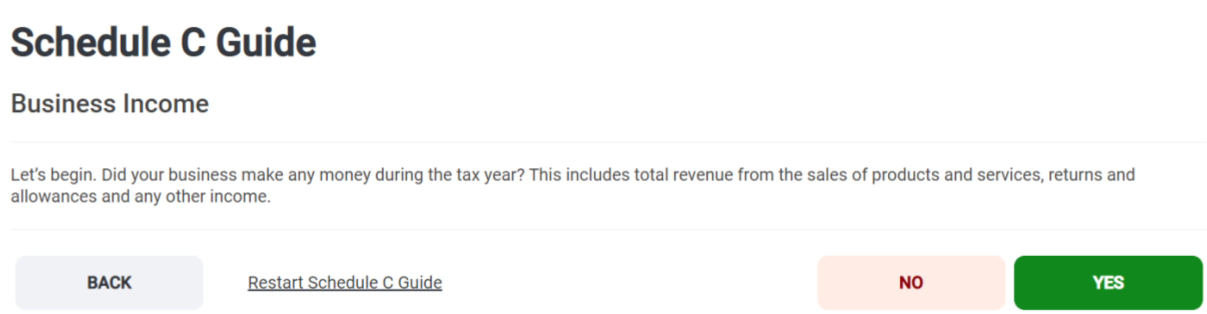

Schedule C
Basic Information About Your Business
EDIT
Questions About the Operation of Your Business
BEGIN
Income
BEGIN
Cost of Goods Sold
BEGIN
General Expenses
BEGIN
Car And Truck Expenses
BEGIN
Depreciation
BEGIN
Other Expenses
BEGIN
Qualified Business Income Deduction
BEGIN
Expenses for Business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

Enter your self-employed income

Now, back to preparing your filing using the MyFreeTaxes Schedule C guide!

You will be directed to enter your business's income. This will be your gross income, so you will need to add up all your cask receipts, 1099 forms, and any other payments that you received. If you entered your information on the worksheet provided, you can just enter that total or if you have an accounting system, you can get that total from there.





Schedule C - Income

Income

Gross receipts or sales (including income reported on Form 1099-K)
Total Income From Work or Sales

$

Income reported to you on Form W-2 as Statutory Employee

$

Returns and allowances

$

Other Income
Other Income From Sources Other Than Work or Sales

$

CANCEL CONTINUE

Remember – if you work multiple unrelated gig types, you will need to complete a Schedule C for each gig type (for example, rideshare and freelance writing). However, if the gigs are related services but through different platforms, they can be combined (for example driving for both Uber and Lyft).

After entering your business income, you will move on to the Cost of Goods Sold (COGS) guide. Costs of goods sold are ones that are used in the creation of something you sell, which is why this is also known as the “cost of sales”. For example, if you had an Etsy crafts business, this could include fabric, thread, and similar items. COGS is considered a business expense and it does not count toward your gross revenue. This can be a common entry for some businesses but for others it can be a red flag, so be sure to only use it if your work involves manufacturing, reselling, or repackaging products for sale.

Schedule C Guide

Business Cost of Goods Sold

Do you need to determine how much it cost to buy or make the product you sold? This is calculated using inventory, labor costs, supplies and other costs.

BACK Restart Schedule C Guide NO YES

If you do create a product by combining materials, you will want to include costs of goods sold. Some common COGS are:

1. The cost of materials including the shipping to your business (but not to customers)
2. Inventory for re-sale
3. Packaging and re-packaging
4. Labor in producing goods

5. Utilities and rent associated with a manufacturing location

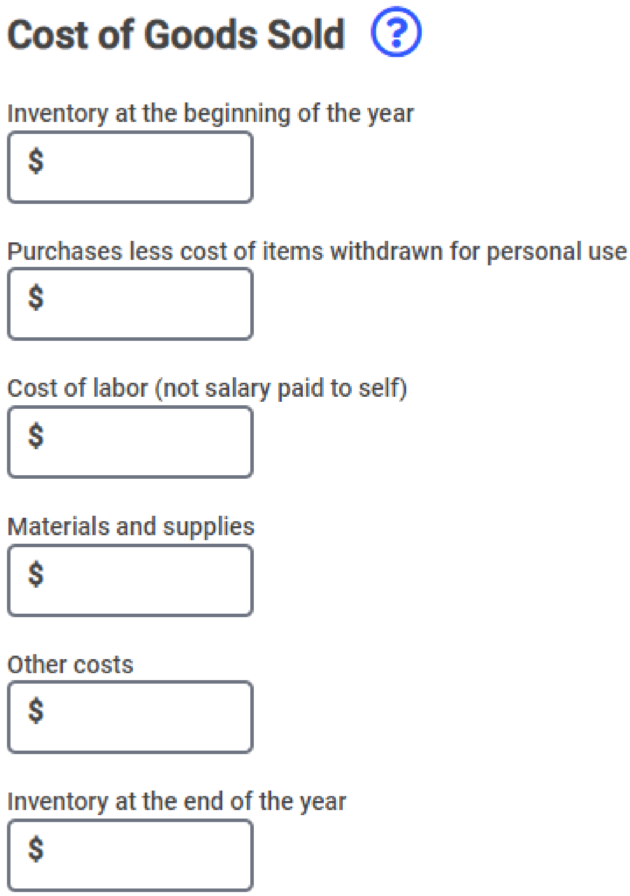
There are many businesses that use COGS. Some examples of businesses who should use COGS include:

- A business owner preparing artisanal foods for a local grocery store
- A crafter selling products on Etsy
- A business owner buying products on Ali Baba and reselling them on eBay
- A CBD store owner re-packaging products for sale in their store
- An entrepreneur scoring deals at a local thrift store to sell online
- A mechanic keeping parts for repairs
- A construction business owner with nails, wood, and flooring in storage
- A pizza shop owner purchasing ingredients to make and package food

If any of these scenarios are like yours, you will likely use COGS.

If you do report COGS, you need to fill out all the lines seen on the following screenshot. A common mistake that Schedule C filers make is only filling out part of this screen which can be a red flag.

Schedule C Cost of Goods Sold



Cost of Goods Sold

Inventory at the beginning of the year

$

Purchases less cost of items withdrawn for personal use

$

Cost of labor (not salary paid to self)

$

Materials and supplies

$

Other costs

$

Inventory at the end of the year

$

So how do you do it?

Inventory is the inventory which is the cash value of products you had on hand at the start of the year.

Purchases are the amount of all purchases for raw materials and merchandise for re-sale that were made by the business during the tax year. This generally refers to pre-made items that you do not have to do much to, to get to the final product to be sold. This amount should not include any amount for purchases or products that were consumed by any owner of the business for personal consumption.

Labor is the wages that are paid to employees who spend their time working directly on the product being manufactured (or mined) for sale. So, these labor costs must be directly tied to production.

Materials and supplies are the costs of all parts, raw materials, and items used to build, create or resell a product.

Other costs are items such as shipping from a producer to you or the costs of a manufacturing location.

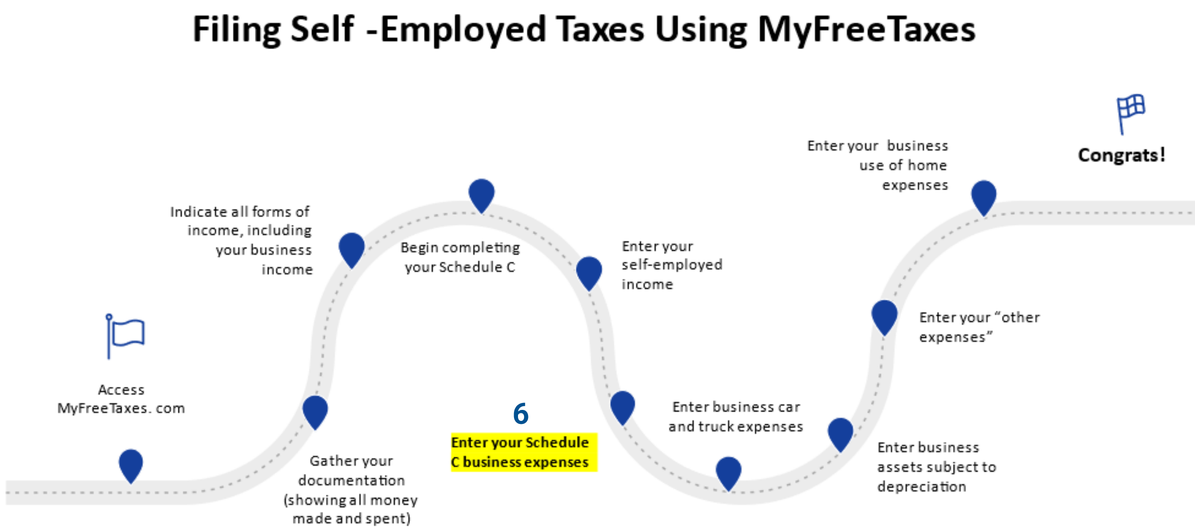
And finally, the **inventory you had at the end of the year** is the amount of all finished or partly finished goods, raw materials and/or supplies acquired for sale or physically part of the merchandise intended for sale at the end of the tax year.[1]

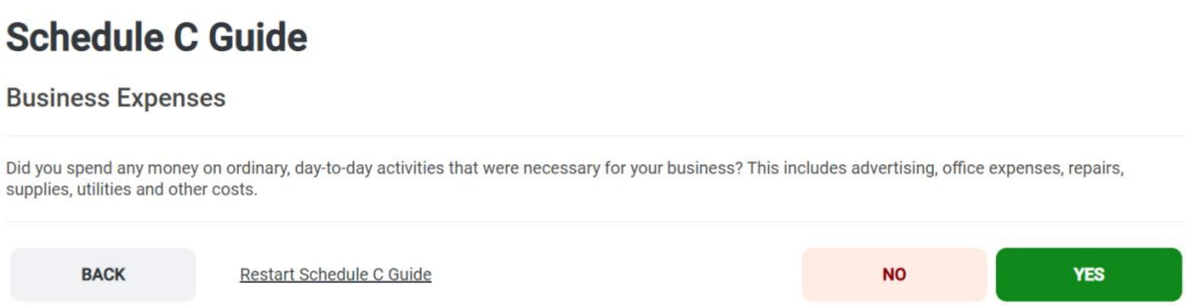
For example, Jessica has a crafting business. She started the year with $500 in materials, so she puts this under inventory at the beginning of the year. She gave a friend $350 to help her process a surge in orders during the holidays so that goes under labor. Throughout the year she purchased $800 in new materials and enters that in materials. She also had to pay $275 for packaging so she puts that under “other”. Finally, after all her sales she only had $130 in materials left so she enters that as her ending inventory.

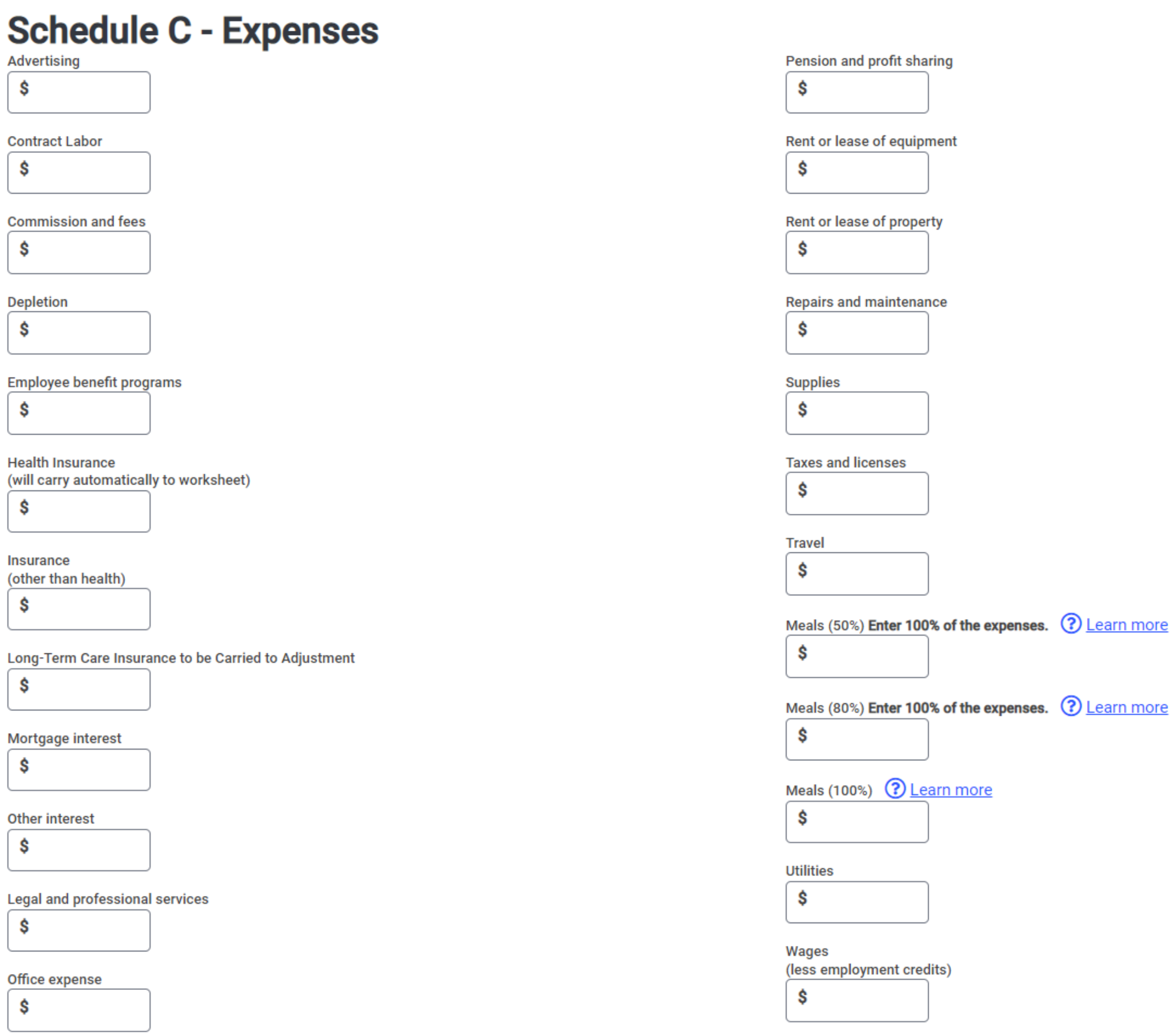
[1] https://support.taxslayerpro.com/hc/en-us/articles/360009292833-Form-1125-A-Cost-of-Goods-Sold#:~:text=Cost%20of%20Goods%20Sold%20%2D%20This,1125%2DA%2C%20Line%208.

Enter your Schedule C business expenses

Next, you will be prompted to enter your business expenses, based on specific categories. These categories align with allowable business deductions that will be entered on your Schedule C.







As you see, the categories are displayed and very few have explanations of what expenses would count within each category. We will use the worksheet below to review these expense categories in the order they are displayed. You can use this worksheet to practice entering your expenses before inputting them into the software.

A Note for those with Home Office Deductions

While it is uncommon for gig economy entrepreneurs, depending on the gig, you may have a home office. Business Use of Home is one of the last expense entries as you are guided through the expense questionnaire. *PLEASE NOTE: Some of the expenses that you are first prompted to enter will need to be entered as Business Use of Home Expense, subject to your Business Use of Home Percentage, and not put in an expense category unless it is a 100% business expense, and not shared with personal use.*

Category	**Description**	**Total Expenses ($)**
Advertising	Here you'll enter costs to promote your business including online and print ad, brochures, mailers, flyers, business cards, and website costs.	
Contract labor	The system asks if you made any payments that required you to issue a Form 1099. If you issued a form 1099 to someone that you contracted to perform a service, like cleaning, or a renovation, and you paid them more than $600, you will enter the amount paid. This is an uncommon expense for the gig economy.	
Commission and Fees	This line is intended for payments made for referrals or sales commissions that are occasional or limited. It is very common for entrepreneurs that get paid through an app or larger business that takes a commission, such as Etsy or Uber, to have commission fees to deduct.	
Depletion	Typically, depletion is the use of a natural resource in the course of your business such as mining or drilling and so is not typically applicable to the gig economy.	
Employee Benefit Programs	This is for businesses with employees that offer benefits. This is uncommon for gig economy entrepreneurs.	
Health Insurance	Here you will enter the total amount of health insurance premiums you paid for yourself, your spouse, and your dependents (under age 27) in 2022. This includes Medicare premiums that you voluntarily pay. You can deduct up to 100% of health insurance premiums for you, your spouse, and your dependents if you're self-employed and have a net profit from your self-employment. This is only for qualifying private health insurance plans, not those sponsored by an employer. For example, you cannot include any premiums that are	

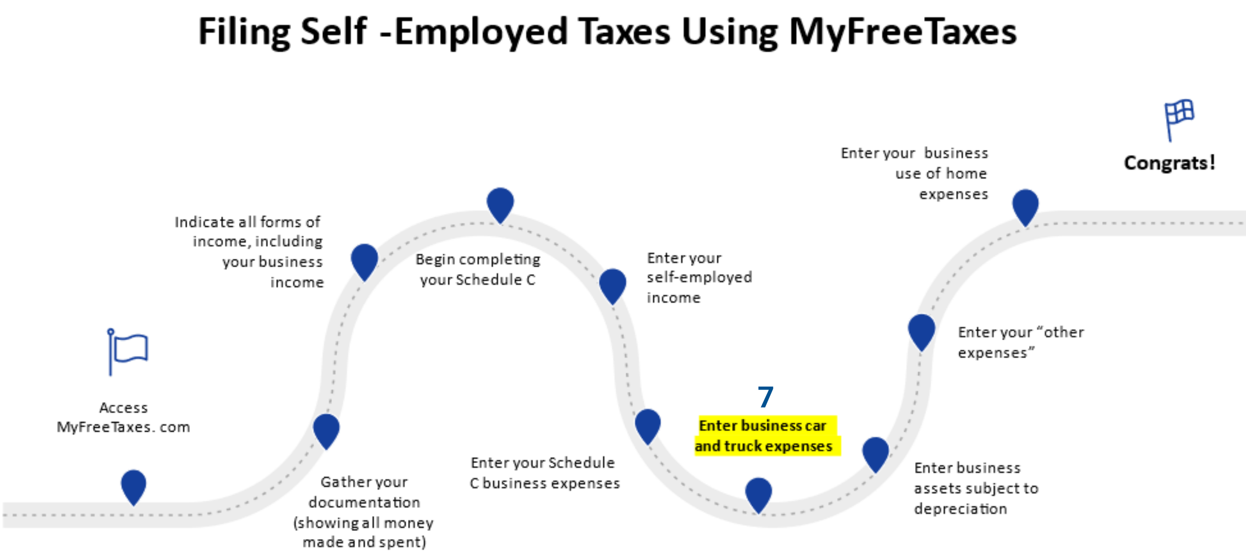
	paid through a spouse's health insurance benefits through their employer. Further, if you or your spouse were eligible to participate (even if you declined coverage) in an employer's health plan at any time during a given month, you cannot take the deduction for that month. For example, if your spouse's job offers health insurance and you decline it, but paid into your own plan, you cannot take this deduction. The deduction may be limited if the business has low net earnings. You cannot deduct more in premium payments than your net profit made from self-employment. This means that you may not be able to deduct 100% of your premiums. This entry should be reduced by any reimbursements received. For example, if you have a monthly insurance premium cost of $1,500 and $500 is paid through a company health reimbursement arrangement, you can only deduct $1,000. These deductions are figured as part of your Form 1040 as an adjustment to your income, not as part of Schedule C. However, because this deduction is for the self-employed, you are prompted to enter it as part of the Schedule C questions in the software.	
Insurance	This is for insurance other than health. Include your relevant general liability insurance, renter's, fire/theft/flood (if any), and worker's compensation insurance if you have employees.	
Long-term Care Insurance	Long-term care benefits includes both payments made under a long-term care insurance contract as well as accelerated death benefits. If you paid into a plan, for yourself, spouse or dependents the premium may be tax deductible.	
Mortgage Interest	This line is for interest related to a mortgage loan that is exclusively for your business (and not one shared with your personal finances, such as a home mortgage). This is uncommon for the gig economy.	
Other interest	This includes interest you paid directly related to your business for credit cards and loans. Deductible interest can include interest on business credit cards (not personal ones) and business loans such as the Economic Injury Disaster Loan or an SBA 7a loan.	
Legal and Professional	Include any fees you paid to a lawyer, accountant, or tax preparer, for business use only, as well as	

Services	membership fees for professional memberships like the Chamber of Commerce or other associations.	
Office Expense	Here's where you want to include amounts paid for office supplies (such as ink, toner, paper, staples, writing utensils, office furnishings, etc.) and postage, as well as your business communication service costs (such as cell phone service, internet service, second phone line, fax, and video conferencing services).	
Pension and Profit Sharing	These are contributions to your employees' retirement accounts, not your own. Costs include SEP IRAs and SIMPLE IRAs. This is rare for the gig economy.	
Rent or Lease of Equipment	This only applies to the rental of business equipment such as copiers, office furniture, computers, printers, etc. This does not apply to rental cars.	
Rent or Lease of Property	This is rent paid for property used for work only, not for an office in your home. For example, renting a storefront.	
Repairs and maintenance	This includes any repairs and maintenance of the space your use for business or your equipment. Repairs and maintenance are required for you to conserve or maintain your property – these are repairs that do not add value to the property. This is an uncommon expense for the gig economy.	
Supplies	Supplies include both every day and one-off items you use in the operation of your business. This can include waters for your customers, courier bags, etc.	
Taxes and Licenses	You can enter taxes (and local taxes, excluding federal taxes) and business license fees here. These should only be taxes and fees that are 100% related to your business.	
Travel	If you traveled for work, you will include those costs here. This does not include expenses for commuting mileage or local meals but rather if you had to travel for a conference, training, or business meeting. Include your business travel costs like airfare, hotels, rental cars, taxis, ride-share services, and baggage fees.	
Meals (50%)	This is for business meals that were not purchased at a restaurant (e.g. – grocery store or convenience store). For example, if you were having a business meeting or away on business travel and purchased a sandwich from 7-11.	
Meals (80%)	This is only applicable to certain transportation workers. If you are subject to the Department of	

	Transportation (DOT) hours of service limits, the allowable deductible percentage is 80% for business meals while away from home. Those who this applies to would be property or passenger-carrying drivers such as a tractor trailer or Greyhound bus driver that require you to be away from home overnight.	
Meals (100%)	This for business meals purchased at a restaurant for immediate consumption. For example, if you were having a business meeting or away on business travel and purchased lunch from a restaurant. For tax years 2021 and 2022, your business meals are 100% deductible if food and beverages were purchased from a restaurant.	
Utilities	This applies to you if you have a separate office or other business property that's not part of your home. This includes utilities such as gas, electricity, internet, or water. This also includes trash collection, pest control service, and security alarm monitoring service. This is uncommon for the gig economy.	
Wages (less employment credits)	This is only for those with employees. Make sure that the wages you enter are only for W-2 employees reported to the government. As a sole proprietor, you cannot pay yourself as an employee. You can take money out of the business, but your “pay” is considered the amount on Line 31 (your net profit or loss) so there’s no need to enter money you took out for yourself throughout the year here.	

Enter business car and truck expenses

The next step will be entering your **Business Car and Truck expenses**.



When tracking your mileage, make sure you keep track of the day, purpose, and total miles because you will need to enter that information for this deduction. If you use a driving app for work, you can likely pull a report of your trips with mileage. However, your log can be something as simple as:

June 9 – 3.25 miles going to Walmart for supplies

Next, you will need to determine if you are using the **standard mileage** deduction or **actual expenses** to claim your business vehicle expenses. The system will guide you to the appropriate method based on whether you own or lease the vehicle and the methods that you previously used in past tax years.

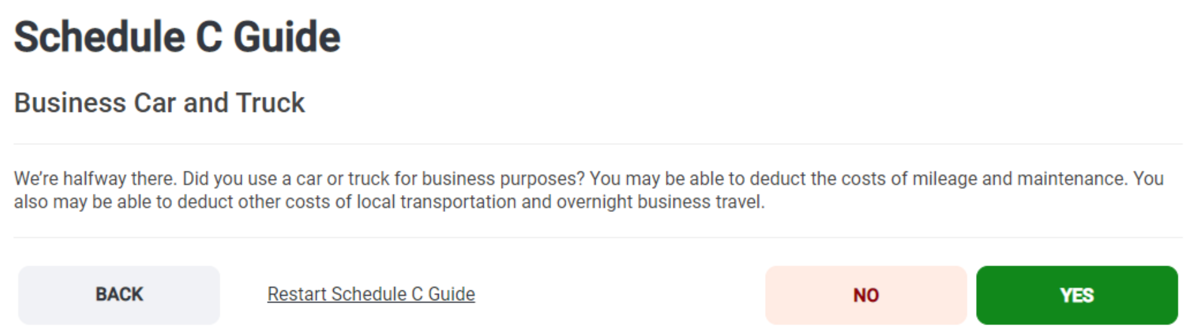
PRO TIP The IRS standard mileage rate was $0.56 per mile from January 1, 2022, to June 30, 2022, and then increased to $0.585 (that is 58.5 cents) per mile through December 31, 2022, due to increased fuel prices. In addition to those standard miles, you can claim the business portion of car loan interest, parking fees, and tolls paid. However, if you use standard mileage, you cannot deduct other costs associated with your car, including gas, repairs/maintenance, insurance, depreciation, license fees, tires, car washes, lease payments, towing charges, auto club dues, etc.

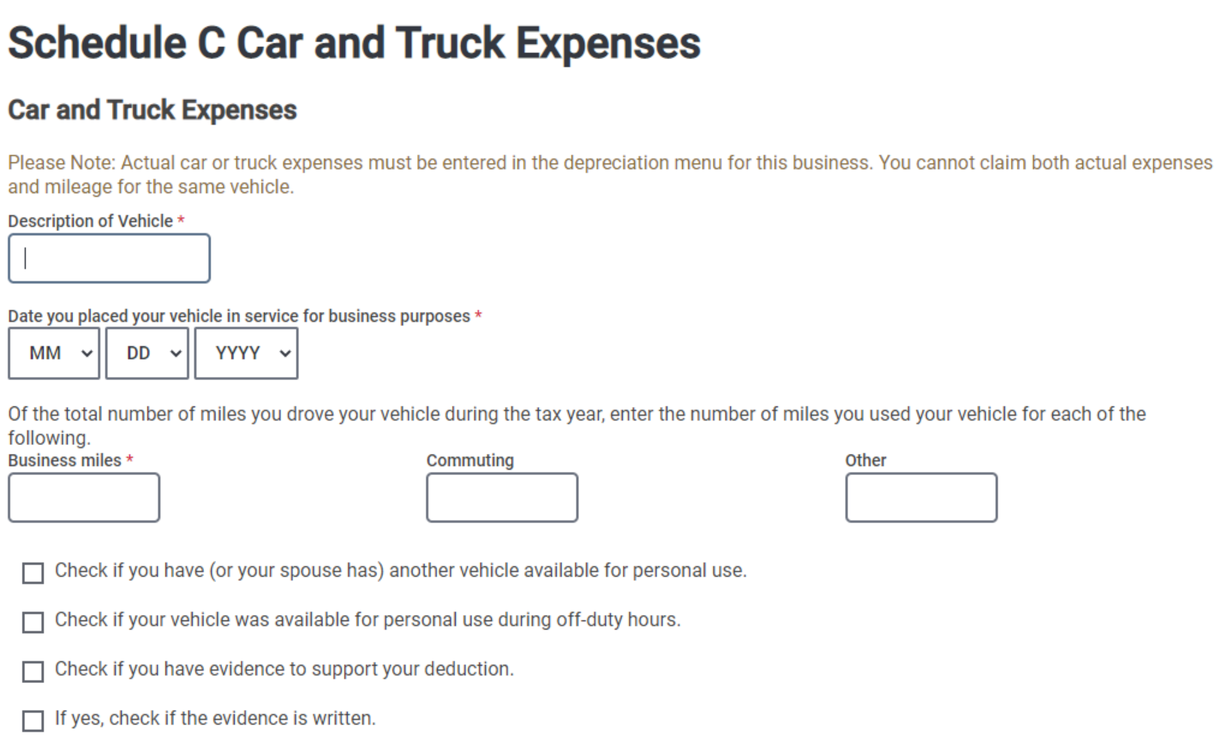
In general, standard mileage is better if you drove a lot of miles. This will get you the miles driven multiplied by the IRS mileage reimbursement rate.

Actual expenses might get you a bigger tax break if you rented a car for your business, had higher repair, gas, and insurance expenses for the year. With actual expenses, you need to keep track of all payments associated with the business use of the vehicle, including car loan payments.

Standard Mileage

If you are using standard mileage to determine your vehicle deduction, you will enter it under **Car and Truck Expenses**.





In order to calculate standard mileage, you must enter the business miles that were driven during the tax year. Be sure to have documentation of the business miles driven for your records and in the event you are audited. The system will apply the standard mileage rate to your business miles driven to calculate your deduction.

While it may be convenient for you to pull ride reports from apps your drove for, it's important for you to keep track of your miles driven for your own records because you can deduct all business miles driven, not just those miles counted for active miles. For instance, if you needed to travel 5 miles to get to your first passenger, those 5 miles are deductible however they may not be factored into the ride report in the app.

Remember, you can also claim the business portion of car loan interest, parking fees, and tolls. To claim those expenses, you will enter them as **Other Expenses** once you get to that screen.

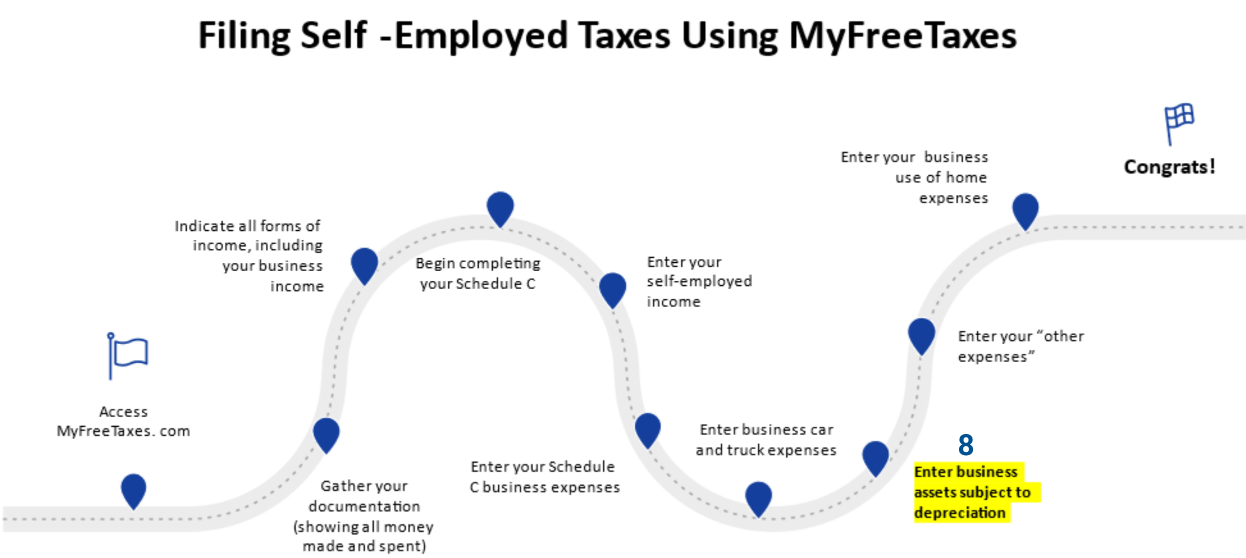
As noted on the screen shot above, if you are using **Actual Car or Truck Expenses**, you will enter those expenses under **Depreciation** which follows this section**.**

Next, you will be guided through depreciation of your business assets.

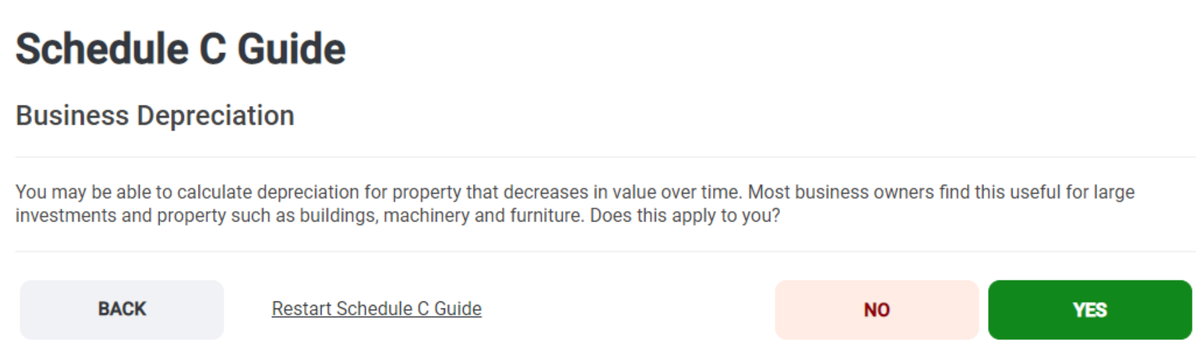
Enter business assets subject to depreciation

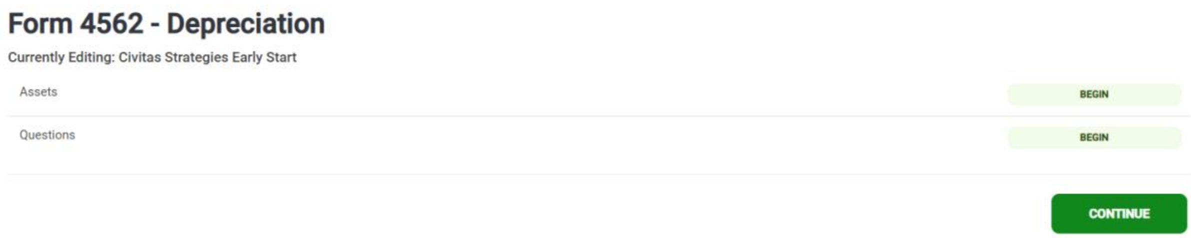
Depreciation can be an intimidating subject but is a critical part of your business tax planning. Depreciation is the practice of deducting a large business cost over time rather than in just one year. This is usually a requirement when you want to deduct certain large purchases (over $2,500) or an improvement. You can also depreciate your home if you use a portion of your home for business.

You may be curious about what is classified as an improvement. An improvement differs from a repair because it is not meant to get something back into working condition, instead, it improves or adds value. An example of an improvement would be the installation of a fence or adding a new roof. Another example might be improvements to a vehicle used for business purposes, such as a new paint job on a car that you use for a ride share service.

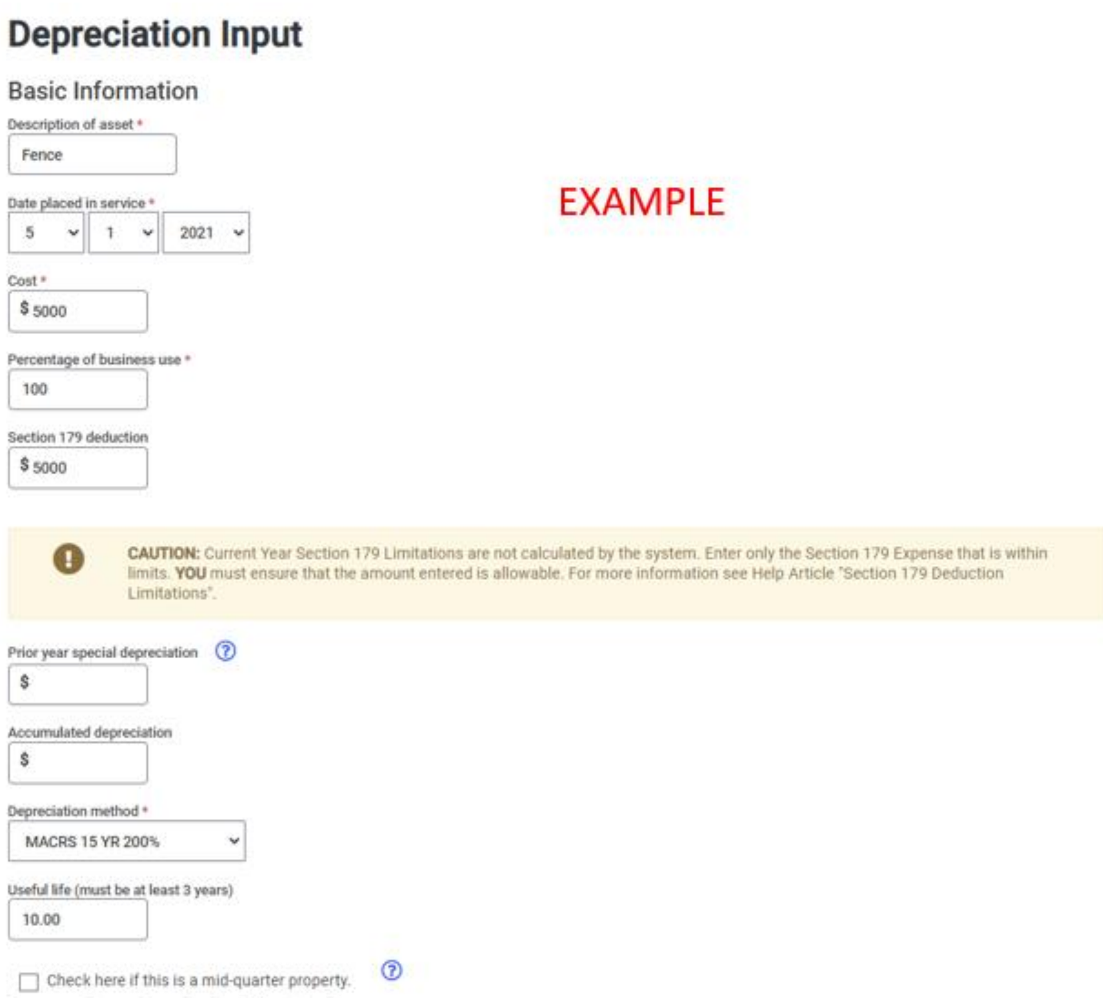


We will guide you through the rest of the Business Depreciation screens however for a better understanding of depreciation, view [What is depreciation?](#)



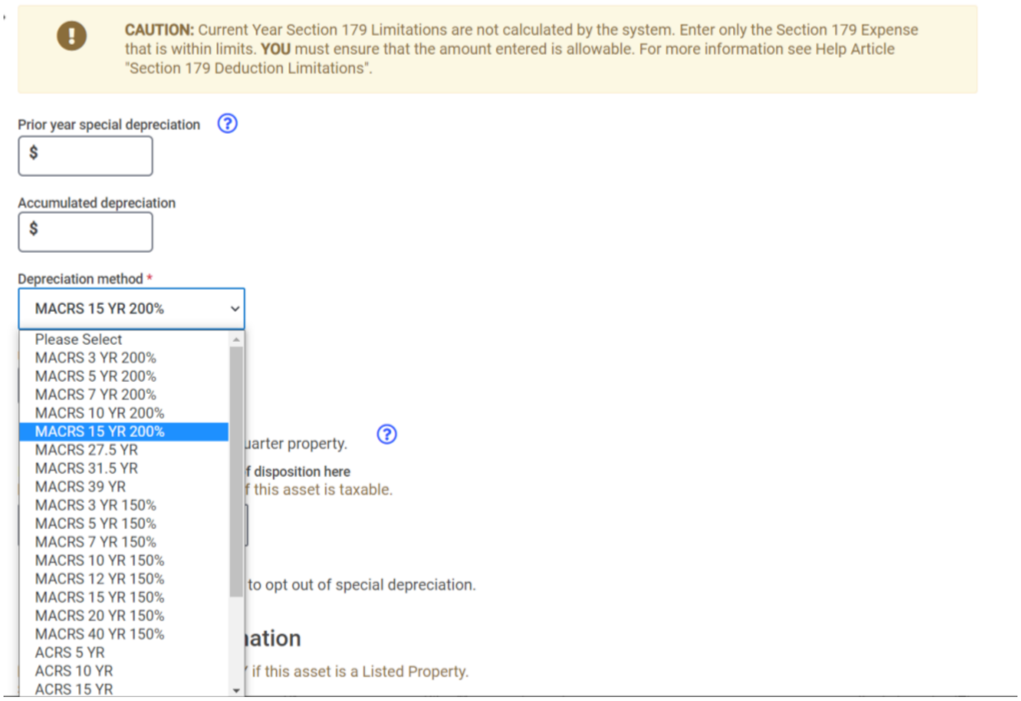

Form 4562 - Depreciation
Currently Editing: Civitas Strategies Early Start
Assets
BEGIN
Questions
BEGIN
CONTINUE

When you select “Assets”, you will enter the following information on each of your business assets individually:

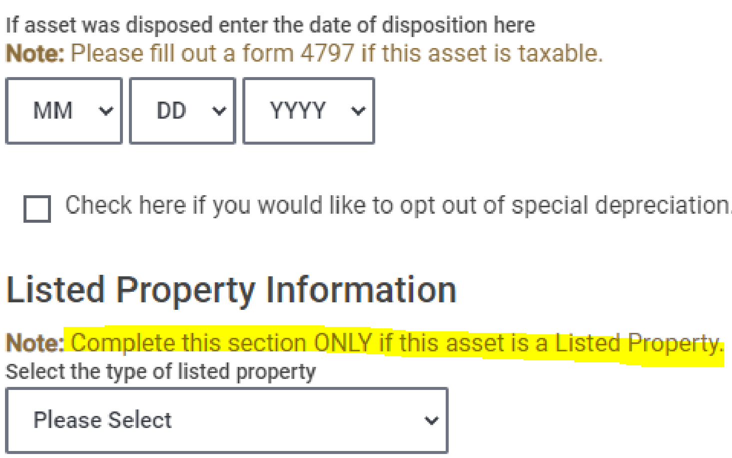


Note that if you’re depreciating an asset associated with your home, you must also use the percentage of business use according to your Business Use of Home calculation (this is the percentage of square feet used for your business divided by the total square footage of your home). If the asset is used exclusively for business, and has no personal use associated with it, you can enter your percentage of business use as 100%.

Even though you may opt to depreciate an item using Section 179, you're still required to choose a depreciation method from the drop down list shown here.



You will then indicate if the property is a listed property. A listed property is one that is allowable to use for both business and personal purposes.



What is Listed Property?

Listed property is any of the following:

- Passenger automobiles[1]
- Any other property used for transportation, unless it is an excepted vehicle[2]
- Property generally used for entertainment, recreation, or amusement (including photographic, phonographic, communication, and video-recording equipment)

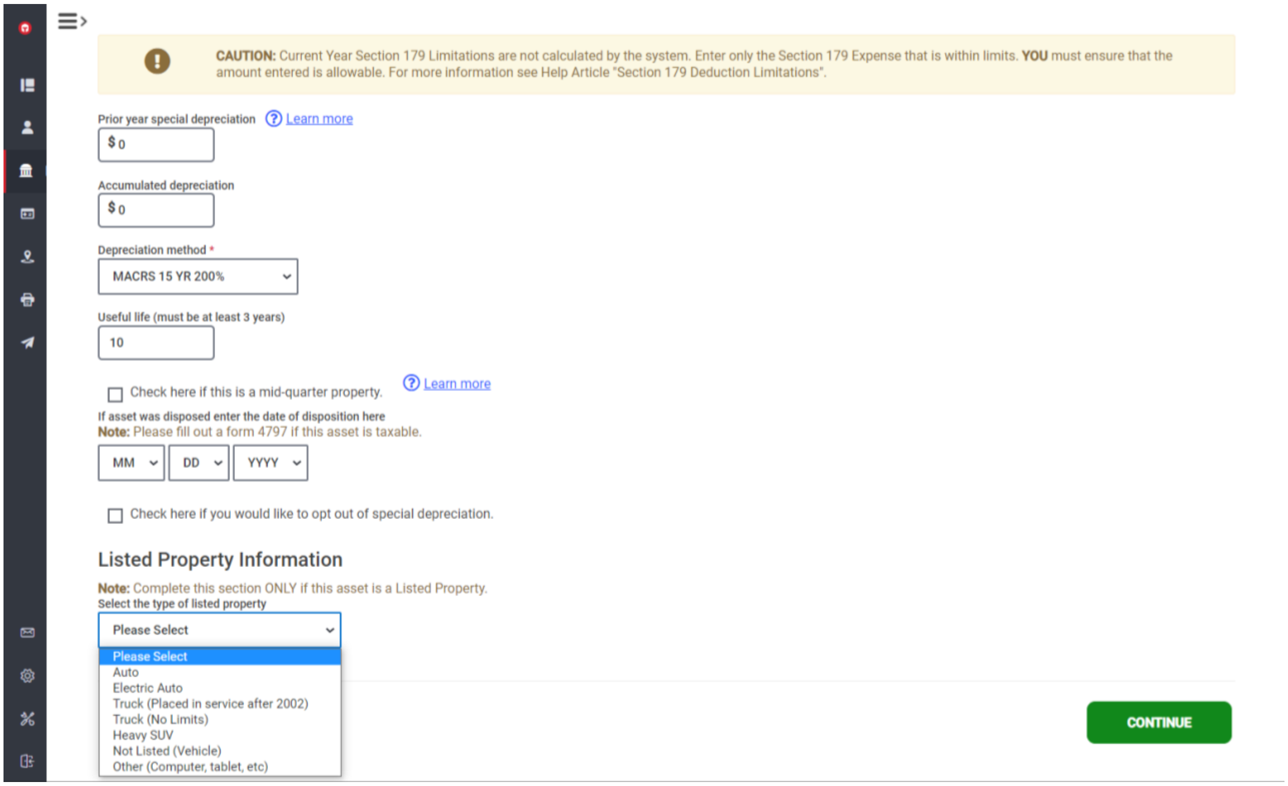
[1] Passenger Automobiles are any four-wheeled vehicle made primarily for use on public streets, roads, and highways and rated at 6,000 pounds or less of unloaded gross vehicle weight. It includes any part, component or other item physically attached to the automobile at the time of purchase or usually included in the purchase price of an automobile. The following vehicles are NOT considered passenger automobiles for these purposes:

- An ambulance, hearse, or combination of ambulance-hearse used directly in a trade or business
- A vehicle used directly in the trade or business or transporting persons or property for pay or hire
- A truck or van that is a qualified non-personal use vehicle

[2] Excepted vehicles includes the following qualified nonpersonal vehicles:

- Clearly marked police and fire vehicles
- Unmarked vehicles used by law enforcement officers if the use is officially authorized
- Ambulances used as such and hearses used as such
- Any vehicle with a loaded gross vehicle weight of over 14000 pounds that is designed to carry cargo
- Bucket trucks (cherry pickers), cement mixers, dump trucks (including garbage trucks) flatbed trucks, and refrigerated trucks
- Combines, cranes and derricks, and forklifts
- Delivery trucks with seating only for the driver, or only for the driver plus a folding jump seat
- Qualified moving vans
- Qualified specialized utility repair trucks
- School buses used in transporting students and employees of schools
- Other buses with a capacity of at least 20 passenger that are used as passenger buses
- Tractors and other special purpose farm vehicles

Typically, you will only select the listed property option if it is a vehicle that you are depreciating.



Entering Actual Car or Truck Expenses

If you are claiming actual business car or truck expenses (not using standard mileage) you will be able to depreciate your vehicle and claim your actual expenses under the Depreciation screen.

You will need to enter some information about the vehicle, such as the date it was placed in service (the first time you used it for business purposes), the original cost and the percentage of business use. Unless you have a dedicated vehicle used only for business and not at all for personal use, this figure will not be 100%. A simple way to calculate your percentage of business use is to track your total miles driven and the total business miles. You will divide your business miles driven by your total miles to get the percentage of business use.

For example, if you drove your vehicle a total of 12,000 miles during the year and 4,800 miles were for business use, your business use percentage would be 4800/12000 = 0.4. You will multiply 0.4 x 100 to get **40%.**

You will then input the amount, if any, of Section 179 deduction that you will take on the vehicle and then indicate if you claimed any special depreciation on your vehicle in a prior year. These are both faster ways to depreciate eligible expenses. For a better understanding of these depreciation topics, view [What is depreciation?]

Depreciation Input

Basic Information

Description of asset *

Rav4

Date placed in service *

3 | 6 | 2021

Cost *

$ 25000

Percentage of business use *

40

Section 179 deduction

$

Note – for business car rentals, you will enter $0 as the cost on the depreciation screen. That is because you do not own the car and cannot claim depreciation on it.

CAUTION: Current Year Section 179 Limitations are not calculated by the system. Enter only the Section 179 Expense that is within limits. **YOU** must ensure that the amount entered is allowable. For more information see Help Article "Section 179 Deduction Limitations".

Prior year special depreciation

$

Accumulated depreciation

$

Depreciation method *

MACRS 15 YR 200%

Useful life (must be at least 3 years)

10.00

☐ Check here if this is a mid-quarter property.

If asset was disposed enter the date of disposition here

Note: Please fill out a form 4797 if this asset is taxable.

MM | DD | YYYY

☐ Check here if you would like to opt out of special depreciation.

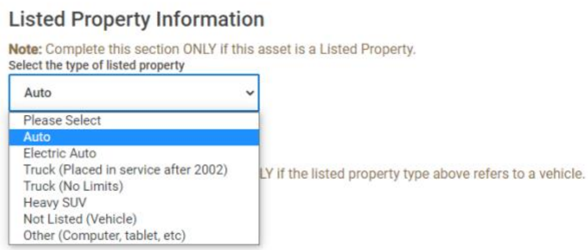
Listed Property Information

Note: Complete this section ONLY if this asset is a Listed Property.

Select the type of listed property

Auto

Under Listed Property Information, you will select the type of vehicle that you are depreciating:



Listed Property Definitions

Auto – small vehicle weighing 6,000 pounds or less

Electric Auto – electric vehicle weighing 6,000 pounds or less

Truck (placed in service after 2002) - a vehicle such as a pickup truck

Truck (No Limits) – a vehicle such as a pickup truck

Heavy SUV – larger vehicle exceeding 6,000 pounds, such as a van

Not Listed (Vehicle) – an eligible vehicle that does not fit the other descriptions

After you select the vehicle type, you will be prompted to enter your actual expenses. Actual car expenses include the following:

- Licenses
- Lease payments
- Registration Fees (not plates)
- Gas
- Insurance
- Repairs
- Oil
- Garage Rent
- Tires
- Tolls
- Parking Fees
- Car rental payments based on percentage of business use

You will total up all of your relevant receipts and enter your total car expenses in the "Actual Expenses" box.

Listed Auto Information

Note: Complete the following section ONLY if the listed property type above refers to a vehicle.

Total business/investment miles

4800

Total commuting miles driven

0

Total other personal miles driven

7200

Actual Expenses

$ 5000

Acquired before 09/28/2017?

- ○ Yes
- ● No

Check any of these that apply to you:

- [ ] This vehicle was used by a rural mail carrier.
- [x] The vehicle was available for personal use during off-duty hours.
- [ ] The vehicle was used by more than 5% owner or related person.
- [ ] Another vehicle was available for personal use.

Once you've entered all your business assets, you will move to the Depreciation Questions. Answer each question that applies by checking the corresponding box.

Form 4562 - Depreciation

Currently Editing: Civitas Strategies Early Start

Assets	EDIT
Questions	EDIT

Form 4562 Questions

- ☐ Check here if you have evidence to support your deduction.
- ☐ Check here if this evidence is written.
- ☐ Check here if you have a written policy prohibiting personal use including commute.
- ☐ Check here if you have a written policy prohibiting personal use except commute.
- ☐ Check here if you treat all use of vehicles by employees as personal use.
- ☐ Check here if you provide more than 5 vehicles to your employees.
- ☐ Check here if you meet requirements concerning qualified auto demonstration use.

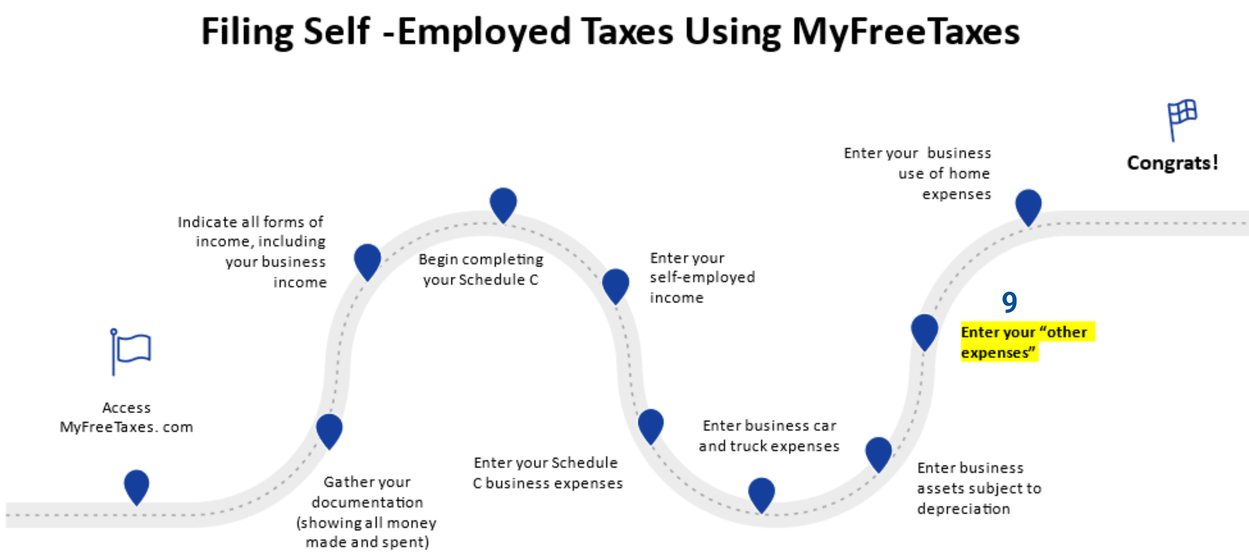
Business Income Limitation

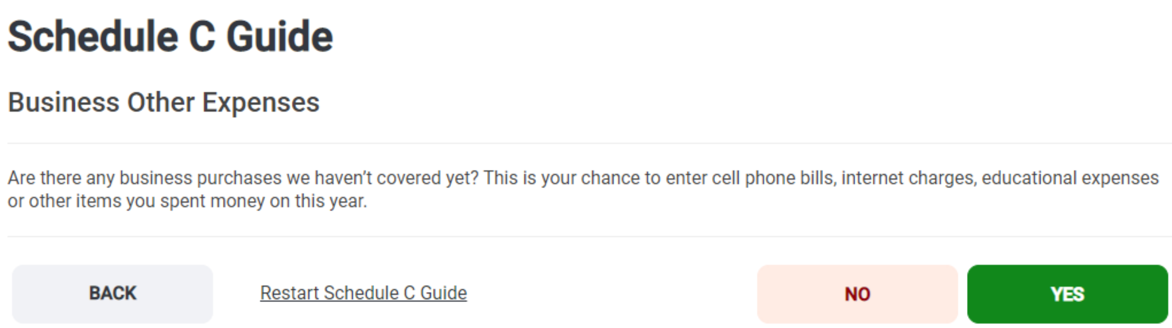
$ 1050000

Check the boxes if they apply to your situation. Note that the Business Income Limitation will be pre-populated with $1,050,000 which is the maximum Section 179 expense deduction allowed. Most self-employed businesses will not exceed that figure.

Enter your "other expenses"

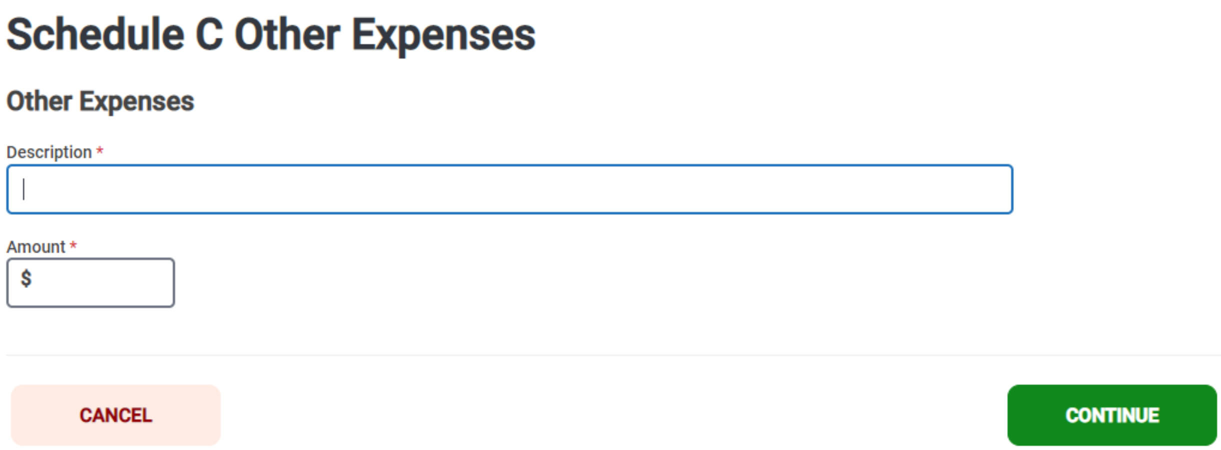
Next, you will be guided through your **Other Business Expenses.**



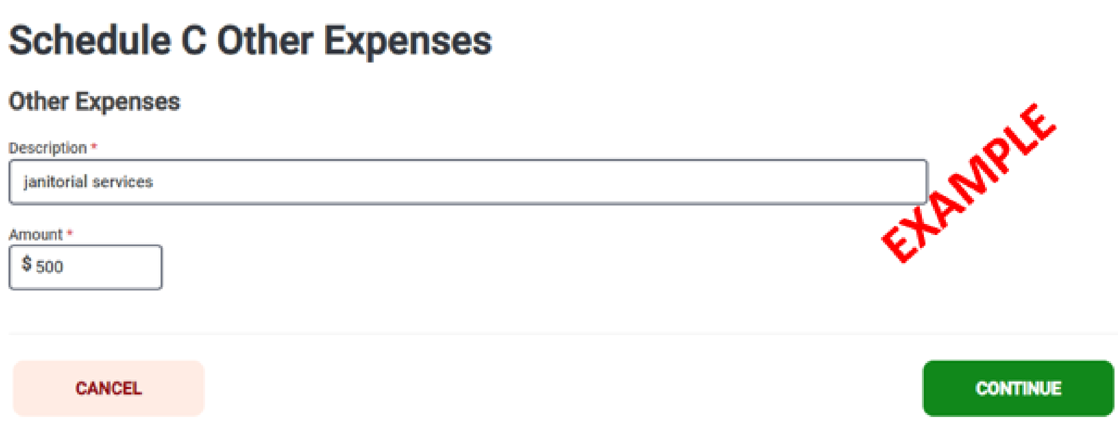


You will be able to enter other business expenses that did not fall into the previous expense categories listed. You will enter these expenses, by category, one at a time.
This section covers anything else that is deductible but not listed elsewhere. The most common will be:

- Cleaning services
- Software or apps that cost more than $200 (otherwise they can be listed as an office expense)
- Accessibility and financing expenses such as online service fees, bank and merchant fees, and credit card processing fees.
- Parking, tolls & registration fees (for those who chose to use standard mileage)



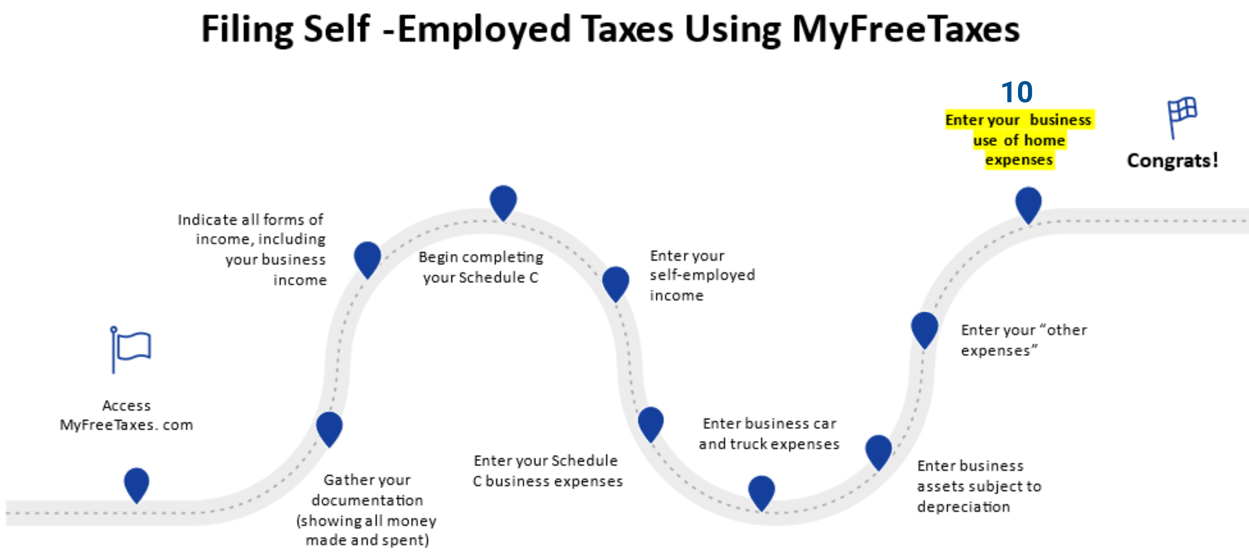
For example, if you paid $500 for janitorial services over the year, you will enter that as:

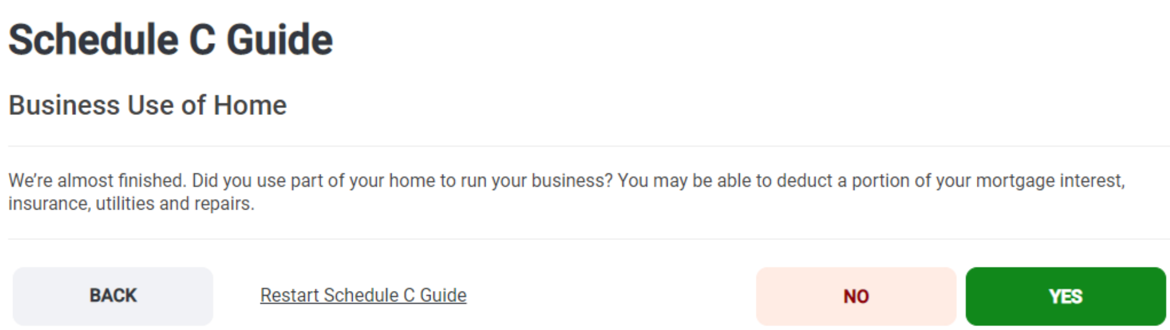


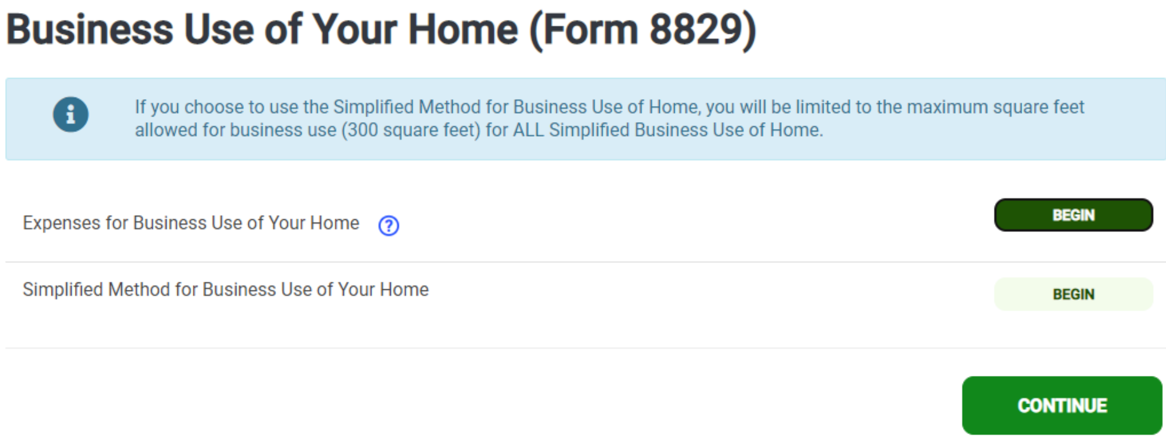
PRO TIP (TaxSlayer specific) If you took the standard mileage deduction for your business vehicle, you would enter other allowable car expenses such as parking, tolls and registration fees here as Other Expenses.

Enter your business use of home expenses

Keep in mind that you can deduct space in your home used exclusively for your business. This can include a home office, even if it is just part of a larger room or a storage area where you keep supplies for your business. This is not common for many of those in the gig economy, but may apply to some.







Sole proprietors may use part of their home in their business. For example, if you are a virtual assistant, you may have a home office. You can also count space used for the storage of inventory or product samples.

The first and most important thing to consider is if the space in your home is exclusively used for business. That means that it is only used for your business. If the space is partially used for business and partially for personal purposes, it won't qualify.

The IRS provides two options for deducting the business use of your home:

- You can use the **Regular Method** which accounts for all the actual expenses associated with your home and determines the deductible portion by applying your business use of home percentage; or
- You can take a **Simplified Method** where the deduction based on a set rate from the IRS if you are using 300 square feet or less of space in total. This method will allow a maximum deduction of $1,500.

More on this topic is covered in detail under "How do I include the Costs of my Home?" in *MyFreeTaxes Self-Employed Tax Guide: For Small Business Owners Part I.*

To prepare for claiming these deductions on your return, whether you rent or own your home, there are two steps you need to take: 1) determining the space used for duties related to your business and 2) determining the allowable expenses related to your business use of your home.

PRO TIP As a rule of thumb "regular use" means you use the space two or more times per week.

Expenses for Business Use of Your Home (Form 8829)

* You are able to take this deduction on your Schedule C or in Itemized Deductions, but not both.

Form belongs to

Home was used as Day Care Facility *

- Yes
- No

Part of Your Home Used for Business

Area used for business, for day care, or for storage of inventory — Square Feet

Total area of home — Square Feet

Income

Enter any net gain or loss NOT reported on this Schedule C

$

You will first need to indicate if your home was used for child care. Unless you are a licensed child care business, this will not apply to you. Next, a simple calculation will be performed to understand what percentage of your home is used for business. To get this, you will need to enter the amount of square feet you use for business or for storage of inventory and the total square footage of the home.

Next, you will begin listing home expenses associated with your business. You will be asked to enter **Direct** and **Indirect** expenses. Unless the expense is related to 100% exclusively used business space, such as storage of inventory, you will enter the expense as **Indirect.**

Deductions Learn more

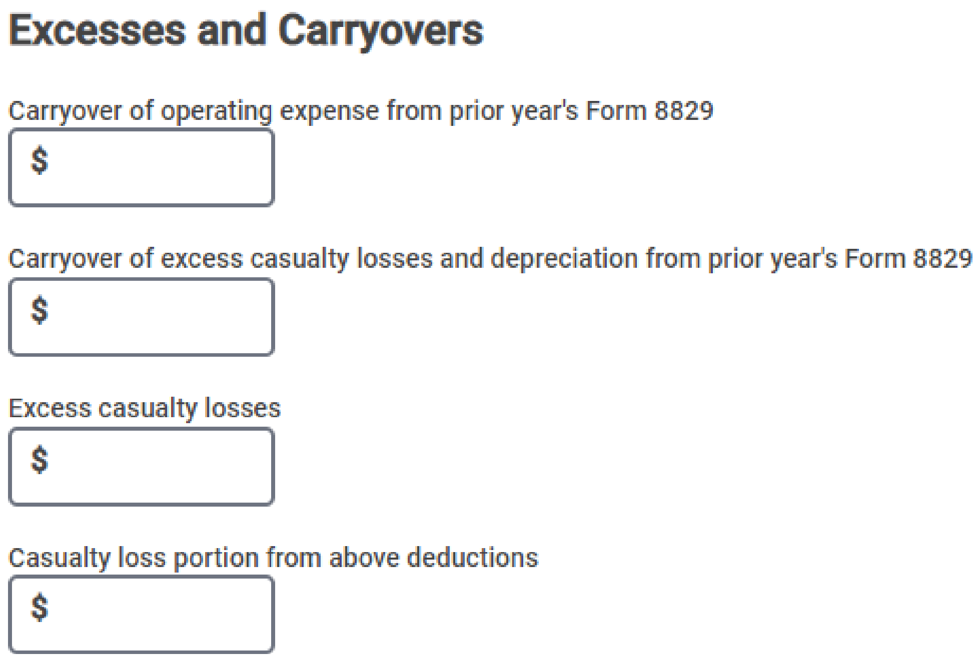
	Direct Expenses	Indirect Expenses
Casualty losses	$	$
Deductible mortgage interest	$	$
Real estate taxes	$	$
Excess mortgage interest	$	$
Excess real estate taxes	$	$
Insurance	$	$
Rent	$	$
Repairs and maintenance	$	$
Utilities	$	$
Other expenses	$	$

You may enter 100% of direct expenses. Indirect expenses will be calculated using the business use of home percentage. These are the expense lines that you will see in which you need to enter your direct and/or indirect expenses:

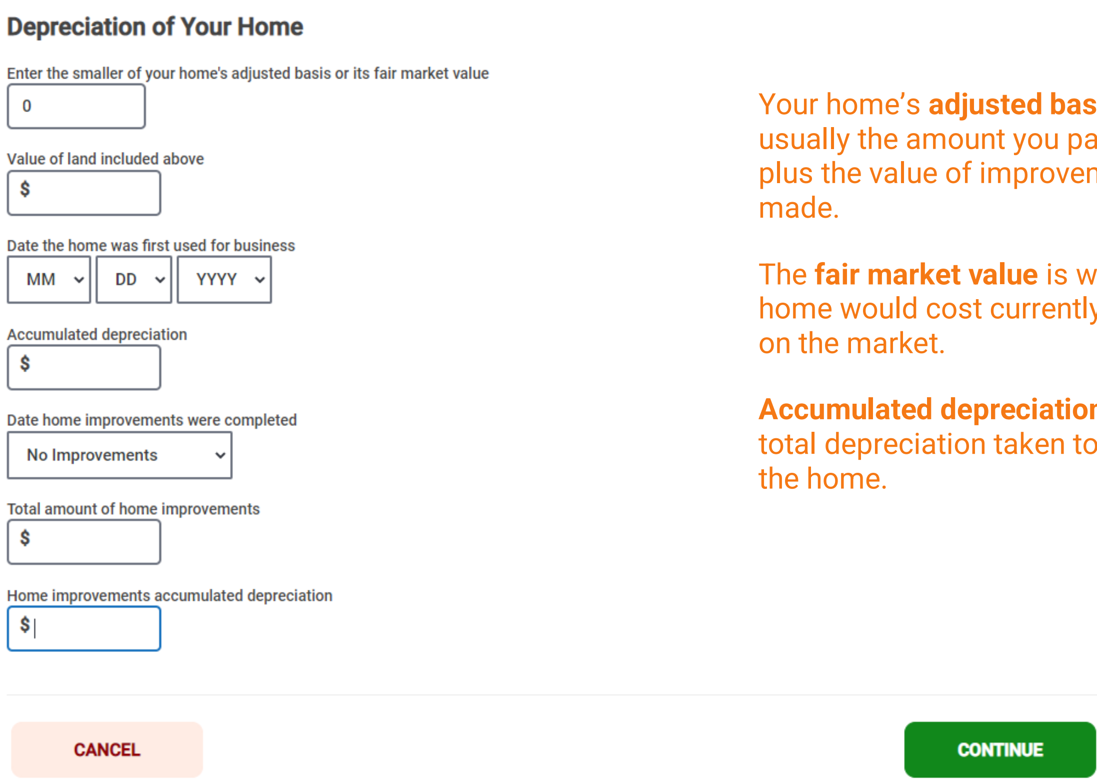
Expense	Direct Expenses	Indirect Expenses
Casualty Loss		
Deductible Mortgage Interest		
Real Estate Taxes		
Excess Mortgage Interest		
Excess Real Estate Taxes		
Insurance (e.g. mortgage insurance, property insurance)		
Rent		
Repairs and maintenance		
Business Use of Home - Expenses		
Utilities		
Other expenses (for example, cleaning & lawn care services, telephone and cable)		

Business owners should be mindful that if you choose to enter certain expenses like utilities and repairs under home office, you will not enter those expenses again when you see those categories listed separately as itemized deductions.

In this next section, **Excesses and Carryovers**, you will only enter information if it applies to your situation.



You will then be asked about the Depreciation of Your Home. This is only applicable if you own your home.



Your home's **adjusted basis** is usually the amount you paid for it plus the value of improvements made.

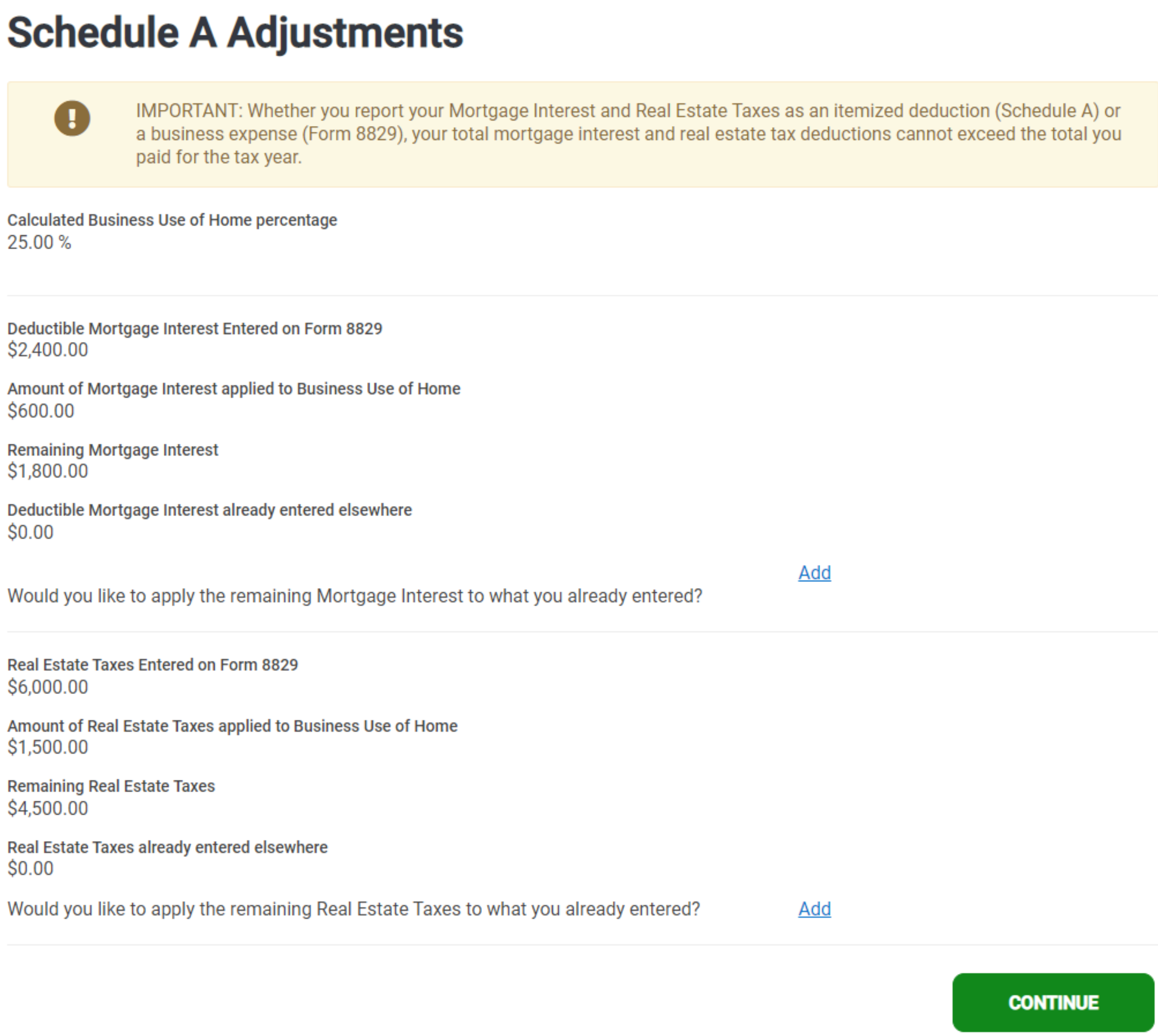
The **fair market value** is what the home would cost currently if it was on the market.

Accumulated depreciation is the total depreciation taken to date on the home.

After you enter details about your home, such as the date first used for business and adjusted basis or its fair market value, the system will depreciate the expense, based on your

Time/Space Percentage, and provide you with the deductible depreciation amount for it. There is a separate category in TaxSlayer, Depreciation, where you can depreciate other large purchases that are not subject to your Business Use of Home Percentage.

Next you may see the **Schedule A Adjustments** screen which will show you what your calculated Business Use of Home Percentage is and the deductible mortgage interest and real estate taxes you have based on your business use of home.



Schedule A Adjustments

IMPORTANT: Whether you report your Mortgage Interest and Real Estate Taxes as an itemized deduction (Schedule A) or a business expense (Form 8829), your total mortgage interest and real estate tax deductions cannot exceed the total you paid for the tax year.

Calculated Business Use of Home percentage
25.00 %

Deductible Mortgage Interest Entered on Form 8829
$2,400.00

Amount of Mortgage Interest applied to Business Use of Home
$600.00

Remaining Mortgage Interest
$1,800.00

Deductible Mortgage Interest already entered elsewhere
$0.00

Would you like to apply the remaining Mortgage Interest to what you already entered? Add

Real Estate Taxes Entered on Form 8829
$6,000.00

Amount of Real Estate Taxes applied to Business Use of Home
$1,500.00

Remaining Real Estate Taxes
$4,500.00

Real Estate Taxes already entered elsewhere
$0.00

Would you like to apply the remaining Real Estate Taxes to what you already entered? Add

CONTINUE

You will then be taken back to the **Schedule C** summary page. There, you can go back and edit previous entries or move on.

Schedule C

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

CONTINUE

Qualified Business Income (QBI) deduction

As you complete your business-related tax sections, be mindful of the Qualified Business Income (QBI) deduction, also called the "pass-through income deduction". QBI is the net amount of qualified income, deductions, gains, and losses from your business. This deduction allows you to deduct up to 20% of your self-employed/small business income from your total taxable income. If eligible, the QBI is deducted from your Adjusted Gross Income (AGI). So, while this is not part of the Schedule C, it is dependent upon your business income, which is why you're asked about it when preparing your business taxes.

What is Qualified Business Income (QBI)?

QBI stands for Qualified Business Income. QBI is determined by calculating your total business income minus:

- Wage (W-2) income; with the exception of statutory employees
- Capital gains and losses
- Dividends or interest
- Annuity payments
- Foreign currency gains or losses
- Reasonable compensation for owner/employees of S-Corps
- Guaranteed payments to partnerships and LLCs

If you are self-employed and your business qualifies as a pass-through entity, the Tax Cuts and Jobs Act says you may deduct up to 20% of your QBI on your federal income tax return. This is known as the pass-through entity deduction. Learn more about the pass-through entity deduction **here.**

[2]

[2] https://support.taxslayer.com/hc/en-us/articles/360015971592-What-is-Qualified-Business-Income-QBI-#:~:text=QBI%20stands%20for%20Qualified%20Business,Capital%20gains%20and%20losses

You will be asked additional questions to calculate your Qualified Business Income deduction. The first question is your **qualified business income adjustment amount**. This is because you need to adjust your qualified business income for the self-employment tax deduction, the self-employed health insurance deduction, and for your deduction for contributions to qualified retirement plans. Unless you are entering manual adjustments, you can leave this blank.
Here is more information from TaxSlayer on these QBI adjustments: [3]

How is the amount on line 1 of my 8995 (Qualified Business Income Deduction) calculated?

When figuring the amount of income eligible for the QBID you need to also take into account other Self Employment related deductions that you are taking on your Federal return.

The amount of Qualified Business Income on your 8995 is your Profit minus:

- 1/2 SE tax deduction
- Guaranteed payments
- Your deduction for SE Health Insurance
- Section 199A income
- Your SE deduction for contributions to SEP, Simple, or Qualified Retirement Plan.

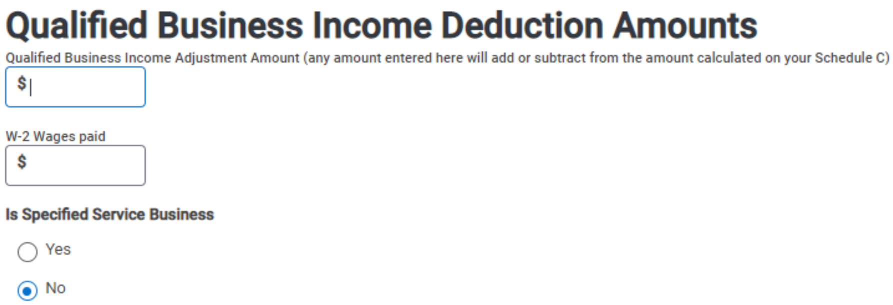
This information can be found in "**Determining your Qualified Business Income**" in the 8995 Instructions.

Enter the total amount of adjustments as they apply to you, otherwise leave this blank. If you are unsure of what your totals are, you can complete the remainder of your filing and come back to this section later to enter accurate information. If you have no adjustments to make, you will leave the first box blank.

If you paid W-2 wages to employees, you will enter the total amount paid. If you have no W-2 wages paid to employees, you will leave that box blank.

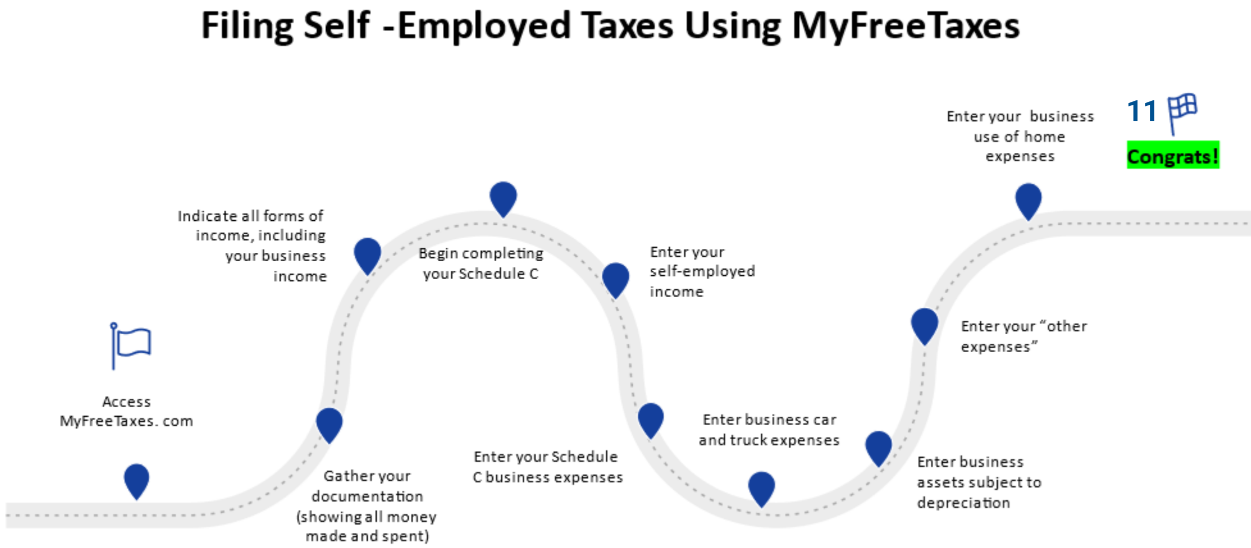
[3] https://support.taxslayer.com/hc/en-us/articles/360056894112-How-is-the-amount-on-line-1-of-my-8995-Qualified-Business-Income-Deduction-calculated-

The program will automatically calculate your QBI based off of your business income entries.



A **specified service business** is one that is in certain fields such as health, law, consulting, athletics, financial services and investment management in which your status/reputation as a regarded member of that trade determines your income. Typically, those individuals cannot take the QBI deduction.

Congratulations!
You’ve done it! You just entered all the information needed on your self-employment and can now complete the rest of the screens to complete your overall return.



How to Make Tax Preparation Easier
Many small business owners can self-prepare their tax return to save money and ensure their taxes are being done accurately – no one knows your business like you do! **The key to hassle-free tax filing is to have proper recordkeeping and bookkeeping throughout the year**. Keeping track of all payments you receive and receipts and invoices for your purchases is invaluable and will save you a lot of time.

The importance of filing electronically
When it’s time to submit your taxes, submitting electronically is far better than printing and mailing your return. This is because there’s a higher degree of accuracy and the process is much quicker.

Need more time to file or to pay your tax bill?
You may find that you need more time to file or that you have a tax bill and need more time to pay it. If that happens, we suggest that you pay what you can and then request an extension. You will need to put in the request by April 15th, but you can receive an extension for up to 6 months. You will still have to pay additional penalties for not paying any taxes you may owe on time, but that will be better than ignoring it altogether. There is no financial penalty for filing an extension if you need more time to file and are owed a refund.

Need more help?
America’s SBDC represents America’s nationwide network of Small Business Development Centers (SBDCs) – the most comprehensive small business assistance network in the United States and its territories. Sponsored by the U.S. Small Business Administration (SBA), they

provide management assistance to small business owners in the form of one-on-one counseling, training seminars, assistance with SBA loans, and technical assistance.

Small business owners and aspiring entrepreneurs can go to their local SBDCs for free face-to-face business consulting and at-cost training on a variety of topics. There are nearly 1,000 local centers available to provide no-cost business consulting and low-cost training to new and existing businesses. SBDCs help local businesses start, grow, and thrive.

You may also call 211 to get connected to additional resources and services that can help you, your family, and your business.

Preparing for Next Year

Now that you've filed your tax return this year, consider changes you might make to help the process go even smoother next time! Our MyFreeTaxes Self-Employed Tax Guide: For Gig Economy Entrepreneurs, Part I will help you identify the business and bookkeeping practices you can implement to help ensure your business and your taxes go smoothly.

United Way is able to provide MyFreeTaxes and the MyFreeTaxes Self-Employed Tax Guides thanks to the generosity of our supporters.

Truist Foundation

Truist Foundation believes all people and communities should have an equal opportunity to thrive. To address the roots of inequity, Truist Foundation has awarded United Way Worldwide a grant providing the principal support for MyFreeTaxes in 2022, enabling United Way to help ensure everyone obtains the tax credits and refunds they are owed.

