

Quicklist for Business

This list is intended for Self Employed Individuals who file schedule C, Business Income and Expenses.

Any Income you earn from your business is reported on schedule C. You must file a schedule C if you receive income as a subcontractor or earn income in a trade or business activity.

Income is Reported on Line One.

You can organize your expenses by totaling the amount you spent last year in the following categories.

Most Common Items

Advertising	Line 8
Commissions and Fees you paid	Line 11
Business Liability Insurance	Line 15
Mortgage and Bank Interest	Line 16 For money you borrowed for your business
Legal and Professional Services	Line 17
Office Expenses	Line 18 Do not include office equipment
Equipment Rented	Line 20
Vehicles Rented	Line 20
Office or Storage Rent	Line 20
Repairs and Maintenance	Line 21 Do not include your car repairs here
Supplies	Line 22
Taxes and Licenses	Line 23
Travel	Line 24a
Meals and Entertainment	Line 24b
Utilities	Line 25
Wages you Paid	Line 25
Cost of Goods Sold	
Labor Paid	Line 37
Materials Purchased	Line 38

Common Red Flags for the IRS

Bad Debts from Sales or Service	Line 9 [Red Flag Report]
Car and Truck Expenses	Line 10 [Red Flag Report]
Home Office Deduction	Line 30 [Red Flag Report]

Cautionary Items

Depletion	Line 12
Depreciation	Line 13
Employee Benefit Programs	Line 14
Pension and Profit Sharing Plans	Line 19
Inventory	Line 35 and Line 41

Any schedule C reporting a net loss has a high likelihood of being audited.

Red Flag Reports

Bad debts from Sales Or Service

This is an area where mistakes are often made because of a misunderstanding of what constitutes a loss. Let's take a look at a common occurrence for a small business.

Ted, a framing contractor, and cash basis taxpayer is hired by Illnotpayu Developers to frame a house. Ted purchases the lumber, hires helpers to work with him on the job and completes his work in a good and timely manner. Ted visits Illnotpayu's office to collect his check and finds the place deserted. Does Ted use Line nine to report his loss?

Probably not.

Here is the proper procedure for Ted.

The material he purchased is deducted on line 38 just like his other material purchase.

The labor he hired is deducted on line 37 just like his other job related labor.

His overhead expenses such as office supplies and other items are deducted in the same way in the appropriate places.

What about Ted's personal lost time and income? Since Ted is a cash basis tax payer he has nothing to deduct since the money he wasn't paid is not reported as income anyway.

For this reason a deduction on this line often triggers an examination.

Accrual basis taxpayers may use this line to deduct income that has already been reported.

Car and Truck Expenses

If you are using your vehicle in business you are entitled to deduct the business portion of the cost of operating the vehicle. You may do that by deducting the mileage formula or by deducting the actual cost of operating the vehicle. If you have more than one vehicle you must deduct the actual cost. This is an area of common scrutiny by the IRS and you should be prepared to provide proof of your business use. A day planner listing your business miles driven in a calendar format backed up by repair receipts documenting your odometer reading are usually accepted by the IRS as adequate.

Home Office Deduction

The home office deduction has been a hotly contested area for years, but the rules have been changed to favor the deduction this year. However, carefully follow the help guidelines in TurboTax or refer to your tax guide before using this deduction.