

Volunteer Tax Alert 2013-04 March 1, 2013

How to Report Expenses on Form 1040,

Schedule C-EZ, Net Profit From Business (Sole Proprietorship)

This alert is intended for users of Schedule C-EZ. VITA/TCE preparers may use Schedule C subject to the limitations indicated below.

Identified error: Some volunteer preparers are not correctly reporting self-employment expenses on Form 1040, Schedule C-EZ.

General rule: Taxpayers can deduct the costs of running their business. These costs are known as business expenses. Examples of these expenses include advertising, **car and truck expenses**, office expenses, supplies, taxes, licenses, and other expenses. See the Instructions for Form 1040, and Publications 17 and 4012 for more information.

Taxpayers with car and truck expenses can choose to take the standard mileage rate or actual expenses. Only the Standard Mileage rate is within scope for VITA/TCE sites. Volunteer preparers cannot use actual expenses.

Commuting miles are generally miles driven between your home and the main or regular place of work. These miles are not deductible. In most cases, a self-employed taxpayer using his car for business will have at least some commuting miles. See Publication 4012, VITA/TCE Volunteer Resource Guide (Tab F) for details about deductible transportation expenses.

Level of Certification: Intermediate - To prepare tax returns for self-employed taxpayers volunteer preparers must be certified through the intermediate level.

Limited Scope: Volunteer preparers must be cautious to only prepare Schedule C-EZ or Schedule C returns that are within scope. **The Schedule C may be used only if the return meets the Schedule C-EZ criteria.** The qualifications to report self-employment income on Schedule C-EZ are:

If the taxpayer:	and the taxpayer:
<ul style="list-style-type: none">• Had business expenses of \$5000 or less.• Used the cash accounting method.• Did not have an inventory at any time during the year.• Did not have a net loss from this business• Had only one business as either a sole proprietor or statutory employee	<ul style="list-style-type: none">• Had no employees during the year.• Is not required to file Form 4562, Depreciation and Amortization, for this business.• Does not deduct expenses for business use of the home.• Does not have prior year un-allowed passive activity losses from this business.

How to Report: When claiming car and truck expenses on Schedule C-EZ in TaxWise, complete lines 4 through 8b. The business mileage expenses will be calculated on line 5a. The deductible amount from line 5a must be manually added to line 2 by linking to a scratch pad. Any other deductible expenses can be included on the scratch pad.

Completing Schedule C-EZ for business mileage expenses

Part II: Figure Your Net Profit	
If you are a minister who can only claim a portion of their expenses, F9 on line 2 for the worksheet for allowable deductions. Do not mix statutory employee income and non-employee income on the same Schedule C-EZ.	
1 Gross receipts If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, check here <input type="checkbox"/>	5000
2 Total expenses. If more than \$5,000, use Schedule C	1555
3 Net profit. If less than -0-, you MUST use Schedule C	3445
Part III: Information on Your Vehicle Complete this part only if you are claiming vehicle expenses.	
4 When did you place your vehicle in service for business purposes? (MM/DD/YYYY)	01/01/2012
5 Of the total number of miles you drove your vehicle during the year, enter the number of miles you used your vehicle for	
a Business: 1000 b Commuting: 0 c Other: 10000	
Business miles at the standard mileage rate of 55.5	
Include this amount with any other expenses you list on line 2 above	555
	Yes No
6 Was your vehicle available for use during off-duty hours?	<input checked="" type="radio"/> <input type="radio"/>

Link to scratch pad from line 2 and add the business mileage expenses shown on line 5a along with any other business expenses.

To calculate business mileage expenses, complete the fields on line 5

For more information, review the following resources:

- Publication 4012, *VITA/TCE Volunteer Resource Guide pages 2-7 through 2-9*
- Publication 17, *Your Federal Income Tax*, or
- Publication 334, *Tax Guide for Small Business*

If you have any questions, please discuss them with your site coordinator or contact your local IRS SPEC relationship manager.

Thank you for volunteering to serve your community and for your dedication to providing top QUALITY service!