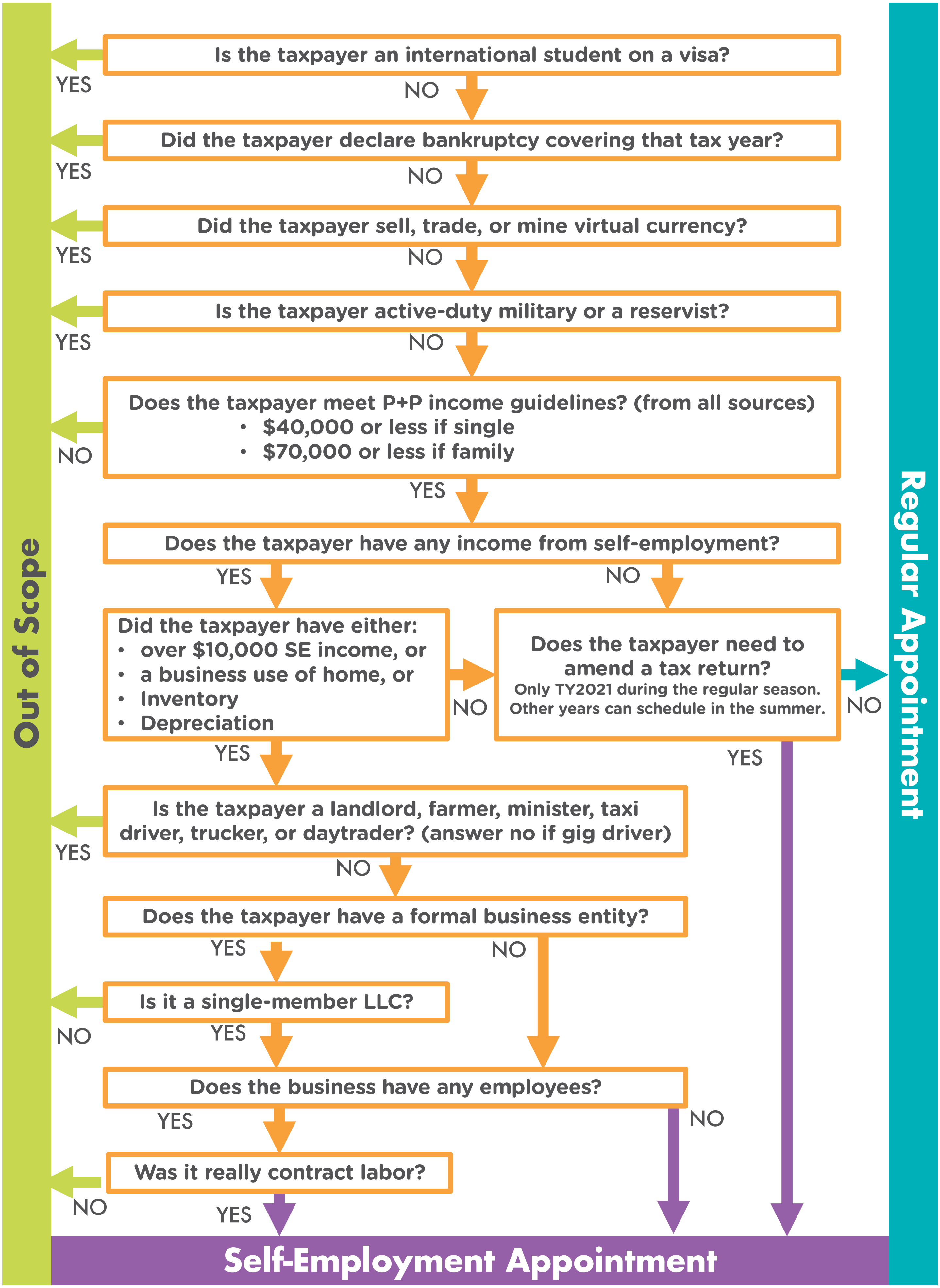
SELF-EMPLOYMENT VOLUNTEER MANUAL

Tax Year 2024


Out of Scope
Regular Appointment
Is the taxpayer an international student on a visa?
YES
NO
Did the taxpayer declare bankruptcy covering that tax year?
YES
NO
Did the taxpayer sell, trade, or mine virtual currency?
YES
NO
Is the taxpayer active-duty military or a reservist?
YES
NO
Does the taxpayer meet P+P income guidelines? (from all sources)
• $40,000 or less if single
• $70,000 or less if family
NO
YES
Does the taxpayer have any income from self-employment?
YES
NO
Did the taxpayer have either:
• over $10,000 SE income, or
• a business use of home, or
• Inventory
• Depreciation
NO
Does the taxpayer need to amend a tax return?
Only TY2021 during the regular season. Other years can schedule in the summer.
NO
YES
YES
Is the taxpayer a landlord, farmer, minister, taxi driver, trucker, or daytrader? (answer no if gig driver)
YES
NO
Does the taxpayer have a formal business entity?
YES
NO
Is it a single-member LLC?
NO
YES
Does the business have any employees?
YES
NO
Was it really contract labor?
NO
YES
Self-Employment Appointment

HOW TO USE THIS MANUAL

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Illustration 1: Schedule C, Page 1

SCHEDULE C (Form 1040) Department of the Treasury Internal Revenue Service	**Profit or Loss From Business** (Sole Proprietorship) Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065. Go to *www.irs.gov/ScheduleC* for instructions and the latest information.	OMB No. 1545-0074 **2024** 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 2024? If "No," see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2024, check here . . . ☐

I Did you make any payments in 2024 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	
				20	Rent or lease (see instructions):		
10	Commissions and fees .	10		a	Vehicles, machinery, and equipment	20a	
11	Contract labor (see instructions)	11		b	Other business property . . .	20b	
12	Depletion . . .	12		21	Repairs and maintenance . . .	21	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions) . . .	13		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	
				b	Deductible meals (see instructions)	24b	
15	Insurance (other than health)	15		25	Utilities . . .	25	
16	Interest (see instructions):			26	Wages (less employment credits)	26	
a	Mortgage (paid to banks, etc.)	16a		27a	Other expenses (from line 48) . .	27a	
b	Other . . .	16b		b	Energy efficient commercial bldgs deduction (attach Form 7205) . .	27b	
17	Legal and professional services	17					

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27b . . .	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) 2024**

SELF-EMPLOYMENT OVERVIEW

Self-employment is when someone carries on a trade or business for themselves. Many taxpayers who work on the side as independent contractors, freelancers, or consultants may not consider themselves "self-employed," but are self-employed for tax purposes. The IRS considers them to be in business, and they should treat their income and records accordingly. A self-employed taxpayer reports all business-related income and expenses on their personal income tax return via Schedule C, Profit or Loss From Business (Sole Proprietorship). Income received from self-employment is considered earned income for the purpose of tax credits.

A taxpayer should file a separate Schedule C for each distinct venture. This ensures that expenses are justifiable as ordinary and necessary to the nature of the venture. Married couples who co-own a sole proprietorship and file jointly can choose to file two Schedule C forms, to report each spouse's disparate share of business profits and self-employment tax, especially if either spouse makes an Injured Spouse claim. To easily split the net profit and self-employment tax 50/50, click the "Qualified Joint Venture" box in the Schedule C/Questions About the Operation of Your Business screen in TaxSlayer. TaxSlayer will create Schedule C and Schedule SE forms for each taxpayer.

SOURCES OF SELF-EMPLOYMENT INCOME

Self-employed taxpayers can get income from a variety of sources. For example:

- Payments for services
- Sales of goods or scrap
- Commissions
- Grants
- Online crowd funding (Patreon, GoFundMe)
- Advertisements on a vehicle
- Royalties
- Selling blood/plasma

Taxpayers may receive a tax form reporting their income from the activity but may just have their own records showing the amount of income they received.

ARTIST ROYALTIES

Royalty income received as a self-employed artist can be reported as either self-employment or passive income. If an artist elects to include the income on Schedule C, it is subject to self-employment taxes and is considered earned income for the EITC. Royalties reported on Schedule E are treated as passive unearned income, are not subject to self-employment taxes, and do not generate tax credits based on earned income.

TaxSlayer Entry: Artist royalties might appear on a Form 1099-MISC or Schedule K-1. TaxSlayer automatically moves royalties from these forms to Schedule E. If a taxpayer wishes to list the royalties as self-employment income, enter the amount as part of gross receipts on Schedule C. Do not enter the form. You can use the detailed entry to record the payer's EIN.

SELF-EMPLOYMENT TAX

Self-employment taxes cover the Social Security and Medicare payroll taxes. The self-employment tax is a combined 15.3% of 92.35% of a taxpayer's profit from their business: 12.4% Social Security tax and 2.9% Medicare tax. The 7.65% adjustment is a business expense deduction for half of the SE tax.

The taxes start when a taxpayer makes over $400 from self-employment in the year. Self-employment tax is in addition to any income taxes owed. It is common to owe no income taxes but still owe self-employment tax. Nonrefundable tax credits do not reduce self-employment taxes owed.

HOBBY INCOME

If the taxpayer is not doing business to make a profit, any income received may be considered hobby income (out of scope for VITA). The IRS will consider some of the following factors to determine whether income is from a hobby or self-employment:

- Did the activity make a profit in at least 3 of the last 5 years, including the current year?
- Is there any intention to make a profit?
- Has the taxpayer made a profit in similar activities in the past?

Prepare + Prosper cannot make the hobby determination for a taxpayer. Income from a hobby is reported as Other Income. It is not subject to self-employment tax and is not earned income. Taxpayers may not deduct any expenses related to hobby income.

MEDICAL ASSISTANCE FOR EMPLOYED PERSONS WITH DISABILITIES (MAEPD)

Taxpayers with disabilities must establish their status as employed persons to keep their eligibility for this health insurance program. If self-employed, it is critical that they report the state-mandated annual minimum earnings and pay self-employment tax. See page 79 of the Volunteer Manual for more information on MAEPD.

BUSINESS LOSSES

If a business has a profit, the taxpayer will owe self-employment tax on the profit and the income will be added to the taxpayer's other income for income tax calculations. However, not all businesses will make a profit in the tax year. When the business expenses exceed the business income, this creates a business loss. If the business has a loss, the taxpayer is entitled to use the business loss to offset their other income, business and non-business. This reduces their AGI and taxable income. Taxpayers do not owe self-employment tax if their business generates a loss.

If a taxpayer's business generates losses year after year, the IRS may evaluate if the taxpayer should treat it as a business or a hobby. Taxpayers who receive letters from the IRS questioning if their business is a hobby should be referred to a Low-Income Taxpayer Clinic. Minnesota has two LITCs in the Twin Cities: Southern Minnesota Regional Legal Services and the Ronald M. Mankoff Tax Clinic at University of Minnesota's school of law.

NET OPERATING LOSS (NOL)

A business loss that exceeds all other income the taxpayer has in the year creates a net operating loss; the AGI is a negative number. In some circumstances, it can be carried back to offset income received in a prior year, this carryback is out of scope. Usually, the loss can be carried forward to offset income in the next year. Taxpayers are not allowed to save an NOL for a large income year and must use it each consecutive subsequent year, even if it will provide minimal benefit. NOLs are an adjustment for total income, not a deduction for Schedule C net income, and therefore do not reduce any self-employment taxes owed.

TaxSlayer Entry: If a taxpayer has a prior year NOL carryover, enter the amount in TaxSlayer's Federal Section/ Income/Other Income/Form 1045 Net Operating Loss Worksheet.

TAX TIP: NOLs are not allowed to create additional net operating loss. Enter the entire available NOL so that TaxSlayer uses this limitation to calculate the current year's NOL carryover.

TAX TIP: A carried forward NOL is added back as Minnesota Household Income for Form M1PR. This applies to the year the NOL is carried to, not the year the NOL occurred. TaxSlayer will automatically add a carried forward NOL to Minnesota Household Income.

BUSINESS EXPENSES OVERVIEW

For an expense to be deductible against income, it must be **ordinary** and **necessary** for the business.

- An **ordinary** expense is common and accepted in the type of business or industry. Essentially, the IRS examines if the expense fits the business. A party planner business may purchase a karaoke machine, but probably not a laundromat.
- A **necessary** expense is one that is helpful and appropriate for the trade or business. A party planner business may purchase a karaoke machine, but a laundromat probably would not.

Many rules govern how much of a business expense is immediately deductible, especially with depreciation or inventory, but whether the expense will ever be deductible follows the ordinary and necessary principles.

IRS Pub 334, *Tax Guide for Small Business*, is a useful reference for odd business expense situations.

NON-DEDUCTIBLE BUSINESS EXPENSES

Personal and job-related expenses are not deductible as business expenses. In general, job-related expenses a taxpayer incurs as an employee are not deductible on a personal income tax return.

Most personal expenses are not tax deductible. However, it is common for self-employed taxpayers to have expenses for things used both for business and personally. Taxpayers may deduct the portion of the expense used for business but not the portion used personally.

Taxpayers often use one cellphone both personally and for their self-employment. They can deduct a reasonable portion of annual charges as a business expense.

VEHICLE EXPENSES

There are two methods taxpayers can use to claim vehicle expenses: standard mileage rate or actual car expenses. Taxpayers can switch methods between tax years.

STANDARD MILEAGE RATE

Prepare + Prosper uses the standard mileage rate to determine the value of the deduction. The rate for 2024 is 67 cents per business mile. It includes the cost of gas, maintenance (oil change, car wash, etc.), insurance, vehicle registration, lease and car note payments, and depreciation. Taxpayers can deduct the business percentage of loan interest, but must track all mileage. Taxpayers can deduct all tolls and parking fees.

ACTUAL CAR EXPENSES

Taxpayers can use actual car expenses rather than using the standard mileage rate. This is out of scope at Prepare + Prosper. Taxpayers must track every expense and track every mile driven and categorize it as business or personal. Taxpayers must use actual expenses if they have five or more business vehicles, or if they used actual expenses in the first year the vehicle was used for business.

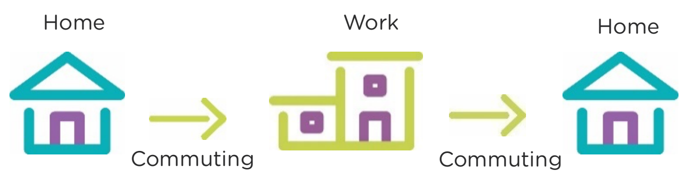
Taxpayers double their recordkeeping burden by electing to use actual expenses when the standard mileage rate suffices.

PERSONAL VS BUSINESS CAR EXPENSES

Taxpayers who use their car for both personal and for self-employment purposes are allowed a deduction based on the miles driven for business. To claim this deduction, they must provide how many miles were driven for business and how many were personal and commuting miles. Personal and commuting miles are not deductible. Business miles are the miles from one work site to another.

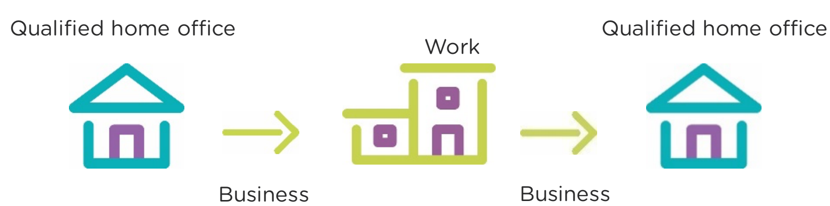
EXAMPLES OF BUSINESS MILEAGE

1. A self-employed taxpayer without a home office drives from home to a work site and then back home. All mileage is from commuting and non-deductible.



2. A self-employed taxpayer without a home office leaves home for a work site, then visits a second work site before returning home. The trip between work sites is deductible business mileage. The trips between home and work sites are commuting mileage and are not deductible. If you stop at a store to pick up job supplies before traveling to a work site, the trip from the store to the work site is considered business mileage.

3. The third scenario shows business mileage for a self-employed taxpayer with a qualifying home office. The taxpayer leaves home to go to a work site then returns home. All work-related trips are business mileage because the home office is considered a work site.



HOME OFFICE

Taxpayers can deduct a portion of their home expenses if they have a home office. The space must be an area of the home used regularly and exclusively for business. It does not need to be an entire room, but the business space cannot be used for personal activities. A dedicated storage space for the business is allowed. Taxpayers can use either the simplified method or traditional method to calculate the deduction. Regardless of method used, taxpayers will need to know the area used for business and the total area of the home to calculate the percentage of the home used for business.

SIMPLIFIED METHOD

The simplified method is a flat $5 per square foot of the home used for business up to 300 square feet. Taxpayers cannot deduct additional costs such as repairs, rent, or utilities if they use this method. The taxpayer's home is not depreciated if they use the simplified method. Taxpayers need to provide the area used for business and the total area of the home.

TaxSlayer Entry: TaxSlayer has a screen for simplified method entry in the Business Use of Home section of Schedule C.

TRADITIONAL METHOD

The traditional method for claiming a business use of home looks at all the costs to maintain the space and prorates them based on the business use percentage. Expenses will either be **direct** or **indirect**. A **direct** expense is one incurred specifically because of the business, such as constructing a separate client entrance. An **indirect** expense is one for the general maintenance or upkeep of the home and not directly caused by the business use. IRS Pub 587, *Business Use of Your Home*, can be a useful reference for determining what expenses are allowable.

TAX TIP: Yard maintenance expenses can only be claimed if a taxpayer entertains clients regularly in their home.

TaxSlayer Entry: In TaxSlayer, you will enter the full cost of rent, mortgage interest, utilities, taxes, etc. as indirect expenses from the business use of home. The software automatically calculates the allowable deduction. If a taxpayer has a direct expense related to the business use of home, enter it in the direct expense column.

Under the traditional method, homeowners must also depreciate their home. Homeowners must know when they started using the home for business, the purchase price of the home, the fair market value of the home, and the value of the land. See the Depreciation section for more information on depreciating assets.

RENTER AND HOMEOWNER REFUNDS

When applying for a homeowner property tax refund, taxpayers who claim business use of the home must exclude taxes payable for the portion of their home used for business. TaxSlayer has a space to enter the personal use percentage of a statement of property taxes payable. Carry the percentage to five decimal places.

Starting in tax year 2024, the renter's credit is incorporated into Minnesota Form M1 and no longer requires an adjustment for the percentage of the rental unit which is used for business.

TaxSlayer Entry: For tax year 2023, taxpayers who have multiple CRPs and a business use of home cannot electronically file Form M1PR. Taxpayers should be advised and provided paper copies of the 2023 Form M1PR to mail. Beginning in 2024, a taxpayer who rents will claim the rent rebate as a credit on the state income tax return. The taxpayer is not required to enter a percentage reduction for business use of the home.

DAY CARES

IRS Pub 587, *Business Use of Your Home*, has more details about in-home day cares.

Day cares can take a special deduction for using part of a home **regularly** to operate the business. The area need not be used exclusively for business. To calculate the day care business use of home deduction, the taxpayer must provide the following information:

- Total square footage of the home
- Square footage of the area used regularly for the day care
- Regular hours of operation for the day care
- Number of days the day care operated

Indirect expenses are prorated based on the day care business use of home calculation, but direct expenses are deducted in full. Costs to childproof the home are entered into TaxSlayer as direct expenses.

TaxSlayer Entry: The area and hours will be entered into the business use of home section in TaxSlayer and used to calculate the business use percentage.

DAY CARE WITH AN OFFICE OR STORAGE SPACE

Some day cares use an area exclusively for business at all times, such as a home office or a closet for day care supplies, as well as an area just used regularly during day care hours. In this situation, the taxpayer must provide both the square footage for the area used **exclusively** for business and for the area used **regularly** for business.

TaxSlayer Entry: TaxSlayer has spaces to enter the area used exclusively, the area used when the day care is in operation, and the total area.

FURNITURE

Day cares operated in the home can deduct the cost of furniture for areas used by the day care. Work with the taxpayer to determine the business use percentage to calculate the deduction; a good baseline is to use the business use percentage of the home. Furniture purchased specifically for the day care and not used personally is 100% deductible. Furniture can be fully expensed in the year of purchase or depreciated on the 7-year, 200% declining balance method.

MEAL AND SNACK RATES

Family day cares can take a standard deduction for meals and snacks for up to 3 meals and 3 snacks per child per day of attendance. The hours of day care operations determine which meals and snacks are deductible. The Day Care SETO has space for the taxpayer to indicate children's attendance and lists the standard rates.

TaxSlayer Entry: Use the Day Care SETO to track and calculate the total allowable meal and snack rate deduction and then enter it as an Other Expense in TaxSlayer.

DAY CARE VS BABYSITTING

A taxpayer may have a babysitting business that is not a day care; they are not operating a facility used for care on a regular basis. Their business use of home deduction is based on the area used exclusively for business. They cannot claim a standard meal or snack rate but can deduct the actual cost of food, provided they tracked it.

State agencies that pay grandparents to provide childcare may report the income on a form 1099-NEC or 1099-MISC. See page 80 of the P+P Volunteer Manual for guidance on whether to treat the income as Other Income not subject to self-employment tax or to report the income on Schedule C.

DEPRECIATION

Depreciation is a process of deducting an expense methodically over time rather than claiming it entirely in the year it was incurred. Depreciation is used specifically when there is a large “capital” expense for tangible real or personal property, “personal” in the sense of property that is not real estate. The length of time and method for depreciating a capital expense depends on the item and when it was first used for business. For example, newer businesses often have a lot of expenses but are still building a client base; depreciation allows the business to offset future income rather than using the full expense in a year where it has little income. The depreciation expense deduction per tax year depends on the capitalized cost (depreciation base) and depreciation method.

Amortization and depletion are similar cost recovery concepts that are out of scope for VITA. Amortization applies to a capital expense for intangible property, like a patent. Depletion recovers the value of resources on land, such as oil or minerals, as the resources are extracted; land itself neither depreciates nor depletes.

IRS Pub 946, *How to Depreciate Property*, is a useful reference for depreciating property.

WHEN TO DEPRECIATE

To be depreciable, an asset’s expected useful life must exceed one year. If an asset costs $2,500 or less by individual item or by total invoice, taxpayers can generally choose to deduct it in full as a current year expense, and avoid the record-keeping of depreciation. This is known as the “de minimis safe harbor.” An asset costing more than $2,500 and expected to be in service for more than a year should be capitalized and depreciated. Capitalization means the purchase is first recorded as an asset on the business’ balance sheet.

TaxSlayer Entry: Assets being claimed as a current year expense rather than being depreciated should be entered in the Other Expenses screen rather than the Depreciation screen.

DEPRECIATION METHOD

The IRS accepts depreciation by the MACRS or straight-line method.

- MACRS (Modified Accelerated Cost Recovery System) uses a 200% declining balance calculation to increase the allowable expense deduction early in the depreciation timeline. The deduction doubles straight-line depreciation in the first few years an asset is depreciated. The assumption is that the item loses a lot of its value early in its useful life. The later years then have a much smaller allowable deduction. Assets with 5-year and 7-year useful lives use the 200% depreciation rate. Other assets use 150% declining balance depreciation.
- Straight-Line depreciation uses the same rate over all years of service life. A building used for business is depreciated by this method. The basis is divided by the standard useful life to create the annual deduction.

TaxSlayer Entry: Nearly all assets (except homes) are depreciated with a 200% declining balance in TaxSlayer. Be sure to select the correct useful life so that TaxSlayer calculates the correct MACRS depreciation deduction.

BUSINESS USE OF HOME

TaxSlayer will depreciate a home based on the business use of home screens rather than the depreciation screens. The taxpayer must know the value of their home and the value of their land. They must exclude the value of the land included in the value of their home because land does not depreciate. If the taxpayer does not know the value of their land, many county assessor's offices list the value of the land for property tax calculations; check the county's website.

DEPRECIATION TIMELINE

The depreciation timeline is based on when an asset is placed into service and based on its expected useful life. The shortest timeline the IRS allows is 3 years, but most property has a longer useful life. Computers and most office equipment have a useful life of 5 years. Furniture has a useful life of 7 years. Homes used for a home office have a useful life of 39 years. IRS Pub 946 has a list of various categories of business property and their expected useful lives; the IRS considers any uncategorized property as having a useful life of 7 years.

Depreciation does not begin on the first of the year. Assets are depreciated using one of three conventions:

- Half-Year convention – an asset is treated as having been placed in service and having ended its useful life midway through the tax year regardless of when it was actually placed in or taken out of service.
- Mid-Quarter convention – if 40% of total assets are placed in service during the last 3 months of the year, all are considered to have been placed in service in the middle of the last quarter of the year.
- Mid-Month convention – depreciation of homes and other real property is considered to start in the middle of the month when the real property is placed in service.

All conventions spread deductible depreciation expense over more tax years than an asset's useful life. A 5-year asset placed in service using the Half-Year convention will be deducted in 6 different tax years; Year 1 and Year 6 each get half a year's deduction.

TaxSlayer Entry: You must check the mid-quarter box in TaxSlayer if the property was placed in service during October through December of the tax year. The mid-quarter convention is designed to prevent a business from taking a half-year's depreciation deduction with many year-end purchases.

SPECIAL DEPRECIATION

Special depreciation allows a taxpayer to claim a larger upfront deduction for an asset rather than depreciate it over its useful life. There are two options for special depreciation: Section 179, and general special depreciation. Opting out of Section 179 and general special depreciation increases current year earned income by decreasing the depreciation expense. Many tax credits are based on earned income, so a taxpayer may benefit more by depreciating the asset over time and qualifying for such credits than by avoiding income taxes completely.

TAX TIP: If an asset costs less than $2,500, deducting it as a current year expense has the same tax benefit as taking special depreciation. There is no reason to use special depreciation. If the taxpayer wishes to depreciate the asset, use regular straight-line or MACRS depreciation.

SECTION 179

As of 2024, Section 179 special depreciation allows a taxpayer to immediately expense up to $1,220,000 of depreciable assets. To qualify for this rule, the asset must have been newly purchased for the business; it cannot be personal property that was gifted, inherited, or converted to business use. Business use must exceed 50% if the asset has mixed personal and business use. If the asset is sold before the end of its useful life, some of the deduction is disallowed and recaptured as ordinary earned income. A business cannot generate a loss from Section 179 depreciation unless offset by other earned income, preventing a net operating loss. Unused depreciation is carried forward until exhausted. No VITA taxpayer is likely to attain asset limits, but volunteers can view the limits and deadlines table for their own information.

GENERAL SPECIAL DEPRECIATION

Property with a useful life of at least 5 years but less than 20 years can qualify for a general special depreciation rate. In 2024, "bonus" depreciation allows a taxpayer to immediately deduct 60% of an asset's value in its first year of service. Taxpayers can convert tangible personal property to business use and claim bonus depreciation rate. Unlike Section 179 depreciation, special depreciation can create a business loss for the year.

Prior year note: Special depreciation for tax years 2018-2022 could be taken for 100% of an asset's value. The percentage began phasing down in subsequent years.

TaxSlayer Entry: TaxSlayer automatically opts in to the special depreciation unless the volunteer preparer checks a box to **opt out** of special depreciation. In general, **opt out** of general special depreciation to avoid class-wide application, federal phase-out, and Minnesota non-conformity issues.

DEPRECIATION ON A TAX RETURN

Depreciation will appear on Form 4562 and related worksheets. To list a previously acquired asset on a current year return, a taxpayer who is new to Prepare + Prosper must provide a complete copy of the immediate prior year tax return, including a fixed asset schedule showing accumulated depreciation (i.e. depreciation already claimed.) Returning Prepare + Prosper taxpayers should have carryforward data if there has been any depreciation of capital assets.

LIMITS AND DEADLINES TABLE

Year	Section 179 Asset Limit Amount	Special Depreciation Phase-down	Standard Deduction per business mile	Federal refund expiring April 15, 2025
2021	$1,050,000	100%	$0.560	X
2022	$1,080,000	100%	$0.585, Jan 1- Jun 30 $0.625, Jul 1- Dec 31	
2023	$1,160,000	80%	$0.655	
2024	$1,220,000	60%	$0.670	

INVENTORY

An inventory is a tool to more easily record sales of merchandise rather than reporting each individual sale as the sale of a business asset. It consolidates all the transactions for the merchandise cost basis on just a few lines used for the Cost of Goods Sold (COGS) calculation.

WHEN DOES A TAXPAYER HAVE INVENTORY?

Taxpayers have an inventory if they hold merchandise for sale. They don't have an inventory if they aren't selling merchandise. An 'inventory' of oils or lotions a masseuse uses should just be reported as supplies on the tax return. Likewise, a taxpayer doesn't have an inventory if they don't hold any products for sale themselves. This is common with catalogue sales (mail order makeup, herbal supplements, food storage containers, etc.) where the taxpayer places an order at a company on behalf of a customer. The taxpayer may purchase a few pieces or a kit for demonstration models, but these items should be expensed as supplies, and not considered inventory.

Some businesses have an inventory that includes supplies the business also uses itself. For example, a hairstylist may have an inventory of hair products they use during sessions and also hold the same products for sale to their clients. Without clear records to distinguish the supplies from the merchandise, it should all just be treated as inventory. The inventory valuation at the end of the year will catch any product removed, expensed as supplies, and generating $0 in sales revenue. Thus, net profit is corrected.

Goods that Business A holds on **consignment** to sell for Business B are neither income nor inventory to A. The goods are still part of B's inventory. Business A earns a commission from selling the goods but takes no COGS deduction from this revenue.

INVENTORY ON THE TAX RETURN

A sole proprietor with an inventory will complete the Cost of Goods Sold section of the Schedule C to determine the allowable deduction.

COST OF GOODS SOLD

Cost of Goods Sold (COGS) is a calculation that uses the change in the value of inventory to determine the allowable current year deduction. It uses four other components:

1) BI = Value of the inventory at the start of the year
2) P = Value of merchandise purchased* during the year
3) WD = Value of merchandise withdrawn from inventory for personal use
4) EI = Value of the inventory at the end of the year

**Purchases include: the cost to purchase merchandise ready-to-sell; the cost of supplies and materials to create merchandise; and the cost of labor hired to assemble merchandise. The merchant can include the cost of hired help, but not the value of their own labor.*

Since everything is somewhere, BI + P = COGS + WD + EI. By algebra, the allowable deduction for COGS is then:

	BI	Inventory held at the start of the year
+	P	Purchases during the year
-	WD	Merchandise converted to personal use
-	EI	Inventory left at the end of the year
	COGS	Allowable deduction for COGS

The merchant cannot deduct the cost of inventory until it is sold, and therefore matched to revenue.

For example, consider someone who begins the year with $1,000 of merchandise. They purchased some ready-to-sell products for $600, spent $100 on materials, and hired laborers for $300 to assemble more products. They took out some products for personal use worth $25. The value of everything left at the end of the year was $790.

	$1,000	Inventory held at the start of the year
+	$600	Ready-to-sell merchandise
+	$100	Materials to make merchandise
+	$300	Labor to assemble merchandise
-	$25	Merchandise converted to personal use
-	$790	Inventory left at the end of the year
	$1,185	Allowable current year deduction

This business reports a COGS deduction of $1,185 on its Schedule C and has a starting inventory valued at $790 for the next year.

HOW IS INVENTORY VALUED?

Taxpayers eligible for Prepare + Prosper's services must use the Cost Method to value their inventory. Under the Cost Method, the value of the inventory is what the taxpayer paid for each item in it. Taxpayers just need to add up the cost they paid for each item in the inventory to determine their inventory's value.

Taxpayers selling indistinguishable products bought in bulk at separate times use the First-In First-Out (FIFO) Method to determine the remaining inventory. Under FIFO, the oldest products in the inventory are presumed to be sold first. For example, if the taxpayer purchased 50 bottles of shampoo in May at $3.00 per bottle and another 50 in September at $3.50 per bottle but only sold 75, then the first 50 bottles sold are considered to be from the batch purchased in May and the next 25 bottles are considered to be from the batch purchased in September. There will be 25 bottles remaining from the September batch when the inventory is valued on December 31 at $87.50 = 25 * $3.50.

Taxpayers who have not determined starting and ending inventory values before their tax appointment must reschedule after they have their inventory numbers.

OTHER REFERENCES

The IRS has additional information about how to value inventory and alternative valuation methods in IRS Pub 334 and IRS Pub 538. In particular, a business selling relatively small numbers of distinct items may use the Specific Identification method to track cost of goods sold.

CONTRACT LABOR

Businesses hiring help must follow IRS rules for classifying workers as either independent contractors who are themselves self-employed for tax purposes[1] or as regular employees. Reduced administrative burdens and avoidance of the matching payroll tax expense may tempt a business owner to misclassify workers, knowingly or not, but losing a worker challenge can incur heavy penalties.

If total payments to a payee for contract labor, consulting fees, legal or professional services, or rent exceed $600 for the calendar year, the business owner must issue Form 1099-NEC by January 31 of the following year. Issuing 1099-NEC forms is most easily done electronically. Since e-filing requires valid tax IDs, it is crucial to obtain a signed W9 form, disclosing the payee's name,

[1] See "Misclassified Workers" section.

address, and social security number or EIN before issuing any payments. The IRS expects to match contract labor deductions to taxable income on other independent contractors' returns. Be sure to distinguish 1099-NEC forms **received** and documenting business **income,** from 1099-NEC forms **issued** which document a deductible contract labor **expense**.

TaxSlayer entry: Schedule C, General Expenses, Contract Labor.

SALES AND USE TAX BASICS

Sales tax is a tax on retail sale of most goods (including digital) and some services.

Use tax is a tax on goods and services that are taxable in Minnesota and assessed when Minnesota sales tax was not paid at the time of purchase. Individuals and businesses may owe use tax. Use tax will typically need to be calculated if a purchase was made outside Minnesota. The use tax rate is equal to the sales tax rate.

Businesses do not report sales taxes paid by the business for purchases by the business. Sales taxes paid on purchases are not a separate deduction for a business. The sales taxes paid on equipment or other capital assets used by the business are just included as part of the cost (and therefore depreciation base) of the asset. If a business did not pay sales taxes on a purchase that should have been subject to sales taxes, they may need to report and pay use taxes. Use taxes are deducted in the year they are paid.

TAXABLE SALES AND SERVICES

In general, taxpayers must collect and remit sales tax for any good they sell unless it falls into an exempt category. Services are the inverse; taxpayers don't have to collect sales tax unless the service falls into a specified category of taxable services.

EXEMPT SALES

Minnesota has exempted certain categories of goods and services from sales tax, such as:

- Feminine hygiene products
- Medically prescribed massage therapy
- Occasional and isolated sales
- Clothing
- Groceries
- Drugs

While sale of an old bicycle at a yard sale is exempt from sales tax, a vintage reseller who purchases non-exempt property for inventory should collect sales taxes upon reselling the goods and remit the collection to the state.

TAXABLE SERVICES

Some common taxable services include:

- Cleaning and janitorial
- Lawn and garden maintenance
- Laundry and dry cleaning
- Massages
- Pet care and grooming
- Towing, cleaning, and rustproofing motor vehicles

These lists are non-exhaustive. Consult the Minnesota Department of Revenue website for specific details on taxable and tax-exempt sales and services.

DETERMING SALES TAX RATES AND CALCULATING SALES TAXES COLLECTIBLE

Sales taxes are generally calculated where the customer receives the product or service. For goods, this will be at a storefront or the delivery address. For services, this will be the address where the service is performed. This means that businesses may have to calculate and track different sales tax rates.

Prepare + Prosper cannot help in calculating the correct rate(s). Refer a taxpayer to Minnesota Department of Revenue's website to locate the tool for calculating the proper sales tax by address.

EFFECT ON INCOME TAX RETURN

Treatment of sales tax on the income tax return depends on the calculation and collection time of sales tax.

- If the sales tax is itemized or is indicated as "tax included" on the receipt/invoice it is treated as being held in trust for the state. Properly collected sales tax is neither income nor an expense deduction. Taxpayers must calculate the collected sales tax to exclude from their gross receipts before their tax appointment.
- If the sales tax wasn't calculated or collected at the time of sale, then the gross receipts are the value of the sale. The taxpayer still owes the sales tax. Sales taxes paid out-of-pocket are a business expense deduction in the year the tax is remitted to the state. The taxpayer cannot downsize the receipts to treat them as if they had included sales tax.

Use taxes are a deduction in the year they are paid to the state.

A taxpayer did not meet sales or use tax requirements can voluntarily disclose their failure to collect and request waiver of penalties from the Minnesota Department of Revenue. Waiver is not dismissal – the taxpayer must still pay the sales taxes due but can take an expense deduction for amounts paid in the tax year they were paid.

SALES TAX RETURN RESOURCES

Sales tax returns are entirely different from state and federal income tax returns. They are filed separately according to their own filing deadlines. Prepare + Prosper does not assist with filing sales tax returns. The handout "Minnesota Sales and Use Tax Basics" provides information about filing sales tax returns and is available for download on the Prepare + Prosper website.

The Minnesota Department of Revenue website provides detailed guides on sales tax. The website also has instructional videos on sales and use tax. Business owners should create an e-Services account on the MDOR website for filing sales tax returns and making payments electronically.

SELF-EMPLOYMENT ADJUSTMENTS

Three common adjustments for self-employed taxpayers are the deductible part of self-employment tax, the qualified business income deduction, and the self-employed health insurance deduction.

SELF-EMPLOYMENT TAX DEDUCTION

In an employer/employee situation, each pays half of payroll taxes. Federal law requires employers to withhold the employees' share from paychecks, match the withholding dollar for dollar, and transfer the total taxes on a timely basis. A self-employed taxpayer is both employer and employee and thus pays both halves of payroll taxes themselves. A taxpayer who owes self-employment tax deducts the **employer** share equivalent *for* AGI to capture the employer business expense. TaxSlayer automatically calculates the deduction. Employee wage or salary expense already includes the employee's share of payroll taxes, so there is no second deduction.

QUALIFIED BUSINESS INCOME DEDUCTION

The qualified business income deduction permits owners of pass-through businesses, which include self-employed taxpayers, to deduct up to 20% of their net business profit to arrive at taxable income. For self-employed taxpayers, the entire net business profit (Schedule C, Line 31) is still subject to self-employment tax.

The calculation for the deduction becomes more complicated at incomes over $191,950 ($383,900 MFJ). It will be limited based on the type of business, the value of assets used in the business, and the amount of wages paid by the business. Any self-employed taxpayer that qualifies for Prepare + Prosper's services will be eligible for the full deduction. TaxSlayer will calculate the deduction automatically unless adjustments or deductions have already reduced taxable income to $0.

SELF-EMPLOYED HEALTH INSURANCE DEDUCTION (SEHID)

Self-employed taxpayers are eligible to deduct up to 100% of out-of-pocket health insurance premiums – including Medicare premiums – for themselves, a spouse, or dependents. The deduction only applies to the premiums. A premium expense used for the SEHID cannot be claimed as an itemized medical expense on Schedule A, but taxpayers usually benefit more from the SEHID than from itemizing. Health savings account contributions do not count for SEHID either because they are already an adjustment *for* gross income.

To qualify for the deduction, the taxpayer must have a profit from their business. The deduction is limited to net income from self-employment. The taxpayer cannot be eligible to participate in an employer sponsored plan through either their employer or their spouse's employer; this applies even if the taxpayer does not participate in the employer offered plan.

Medicare plan costs reported on Form SSA-1099 are eligible for the deduction. Taxpayers may also deduct their share of a qualified health plan through the state marketplace (MNSure), but if they receive or could receive premium tax credits, the return is out of scope. VITA TaxSlayer disables the worksheet necessary to calculate the SEHID when PTC might apply. Taxpayers must forgo the SEHID for Prepare + Prosper assistance if they receive Form 1095-A because omission of an existing Form 1095-A causes an e-filing rejection. Refer taxpayers to the Minnesota Society of CPAs if they wish to claim the SEHID when PTC may apply.

TaxSlayer Entry: There are two places where the SEHID can be entered in TaxSlayer. The premiums can be entered on the Self-Employed Health Insurance Deduction screen, but it requires manual entry of self-employment income. (NOTE: Long-term care premiums, if any, must be entered on this screen to calculate the SEHID correctly.) Alternatively, enter the health insurance premiums on the health insurance line of the Schedule C, General Expenses screen. TaxSlayer will carry everything to the correct forms. If the taxpayer has multiple businesses, take the deduction on the Schedule C with the higher profit.

SELF-EMPLOYED RETIREMENT PLAN CONTRIBUTIONS

Self-employment income is earned income entitling business owners to contribute to retirement savings accounts. A sole proprietor can sponsor an employer retirement plan. Plans vary in complexity and cost to set up, comply with, and administer. Contributions may create a nonrefundable retirement saver's tax credit towards federal income tax, but not self-employment taxes. Contributions can be made through the due date of the tax return and are limited by one of the following:

- Total employment and self-employment income
- Annual contribution limit for the type of retirement account plus any age-based catch-up contribution
- SEP-IRA[2]: 25% of net income, up to annual limit
- Personal annual limit across all plans

Most VITA taxpayers are unlikely to exceed statutory contribution limits. Prepare + Prosper should only make sure that the SEP-IRA contribution is below 25% of net business income and that IRA contributions do not exceed total earned income.

TaxSlayer Entry: In Federal/Deductions/Adjustments, select Contributions to SEP, SIMPLE, and Qualified Plans to enter employee and/or spousal contribution(s). Enter the employer match, if any, on Schedule C/General Expenses/Pension and Profit Sharing, as an expense deduction.

ROTH AND TRADITIONAL IRAS

A taxpayer with earned income can contribute to taxpayer and/or spousal individual retirement account(s), up to the annual limit, plus catch-up contribution(s) if age 50 or older at the end of the tax year. Traditional IRA contributions are deductible from gross income, but Roth IRA contributions are not. Contributions to either type of IRA count towards the retirement saver's credit. IRA contributions can generate a subtraction from household income used to calculate the homeowner's property tax refund on Form M1PR.

Because Roth IRA contributions do not reduce AGI, starting in 2024 they no longer generate a subtraction from household income used to calculate the Minnesota renter's rebate.

TaxSlayer Entry for traditional IRA contribution: Federal/Deductions/Adjustments/Traditional IRA Contributions

TaxSlayer Entry for Roth IRA contribution: Federal/Deductions/Credits/Credit for Qualified Retirement Savings Contributions

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[2] Simplified Employee Pension Individual Retirement Account. Other types of plans may permit employer matching, loans, or nondeductible Roth contributions.

ESTIMATED TAX PAYMENT BASICS

Even though income taxes are due in April every year, taxpayers may be required to prepay taxes throughout the year. These prepayments are estimates and are reconciled to the actual tax liability when a tax return is filed. Taxpayers receive a refund if they overpaid or may still owe if they underpaid. Taxpayers who underpay their taxes throughout the year, may owe additional penalties and interest.

Estimated payments usually refer to payments made by the taxpayer on their own initiative, either quarterly or when requesting an extension. Employer withholding is also an estimate, but withholding is not what most taxing authorities refer to as estimated payments.

WHO NEEDS TO MAKE ESTIMATED TAX PAYMENTS?

Two common groups who need to make estimated payments are retirees and self-employed taxpayers. Retirees may need to make estimated payments because taxable distributions from retirement accounts, pensions, and even Social Security are made with little or no tax withholding.

SELF-EMPLOYED TAXPAYERS

Self-employed or independent contractors have no employer to automatically withhold taxes for them and must make payments themselves. Self-employed workers must make estimated payments to cover both income taxes and self-employment taxes. The IRS expects self-employed workers to start making estimated payments when they exceed $400 of self-employment income for the year.

UNDERPAYMENT PENALTY

Taxpayers who prepay insufficient tax over the year may owe an underpayment penalty unless they fall into a safe harbor. If a taxing authority – the IRS or Minnesota Department of Revenue – pursues the taxpayer, it will calculate the penalty and bill the taxpayer. The calculation depends on the number of days an estimated payment was late and changing interest rates. Prepare + Prosper does not calculate penalties.

SAFE HARBOR

In general, taxpayers will not incur an underpayment penalty if the total tax owed on the return:

- is less than $1,000 after credits and withholding, or
- withholding and/or estimated payments equal at least 90% of current year tax, or
- withholding and/or estimated payments toward current year tax equal at least 100% of prior year tax.

There are special rules for farmers and higher income earners, but most people will not owe a penalty if they meet any of the three conditions above. The only difference between the IRS safe harbor and Minnesota Department of Revenue safe harbor is that the threshold in the first bullet is $500 of Minnesota tax owed.

A taxpayer who pays 90% of the current year tax or 100% of prior year tax by withholding is considered to have paid tax evenly over the year. In these circumstances, the IRS will generally not assess penalties and interest for late quarterly payments.

CALCULATING ESTIMATED TAX PAYMENTS

There are two common options for calculating an estimated payment.

Option	Considerations	How to calculate
Simple Option: Pay based on prior year's taxes	• Guaranteed to avoid the underpayment penalty • Good option if income is similar to the previous year • Can lead to large refund or large balance due at tax time if net income has changed significantly	Start with tax calculated on prior year tax return and then pay one quarter of that amount for each quarterly estimated payment (find amounts on Form 1040 line 24 and MN Form M1 line 17)
Advanced Option: Estimate based on current year-to-date income	• Owe $0 in taxes and get $0 in refunds when filing tax return • Good option for those with detailed income and expense tracking	Track income from all sources and tax-deductible expenses monthly Use worksheets to calculate estimated taxes for each quarter

TaxSlayer can generate estimated payment vouchers from the 2024 tax return for taxpayers who wish to use the simple option outlined above. Inform the reviewer that the taxpayer would like estimated tax vouchers for 2025.

We cannot pre-generate vouchers for taxpayers who wish to opt for the more advanced option. The IRS and Minnesota Department of Revenue provide worksheets for calculating estimated taxes. Taxpayers can download the Income Expense Tracker and Estimator Tool from the P+P website, Customer Tax Tools page. This Excel workbook calculates monthly net income and quarterly estimated tax payments from data the taxpayer enters.

ESTIMATED TAX PAYMENT DUE DATES

Estimated payments are due every quarter. The IRS and Minnesota Department of Revenue use the same schedule. If a payment due date falls on a weekend or holiday, it is due the next business day. If a taxpayer misses a payment, the IRS and Minnesota Department of Revenue have discretion to assess a penalty. However, the penalties can be waived with an explanation, such as income fluctuations during the year.

Period covered	Due date
January through March	April 15
April and May	June 15
June through August	September 15
September through December	January 15

MAKING AN ESTIMATED TAX PAYMENT

The IRS allows taxpayers to make estimated payments by mail or online. Taxpayers can schedule payments for automatic withdrawal each quarter on the IRS website. Taxpayers can apply a 2024 tax refund toward the first quarter's estimated payment due in 2025.

The Minnesota Department of Revenue website allows taxpayers to make payments online or create vouchers to make payments by mail.

Taxpayers must provide a record of amounts and dates of estimated payments made to the IRS and/or the state when they file their tax return, so that they receive proper credit for these payments on their returns.

TAXPAYER REFERRALS

The IRS has additional information about figuring and making estimated tax payments as part of their online Small Business and Self-Employed Tax Center. Minnesota Department of Revenue also has additional information about MN estimated tax payments on their website.

Taxpayers with questions about making estimated tax payments can call the Prepare + Prosper Self-Employment line at 651-262-2169 or download Estimated Tax Basics from the Customer Tax Tools webpage.

MISCLASSIFIED WORKERS

All too often a worker has been misclassified as an independent contractor when they should have been treated as an employee. Many of these workers first realize this when they come to file their tax return and present a Form 1099-NEC instead of a W-2. Misclassified workers have two options: they can accept the misclassification and file as an independent contractor, or they can challenge the misclassification.

SPOTTING A MISCLASSIFIED WORKER

Misclassified taxpayers often have a large amount of self-employment income with little to no expenses. They are often doing work that is traditionally performed by employees, such as administrative work in an office, and are not expected to provide their own equipment.

Prepare + Prosper cannot make the determination if a taxpayer has been misclassified. Taxpayers can be referred to a Low-Income Taxpayer Clinic to assist with determining If they were misclassified. However, a taxpayer can have their taxes prepared before meeting with the LITC. It may become necessary to amend the return to recalculate taxes due. There are two LITCs in the Twin Cities: Southern Minnesota Regional Legal Services and the Ronald M. Mankoff Tax Clinic at the University of Minnesota's school of law.

ACCEPTING MISCLASSIFICATION

A taxpayer who does not wish to challenge the misclassification files a return with Schedule C like any other self-employed taxpayer. Unfortunately, misclassified workers often have minimal deductions and are likely to owe significant self-employment tax. Work with the taxpayer to find as many allowable deductions as possible.

CHALLENGING MISCLASSIFICATION

The misclassification challenge process cannot be done anonymously. This means the taxpayer's employer will know who filed the challenge and the taxpayer's employment will likely end. There are two components to the challenge process: a completed tax return showing the misclassified income, and a Form SS-8, Determination of Worker Status for Purposes of Federal Employment

Taxes and Income Tax Withholding, explaining the misclassification. Prepare + Prosper can do the tax return and properly report the income, but the taxpayer must be referred to an LITC for assistance with the Form SS-8.

Taxpayers who wish to challenge their classification must have a tax return with Form 8919 and Form SS-8. Report the misclassified income on Form 8919 on the tax return with as much information about the employer and income as the taxpayer has. The taxpayer will owe the employee half of the Social Security and Medicare taxes on the income but does not deduct half of tax like an independent contractor. Besides, the independent contractor takes a business expense deduction for the employer's match to employee contributions to Social Security and Medicare. Challenging misclassification argues that the taxpayer is not an employer.

The completed return must be paper-filed after the taxpayer meets with the LITC to complete the Form SS-8. Provide the taxpayer with a copy of the return and the referral information to meet with the LITC.

TaxSlayer Entry: If the income was reported on Form 1099-NEC, DO NOT enter form 1099-NEC into TaxSlayer. Only list the income on Form 8919 or TaxSlayer will double count it.

MISCLASSIFYING WORKERS

Although businesses with employees are out-of-scope for VITA, self-employed taxpayers have responsibility to classify their own workers properly as independent contractors or employees. The business owner may temporarily avoid the burdens of matching payroll taxes, state unemployment insurance premiums, and significant reporting obligations, but taxes and penalties arising from a successful worker challenge are severe.

BUSINESS ENTITY BASICS

A business entity is the structure for how a business is owned and operated. Some formal business entities require registration with a state government. Other informal entities are created without any registration. The entity is what actually runs the business and determines who is responsible if an issue arises.

The most common business entities are the sole proprietorship, partnership, corporation, and limited liability company (LLC).

SOLE PROPRIETORSHIP

A sole proprietorship is an informal business entity formed simply by going into business. No registration is required. If an issue arises, the owner is personally liable[3] for everything the business does. All income taxes are reported on the owner's tax return. A sole proprietorship uses the owner's name and SSN/ITIN, but the owner can register for an Employer Identification Number (EIN) for taxes. An EIN lets a business issue tax forms to employees, independent contractors, vendors, and clients using the EIN instead of the owner's SSN/ITIN.

[3] *Personal liability means that personal assets can be seized to pay any debts that might be incurred.*

PARTNERSHIP

Partnerships can be either formal or informal. An informal partnership is formed when two or more people go into business together without registering with a state government. The owners are called partners. Each partner is personally liable for anything the business does, including anything a partner does in the business's name. The partnership must file a separate tax return[4] from the partners, apportion the income, and issue the partners a tax form. Partners report their apportioned share of the income on their own personal tax return. A partnership is a "flow-through entity" because it does not pay income tax at the partnership level.

A formal partnership can offer the partners some protection from personal liability but requires a partnership agreement and registration with a state government. A formal partnership still operates similarly for tax purposes, but it can limit liability for certain debts to just the assets owned in the partnership's name.

CORPORATION

A corporation is a formal business entity owned by shareholders. It is formed by filing Articles of Incorporation and bylaws with a state government. Corporations are generally the most formal of business entities requiring financial reports, board of directors' meetings, elections, officers, shareholders, and a corporate tax return.

Corporate structure determines how income is taxed. All corporations begin as C-corporations, which pay income tax on their earnings at the current corporate tax rate of 21%. Shareholders receive dividends, distributed from corporate earnings, and typically taxed at a reduced capital gains rate on the shareholder's personal income tax return. C-corporation earnings are thus subject to double taxation. The corporation can elect to be structured as an S-corporation, so that income mostly passes through to shareholders' personal income tax returns. Regardless of structure, the corporation must file its own tax return, Form 1120-C or Form 1120-S.

As long as formalities are observed, shareholder liability is limited to assets held by the corporation and shareholders are not personally liable for what the corporation does.

LIMITED LIABILITY COMPANY (LLC)

LLCs are the most versatile business entity. They can only be created formally, but can operate like a sole proprietorship, a partnership, or a corporation. The owners of an LLC are called members. A single-member LLC is a disregarded entity in the eyes of the IRS, which treats the SMLLC as a sole proprietorship for tax purposes. The structure does limit the member's liability for other business dealings. The member has the option to have the LLC treated more like a corporation for taxes. A multi-member LLC acts much like a partnership, but members can structure it to operate more like a corporation or something in between a partnership and corporation.

[4] *Prepare + Prosper cannot assist in filing any separate entity tax returns. We can only assist sole proprietors or single-member LLCs. We do not prepare individual income tax returns for partners, shareholders, or members of flow-through entities.*

NONPROFIT ORGANIZATIONS

Nonprofit organizations are formal entities. They must be registered and apply for nonprofit status. They are most commonly organized as corporations. A nonprofit is owned by the public and overseen by a board of directors. No shares are publicly traded. The founders of a nonprofit do not own it, nor do they have any claim on the nonprofit's net assets. This also means any income it generates is not attributable to the organizer. Nonprofits file their own special tax returns to report information about their assets, revenue, expenses, liabilities, and activities to the IRS and are generally tax-exempt.

BENEFIT COMPANIES

Many states now allow the registration of a public benefit version of most business entities. This designation does not create any tax-exempt status and the public benefit version is treated like the standard version of the entity. It usually allows a stated company goal so as founders relinquish control by bringing in additional investors or by selling shares, they maintain an initial vision for how the company should operate. Minnesota has many entities that have chosen this designation and donate a large portion of proceeds to fund other causes or nonprofits.

DOES A TAXPAYER NEED A BUSINESS ENTITY?

If someone is running a business, they have a business entity. They either have an informal entity or have registered as a formal entity. Formal business entities can provide some tax flexibility as the business grows, but at lower incomes, the additional reporting and compliance costs often outweigh the tax benefits. Formal entities also often limit personal liability for actions performed in the name of the business.

Business entities don't provide protection against anything someone does personally even if it was done for the business. For example, the business entity provides no protection if a masseuse breaks a client's bone during a massage. The business owner is still personally liable for any damages. Neither does a business entity protect owners from criminal liability.

Business owners should also separate the entity's finances from their personal finances. Commingling personal and business assets in a single bank account, for example, reduces the personal liability protection that a formal business entity can provide. Maintaining separation between business and personal assets is a good practice that also facilitates getting ready for tax preparation.

SELF-EMPLOYMENT TERMS LIST

Accounting Method

How a business determines when they recognize revenue and expenses: that is, when they make money or pay expenses. Typically, Cash Method or Accrual Method.

Accrual Method – *Out of Scope*

Accounting method where the business reports income when constructively earned and reports expenses as they are incurred, to match their benefit to revenue. No cash needs to change hands.

Amortization – *Out of Scope*

Cost recovery through expense deductions over time of intangible assets such as a copyright.

Business Entity

Formal entity that runs the business instead of an individual. Often limits an individual's personal liability for debts.

Business Loss

When the business income is less than the expenses.

Cash Method

Accounting method where the business reports income when they receive it in cash and reports expenses when they are paid.

Corporation – *Out of Scope*

Business entity that requires a formal filing with the state. Can be S-corp if just a few shareholders, or C-corp if many shareholders. Files its own tax return and distributes dividends or shares of income to shareholders.

Depletion – *Out of Scope*

Cost recovery through expense deductions over time of minerals or other land-based resources as they are extracted.

Depreciation

Cost recovery through expense deductions over time of a larger business purchase rather than full immediate expensing. This accounts for a durable asset having more than one year of useful service life.

Employee

A worker who does work for another person in control of how the worker does the work. The employer reports the employee's earnings on Form W-2.

Employer Identification Number (EIN)

Number assigned by the IRS to a business entity or individual on request.

Expense

Cost incurred by a business to generate income, typically deducted on Schedule C.

Hobby – *Out of Scope*

An activity that was not engaged in for profit. It does not create earned income. Any income generated is not subject to self-employment tax. Expenses cannot currently be deducted.

Independent Contractor

A worker who does work for another and generally has control over how the work is done. Considered to be in business for themselves.

Inventory

Materials or goods a business owner holds across tax years with intent to sell.

Investment at Risk

Amount of money, assets, and/or liabilities the taxpayer may lose.

Limited Liability Company (LLC)

Flexible business entity that requires a formal filing with the state. When owned by a single member, it is disregarded by the IRS and treated as a sole proprietorship. Multi-member LLCs act more like a partnership or corporation.

Material Participation

Taxpayer is active in the business and is not a passive investor.

Member

Someone who owns part of an LLC.

Misclassification

When an employee is labeled as an independent contractor.

Partner

A member of a partnership who has a right to profits and is liable for debts of the partnership. Partnerships can form just by introducing someone as a partner.

Partnership – *Out of Scope*

Business entity where two or more people create and run a business together. Can be formed without any formal filing. Needs to file its own tax return.

Profit

When the business income is greater than the expenses.

Schedule C

Form filed with a Form 1040 on which a sole proprietor reports business income and expenses

Schedule SE

Form used to compute and report a taxpayer's self-employment tax liability.

Self-Employment Tax (SE tax)

Combination of Medicare and Social Security payroll taxes a self-employed worker pays.

Shareholder

Someone who owns part of a corporation.

Sole Proprietorship

When an individual creates and runs a business without any formal business entity.

INTERNATIONAL SCOPE

Prepare + Prosper assists with a limited number of international scope issues: self-employed taxpayers with some international source contract work, and certain social security equivalent benefits for Canada or Germany. All taxpayers must qualify as residents for tax purposes, see pages L-3 and L-4 of Pub 4012 for help determining if someone is a resident. Nonresident aliens should be referred to Nonresident Volunteer Tax Assistance Program, www.nrvtap.com.

Volunteers must have taken and passed the International or Circular 230 (with proper credential) certification tests before assisting taxpayers.

CURRENCY CONVERSION

A taxpayer who is paid in a currency other than US dollars (USD) must report the income in US dollars on their tax return. To convert the currency to USD, look up the “yearly average currency exchange rates” on irs.gov.

INTERNATIONAL SOURCE CONTRACT WORK

Many residents of the US may take some foreign contract work, such as performers working on a cruise ship that was flagged for a foreign country. We cannot assist or advise on foreign tax filing obligations but can report these small amounts as part of their US-based self-employment. The income will be included as part of their self-employment income on Schedule C but must first be converted to USD. Expenses related to the travel to conduct the work are deductible business expenses.

A taxpayer whose business operates primarily abroad should be referred to the Minnesota Society of CPAs, www.mncpa.org. These taxpayers will likely have other foreign tax issues affecting their return that we cannot assist with.

SOCIAL SECURITY EQUIVALENT BENEFITS

The US treats income from the national pension systems of Canada and Germany the same as US Social Security payments. Payments received from Canada or Germany from the countries’ Social Security equivalent programs is reported on a tax return exactly as if it were US Social Security. The income needs to be converted to USD and then added to the taxpayer’s US Social Security benefits.

REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS (FBAR) AND FINCEN 114

Taxpayers who have an account in a foreign country may be required to file an annual reporting form with the US government. This form’s due date matches the US tax filing deadline. We cannot complete this form for a taxpayer. Taxpayers who had a foreign account that reached a USD value of at least $10,000 at some point during the tax year must file this form with US Treasury. It can be completed on its own on the website of the Financial Crimes Enforcement Network of the US Department of Treasury, www.fincen.gov.

FORECLOSURES

In general, foreclosure of a principal residence is treated as a sale of property, but with additional reporting complexity. Foreclosures can be a long process, and the year a taxpayer loses their house may differ from the year the foreclosure is reported on a tax return. If a taxpayer loses their home to foreclosure, they will receive a tax form from their lender for the year of a reportable or taxable event.

How a foreclosure gets reported will depend on if the home sells for more than the outstanding debt and if the debt was recourse or nonrecourse. The usual process for a foreclosure is the lender acquires the property and then puts it up for auction. After the auction the lender will likely cancel any outstanding debt.

A recourse debt allows the lender to continue pursuing the debt if the value of the secured property does not satisfy the debt. With a nonrecourse debt, the lender cannot pursue the debt after the secured property has been handed over. IRS Pub 4491 has more information.

HOME SELLS FOR MORE THAN DEBT

If a foreclosed home sells for more than the outstanding balance of the mortgage, the taxpayer has no income from cancellation of debt and may receive a Form 1099-S reporting the sale. In this case, it is reported like other sales of principal residence. The taxpayer can exclude up to $250,000 ($500,000 MFJ) of the gain from the sale of the home.

TaxSlayer Entry: See Pub 4012, Tab D: Income, Capital Gains or Losses Sale of Main Home for details on reporting the sale of a principal residence in TaxSlayer.

HOME SELLS FOR LESS THAN DEBT

If a foreclosed home sells for less than the outstanding balance on the mortgage, a taxpayer should receive a Form 1099-C, Cancellation of Debt, but may also receive a Form 1099-A, Acquisition or Abandonment of Secured Property. Form 1099-A reports the fair market value (selling price) of a surrendered home and the value of the outstanding loan. Form 1099-C reports debt canceled by the lender and may also report the fair market value of the home.

You will first complete the sale of home section in TaxSlayer and use information from Forms 1099-A and 1099-C to determine the sale price. If the mortgage was a nonrecourse debt, like most mortgages in Minnesota, the sale price will be either the outstanding balance of the loan if it was reported on a Form 1099-A or the amount of cancelled debt plus the fair market value if it was just reported on a Form 1099-C.

Then, enter Form 1099-C and complete Form 982 to exclude the cancelled debt from income. Instructions for completing Form 982 can be found in Pub 4012, tab EXT. Discharge of Qualified Principal Residence Indebtedness. If a taxpayer just received Form 1099-A, do not complete Form 982. Form 982 should be completed when/if a taxpayer receives Form 1099-C.

MORTGAGE WORKOUT

If a taxpayer enters into a mortgage workout or loan modification with their lender where the mortgage is modified and some of the outstanding debt was forgiven, the lender will send the taxpayer a Form 1099-C reporting the forgiven debt. This debt may also be excluded from income much like if the home was foreclosed on. You will just complete Form 982 without a corresponding Schedule D entry.

SELF-EMPLOYMENT TAX ORGANIZER
TAX YEAR 2024

PREPARE + PROSPER

The Self-Employment Tax Organizer (SETO) gathers information about your self-employment income and expenses. The SETO is used to prepare Schedule C, Profit or Loss from Business, and report your net business income on Form 1040, your tax return. Please complete all sections that apply to your business.

BASIC INFORMATION

Your name			If married filing jointly ☐ Qualified joint venture ☐ Injured spouse
Business name (If no separate business name, leave blank)			EIN (if used) ____________________
Business address (If no separate business address, leave blank)			
Business or profession (What do you do?)		Start Date ____________	NAICS code ____________

INCOME FROM SELF-EMPLOYMENT

Form 1099-NEC Number of forms received ______ (Enter the total for all forms received.) $____________________

Form 1099-K

(Enter the total for all forms received.) $____________________

Total cash, checks, and credit card payments paid to you

(Include tips in this amount.) $____________________

Other self-employment income, such as grants/awards for the business

(Describe the type of income. DO NOT include income from W-2s.) $____________________

Total income from self-employment $____________________

ESTIMATED TAX PAYMENTS

Did you make estimated payments to the IRS or Minnesota Department of Revenue during calendar year 2024 or 2025 for tax year 2024? ☐ YES ☐ NO

Amount and quarter of estimated payments, if any

IRS	Q1 Apr $________	Q2 Jun $________	Q3 Sep $________	Q4 Jan $________	Extension $_______
MN	Q1 Apr $________	Q2 Jun $________	Q3 Sep $________	Q4 Jan $________	Extension $_______

EXPENSES

Advertising	$	Rent or lease of equipment	$
Contract labor	$	Rent of workspace/property	$
Commissions & fees	$	Repairs & maintenance on business equipment	$
Health insurance premiums*	$	Other supplies	$
Business liability insurance	$	Business licenses	$
Interest – paid on a business loan or business credit card	$	Sales tax paid to the state (if paid but not collected from customers)	$
Legal & professional services	$	Business travel (airfare, hotel, etc.)	$
Office supplies (paper, toner, etc.)	$	Business meals with customers or while traveling	$
Postage & freight	$	Utilities (costs specifically for the business)	$

*Out-of-scope if claiming self-employment health insurance deduction **and** entering Form 1095-A for premium tax credit

CELL PHONE AND INTERNET EXPENSES

If you used your cell phone for business:

1. Annual cost for your cell phone $__________
2. Percentage of time used for business __________%

Expense amount $____________

If you paid for internet service for your business:

1. Annual cost for your internet $__________
2. Percentage of time used for business __________%

Expense amount $____________

OTHER EXPENSES

Professional education	$	Parking & tolls	$
Safety equipment or specialized clothing (goggles, uniforms, etc.)	$	Professional organization membership dues or publications	$
Other: ________________________	$	Other: ________________________	$
Other: ________________________	$	Other: ________________________	$

VEHICLE INFORMATION

Date vehicle was first used for business (month/day/year) ______ / ______ / ____________

Make and model of vehicle (ex: Kia Sol or Ford F-150) ____________________

Report your mileage in 2024

Business miles: _______________
From one work site to another work site or from a W2 job to a work site.

Commuting miles: _______________
From home to a work site or returning from a work site to home.

Personal miles: _______________
Not related to work.

Do you (or your spouse) have another vehicle available for personal use? ☐ YES ☐ NO

Was your vehicle available for personal use during off-duty hours? ☐ YES ☐ NO

Do you have evidence to support your deduction? ☐ YES ☐ NO

If yes, is the evidence in writing? (e.g. mileage log or app for tracking mileage) ☐ YES ☐ NO

Uber/Lyft/DoorDash drivers: Do you have a mileage summary from your online account? ☐ YES ☐ NO

MAJOR PURCHASES

Item	Date of purchase (month/day/year)	Purchase Cost	Business use percentage %	Accumulated Depreciation
	/ /	$	%	$
	/ /	$	%	$
	/ /	$	%	$
	/ /	$	%	$

SELF-EMPLOYED RETIREMENT ACCOUNT CONTRIBUTIONS

Did you contribute to a retirement savings account for 2024? ☐ YES ☐ NO

Account Custodian	Account Type	Contribution Date*	Amount
			$
			$

* Contribution deadline: April 15, 2025 without extension; October 15, 2025 with extension

OFFICE IN THE HOME *Space must be used exclusively for the business.*	
Area exclusively used for business or business storage	Square feet: ________________
Total area of the house or apartment	Square feet: ________________
Mortgage interest (homeowners)	$
Real estate taxes (homeowners)	$
Renter or homeowner insurance premiums	$
Rent	$
Repairs & maintenance	$
Utilities (e.g. gas, electric, water, sewer, garbage)	$
Homeowners only: A) What was the purchase price of the home?	$
B) What was the value of the land?	$
C) What date was the home first used for business? (month/day/year)	/ /

PRODUCTS SOLD BY DIRECT SELLER - COST OF GOODS SOLD	
1. Value of inventory you held on 01/01/2024 (This is inventory carried over from 2023)	$
2. Value of inventory you purchased during 2024	$
3. Did you withdraw any of inventory for personal use?	☐ YES ☐ NO
3a. If yes, what was the value of inventory withdrawn for personal use?	$
4. Cost of labor paid to others (e.g. to assemble, paint, or package products)	$
5. Cost of materials and supplies (e.g. packaging or decorations added to the original product)	$
6. Value of inventory you held on 12/31/2024	$

SELF EMPLOYMENT TAX ORGANIZER GUIDE SHEET
TAX YEAR 2024

PREPARE + PROSPER

About the SETO Guide Sheet and the SETO

The SETO Guide Sheet explains how to fill out the Self-Employment Tax Organizer (SETO). These tools help you report self-employment income and expenses correctly on your tax return. Your tax preparer uses your SETO to ask questions and make entries so that TaxSlayer software creates Schedule C for your tax return.

The SETO is modeled after Schedule C, Profit or Loss from Business. Schedule C is an attachment to IRS Form 1040, the individual income tax return that most people file.

Eligibility for Prepare + Prosper's Self Employment Program

Prepare + Prosper prepares tax returns for sole proprietors, independent contractors, or single member LLCs. We **do not** prepare returns for taxi drivers, day traders, clergy members, taxpayers with employees or partners, taxpayers with income from rental property, or taxpayers reporting crypto currency transactions.

Common Questions

How do I know if I'm self-employed?

Being paid as an independent contractor, working as a freelancer, or being paid in cash by customers usually means you are self-employed, rather than working as an employee. Think of your service or position as your own business. If you expected to receive Form W-2 as an employee but received Form 1099-NEC as an independent contractor, contact us to discuss options for filing your tax return.

What should I bring to my self-employment tax preparation appointment?

- Completed Self-Employment Tax Organizer (2-page mini or 4-page full)
- Previous year's tax return – it may have details needed for this year's return
- Social Security card (or ITIN letter)
- Photo ID
- All tax forms received (1099-NEC, 1099-K, W-2, 1098-T, 1099-R/DIV/B/INT/C)

Detailed records about your business operations are generally not needed because all income and expenses are supposed to be categorized and totaled on your completed SETO.

What is special about my tax return when I'm self-employed?

Self-employment income is **earned** income. Unlike dividends, bank interest, gambling winnings, or capital gains, earned income is income from work. In addition to state and federal income tax, earned income is subject to Social Security and Medicare tax, collectively known as **self-employment tax.** Earned income qualifies the worker for beneficial, refundable tax credits such as the Earned Income Tax Credit.

As a self-employed worker,

1. You must attach Schedule C to your tax return to report your business profit (or loss)
2. You must attach Schedule SE to your tax return to report the self-employment tax due
3. You must pay the normal employee share of Social Security tax and Medicare tax, which employees usually pay through paycheck withholding: 6.2% + 1.45% = 7.65%
4. You must pay the required employer match to Social Security and Medicare taxes, which employees often don't realize that employers are paying, another 7.65%.

As the employer, you take another 7.65% deduction from your Schedule C net profit to account for the expense of employer match. The self-employment tax equals 15.3% of 92.35% of net profit.

Example: Net profit is $10,000 → SE tax = 0.153 x 0.9235 x $10,000 = $1,412.96.

What if I have more than one source of self-employment income?

If your income or positions are related (for example, you are a freelance writer and a copy editor), fill out one SETO so that your tax return has one Schedule C. If you operate unrelated businesses or services (for example, you have income as a musician and as a rideshare driver), fill out separate SETOs to create separate Schedule Cs, each with related income and necessary expenses.

Tips for SETO sections

Follow the tips in the sections below to complete your SETO. General tips:

- Complete your accounting for the tax year by recording all income and expenses in your business accounting software, spreadsheet, or notebook through December 31, 2024.
- Enter information that is relevant to your business. Skip sections that do not apply to you.
- Do not include income from W-2s, unemployment, or other non-self-employment sources.
- If you have questions that are not answered on this cheat sheet, contact us at 651-262-2169.
- Plan for adequate time to complete the SETO.

BASIC INFORMATION

This section collects basic details about your business. Enter a separate name or address for the business only if you have one. Enter your EIN (employer identification number) if you have one and want to use it on your Schedule C.

In the business or profession, enter the type of work you do, such as courier (Uber or DoorDash driver), musician, or writer. Enter the NAICS (North American Industry Classification System) code if you have it from a prior year Schedule C. Your tax preparer can also search for an appropriate NAICS code.

The start date for the business is the first day you began business operations.

Married couples who file jointly and run a business together can check the Qualified Joint Venture box to divide the earned income and work credits 50/50 between the spouses. Checking the Injured Spouse box will advise the tax preparer to complete Form 8379 and allocate Schedule C income appropriately.

INCOME FROM SELF-EMPLOYMENT

Track all payments from self-employment work in this section. This could include:

- Form 1099-NEC reporting Nonemployee Compensation in Box 1
- Form 1099-K reporting credit card payments from third party vendors like Venmo, Square, or PayPal
- Cash, check, or credit card payments
- Payments received for products or services via an app or online platform like Venmo, Zelle, PayPal, or CashApp (even if you don't receive Form 1099-K reporting the amount)
- Business grants or awards (local, state, or federal governments, or private foundations)

Do not enter income from a W-2 job, unemployment benefits, or other sources in this section.

ESTIMATED TAX PAYMENTS

If you made estimated tax payments, enter the amount you paid to the IRS and/or to the state of Minnesota. Estimated taxes are payments made ***for*** the current tax year (2024). Estimated payments include quarterly payments made through January 2025 for tax year 2024 and any payment made through April 15, 2025 when filing for an extension. Do not include payments you made for owing money for 2023 or any other previous tax year.

If possible, bring confirmations from the IRS or MN Department of Revenue e-Services, cancelled checks, or bank statements to document the amount and date of payments.

EXPENSES	
Track your business expenses by categories that map closely to Schedule C. Use the total of actual amounts. The expenses you report as “ordinary and necessary” depend on the nature of your business. Expenses reduce net, taxable income. Examples of different expenses you may be able to claim and deduct include:	
Advertising	Business cards, mailers, brochures, digital ads
Contract labor	Payments made to non-employees who work for your business; document with 1099-NEC issued to anyone you paid $600 or more in 2024
Commissions & fees	Payments you make to obtain a job or project or in the course of your work
Health insurance premiums	Premiums paid in your name or the name of your business
Business liability insurance	Premiums for liability insurance to protect your business or service
Interest – business loan or credit card	Interest you paid on a business credit card (*not a personal card*) or a loan taken out to operate your business
Legal & professional services	Payments to a lawyer, accountant, business coach, website designer or other professional service for your business
Office supplies	Pens, paper, toner, file folders, and other supplies for the business
Postage & freight	Shipping and mailing costs for your business
Rent or lease of equipment	Examples: a commercial paint sprayer or audio/visual equipment
Rent of property/workspace	Examples: chair at a hair salon, co-working space subscription, storage unit
Repairs & maintenance on equipment	Costs to keep your business equipment running
Other supplies	Miscellaneous supply costs not listed elsewhere; enter a description of the expenses
Business licenses	Cost of a required state license, for example, as a barber, real estate agent, or midwife, or the cost of annual single-member LLC registration
Sales tax paid to the state	Payments you made to the state on taxable sales or services **if not collected from the customer.** See our Sales Tax Basics handout for more information.
Business travel	Travel as part of your business, like attending a conference or meeting out of town. Examples: hotel cost, airfare, taxi rides
Business meals with customers or while traveling	Meals you paid for when doing business with customers or for your own meals during overnight business travel.
Utilities	Utilities you pay for your business can be claimed as expenses. *Do not include utilities for your home office – these are reported in the “Office in the Home” section.*

CELL PHONE AND INTERNET EXPENSES

Cell phone and internet charges are often partially deductible as many self-employed workers just use their personal plan to operate their business. Multiply the total expense by the percentage used for business to calculate the allowable expense.

> Example: Your annual cell phone bill is $50/month or $600/year. You use your cell phone for business 50% of the time. You can deduct $300 as a business expense. ($600 x 0.5 = $300)

If you have a separate cell phone or internet plan for your business, list 100% of the cost as a business expense.

OTHER EXPENSES

Use this section to list expenses without a SETO category. Enter a description and the expense amount.

Professional education	Examples: marketing course, technology class, required continuing education, CPR certification
Safety equipment and specialized clothing	Examples: safety goggles, steel-toed boots, rubber gloves, uniforms. In general, clothing that can be worn off the job is probably not deductible.
Parking & tolls	Payments for parking and tolls while driving for business
Dues or publications for professional organizations	Costs for professional organization membership or subscriptions to professional journals. Examples: interpreter roster fee, union dues
Software subscriptions	Monthly charges for cloud-based accounting, design, word processing, payroll processing, or editing software.
Other: ___________________	Enter expenses you had for your business that are not listed elsewhere.

SELF-EMPLOYED RETIREMENT ACCOUNT CONTRIBUTIONS

Contributing to a retirement savings account may allow you to reduce your taxable income and/or claim a retirement saver's tax credit. In general, workers can contribute to accounts such as

- Individual Retirement Account – traditional or Roth
- Employer-sponsored plans – 401(k), 403(b)

As a self-employed business owner, you are also allowed to create retirement plans such as a SEP-IRA, SIMPLE IRA, or solo 401(k). It is your responsibility to know the plan limits on contributions. For example, a SEP-IRA permits a total contribution of 25% of net self-employment income.

VEHICLE INFORMATION

At Prepare + Prosper, we only use the standard business mileage deduction. It is an IRS-issued rate to cover gasoline, maintenance, repairs, and wear and tear (depreciation) on your vehicle. Using this method, you track your mileage instead of tracking your actual gas purchases and vehicle repair costs. Because the standard mileage deduction covers the cost of ownership, you are not allowed to deduct lease payments or vehicle depreciation in addition to the deduction of $0.67 per business mile for 2024.

When using the business mileage deduction, deduct parking and toll costs separately. Enter those in the Other Expenses section on the SETO.

Documentation

You must have documentation of your mileage, and it must be written, typed, or saved in a mileage app. For example, you can use a notebook in your glovebox, an app, or the tracker built into a gig driver account. We recommend using a tracker in addition to your gig driver account as it often underestimates your deductible mileage. You can recreate a mileage log before doing your taxes using your calendar and Google Maps or mileage tracking apps.

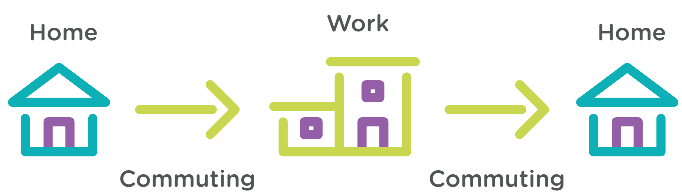
Types of Mileage to Track

- Business mileage: travel from one work site to another work site. This mileage is deductible.
- Commuting mileage: travel from home to a work site or from a work site to home is not deductible.
- Personal mileage: travel that is not related to work.

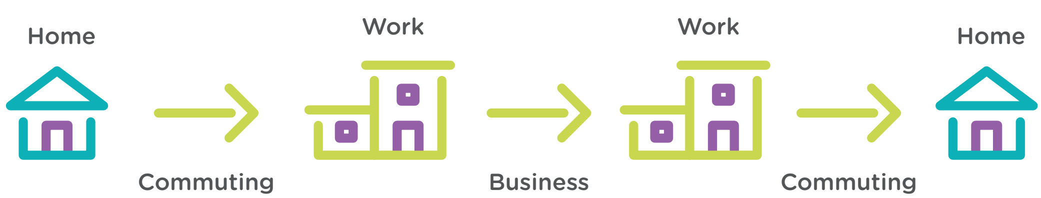
Business Mileage Examples

If you travel from a regular job (W-2 situation) to a self-employment work site, or vice versa, this is considered business mileage. Here are some other examples of business mileage.

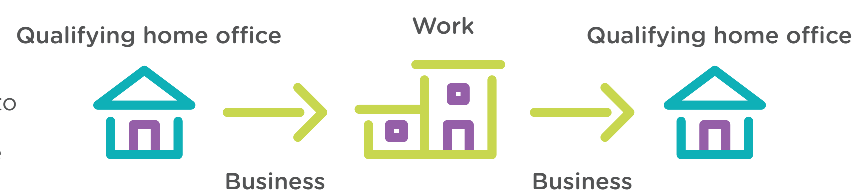
1. A self-employed taxpayer **without** a home office leaves home to go to a job site and then returns home. Both trips are commuting miles and <u>not</u> deductible**.**



2. A self-employed taxpayer **without** a home office leaves home for a work site then visits a second work site before returning home. The trip between work sites is deductible business mileage. The trips between home and work sites are commuting mileage and are not deductible. If you stop at a store to pick up job supplies before traveling to a work site, the trip from the store to the job site is considered business mileage.



3. The third scenario shows business mileage for a self-employed taxpayer with a qualifying home office. The taxpayer leaves home to go to a job site then returns home. All trips are business mileage because the home office is considered a work site.



MAJOR PURCHASES – "personal" property (other than real estate)

This section tracks investments in business equipment other than real estate that has more than one year of useful life and costs more than $2,500. The nature of the purchase determines its useful life and most advantageous method of cost recovery. Depreciation (or cost recovery) methods include straight-line and declining balance. You can choose to write off the entire cost of personal property in one year under the Section 179 expense rule. Different rules apply to real estate such as bare land or residential rental property.

The IRS safe harbor rule allows you to deduct investments of less than $2,500 in the year of purchase without bothering to depreciate over multiple years. If you claimed deductions for major purchases in prior years, **you must bring a 2023 tax return that provides a fixed asset schedule with accumulated depreciation for us to** correctly calculate the current year depreciation deduction. If P+P prepared your 2023 return, we will rely on carryforward to provide this information.

OFFICE IN THE HOME

To claim a home office deduction, your space must be used **regularly and exclusively** to meet with clients, perform administrative tasks, or conduct business activity**.** *In-home daycares are an exception to this exclusive use rule.*

Your home office does not need to be an entire room, but the business space cannot be used for personal activities. For example, you could qualify for a home office deduction for a basement art studio even if one corner of the basement has a washer and dryer. The square footage used for laundry cannot be included as business space, but the area used exclusively as a studio will qualify.

The home office deduction can be figured based on actual expenses and percentage of total square footage or by using the simplified method of $5 per square foot, up to a limit of $1,500 per tax year. If you qualify for the deduction, enter all available information in the Office in the Home section so that a volunteer can help you claim the best deduction.

PRODUCTS SOLD BY DIRECT SELLER - COST OF GOODS SOLD

Fill in this section only if you have inventory. You have Inventory when you buy or manufacture products to resell to different customers.

You do NOT have inventory when:

- You help customers place an order with a company that ships product to the customer directly. This is drop shipping, not inventory.
- You have extra supplies on hand to do a repair job or for customers to test before buying. Deduct these as supplies expense, not inventory or cost of goods sold.

For tax purposes, inventory is deductible only after you ***sell*** it, not when you *buy* it. To calculate the deductible inventory expense, i.e. your **cost of goods sold**, your SETO must provide these dollar amounts:

- The value of inventory rolled over from the prior year. For tax year 2024, this is the value of anything unsold on December 31, 2023.
- The value of inventory purchased in 2024.
- The value of any product taken for personal use
- The costs of labor (paid to others) or supplies that you add to the product after purchasing it. This includes amounts paid for assembly, packaging, or decoration added to a product before final sale.
- The value of inventory you held on December 31, 2024.

DAY CARE SELF-EMPLOYMENT TAX ORGANIZER
TAX YEAR 2024

PREPARE + PROSPER

The Day Care Self-Employment Tax Organizer (SETO) gathers information about your self-employment income and expenses from operating a home-based day care. The Day Care SETO is used to prepare Schedule C, Profit or Loss from Business, and report your net business income on Form 1040, your individual income tax return. Please complete all sections that apply to your business.

BASIC INFORMATION

Your name			If married filing jointly ☐ Qualified joint venture ☐ Injured spouse
Business name (If no separate business name, leave blank)			EIN (if used) ________________
Business address (If no separate business address, leave blank)			
Business or profession (What do you do?)		Start Date ____________	NAICS code 624410

INCOME FROM SELF-EMPLOYMENT

Form 1099-NEC — Number of forms received ________ (Enter the total for all forms received.) $ ________

Form 1099-K

(Enter the total for all forms received.) $ ________

Total cash, checks, and credit card payments paid to you

(Include tips in this amount.) $ ________

Other self-employment income, such as grants/awards for the business

(Describe the type of income. DO NOT include income from W-2s.) $ ________

Total income from self-employment $ ________

ESTIMATED TAX PAYMENTS

Did you make estimated payments to the IRS or Minnesota Department of Revenue during calendar year 2024 or 2025 for tax year 2024? ☐ YES ☐ NO

Amount and quarter of estimated payments, if any

IRS Q1 Apr $________ Q2 Jun $________ Q3 Sep $________ Q4 Jan $________ Extension $________

MN Q1 Apr $________ Q2 Jun $________ Q3 Sep $________ Q4 Jan $________ Extension $________

EXPENSES

Advertising	$	Rent or lease of equipment	$
Contract labor	$	Rent of workspace/property	$
Commissions & fees	$	Repairs & maintenance on business equipment	$
Health insurance premiums*	$	Other supplies	$
Daycare liability insurance	$	Daycare license and inspection fees	$
Interest – paid on a business loan or business credit card	$	Sales tax paid to the state (if paid but not collected from customers)	$
Legal & professional services	$	Business travel (airfare, hotel, etc.)	$
Office supplies (paper, toner, etc.)	$	Business meals, not meals or snacks for children	$
Postage & freight	$	Utilities (costs specifically for the business)	$

*Out-of-scope if claiming self-employment health insurance deduction and entering Form 1095-A for premium tax credit

OTHER EXPENSES

Professional education (CPR, first aid, etc.)	$	Parking & tolls	$
Day care supplies (bibs, diapers, etc.)	$	Professional organization membership dues or publications	$
Child activity items (toys, books, videos, art supplies, etc.)	$	Gifts to children ($25 limit per child per year)	$
Child safety equipment	$	Field trips	$
Other:	$	Other:	$

MAJOR PURCHASES

Item	Date of purchase (month/day/year)	Purchase Cost	Business use percentage %	Accumulated Depreciation
	/ /	$	%	$
	/ /	$	%	$
	/ /	$	%	$

CELL PHONE AND INTERNET EXPENSES

If you used your cell phone for business:

1. Annual cost for your cell phone $_________
2. Percentage of time used for business _________%

Expense amount $___________

If you paid for internet service for your business:

1. Annual cost for your internet $_________
2. Percentage of time used for business _________%

Expense amount $___________

EXPENSES: STANDARD MEAL AND SNACK RATE, 2024

You can use the **Standard Meal & Snack Rate** in the chart below or actual expenses for food purchased and served to eligible children. **Eligible children** are minor children receiving family day care in the home. You **cannot** deduct the cost of food consumed by you, your family, or children who live in the home.

You do not need receipts for purchases when using the Standard Meal & Snack Rate. Calculate the days and hours that eligible children attended your day care using attendance records. Use attendance details to calculate the number of meals and snacks served.

Child 1	Child 2	Child 3
Bkfst _______ x $1.66 = ________	Bkfst _______ x $1.66 = ________	Bkfst _______ x $1.66 = ________
Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________
Lunch _______ x $3.15 = ________	Lunch _______ x $3.15 = ________	Lunch _______ x $3.15 = ________
Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________
Dinner_______ x $3.15 = ________	Dinner_______ x $3.15 = ________	Dinner_______ x $3.15 = ________
Child 4	**Child 5**	**Child 6**
Bkfst _______ x $1.66 = ________	Bkfst _______ x $1.66 = ________	Bkfst _______ x $1.66 = ________
Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________
Lunch _______ x $3.15 = ________	Lunch _______ x $3.15 = ________	Lunch _______ x $3.15 = ________
Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________
Dinner_______ x $3.15 = ________	Dinner_______ x $3.15 = ________	Dinner_______ x $3.15 = ________
Child 7	**Child 8**	**Child 9**
Bkfst _______ x $1.66 = ________	Bkfst _______ x $1.66 = ________	Bkfst _______ x $1.66 = ________
Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________
Lunch _______ x $3.15 = ________	Lunch _______ x $3.15 = ________	Lunch _______ x $3.15 = ________
Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________	Snack _______ x $0.93 = ________
Dinner_______ x $3.15 = ________	Dinner_______ x $3.15 = ________	Dinner_______ x $3.15 = ________

Total Standard Meal & Snack Rate deduction: $ __________

DAY CARE VEHICLE INFORMATION

Date vehicle was first used for business (month/day/year) ______ / ______ / ______

Make and model of vehicle (ex: Kia Sol or Ford F-150) ____________________

Report your mileage in 2024 Business miles: ______________ Personal miles: ______________
Miles driven for day care business Not related to work.

Do you (or your spouse) have another vehicle available for personal use? ☐ YES ☐ NO

Was your vehicle available for personal use during off-duty hours? ☐ YES ☐ NO

Do you have evidence to support your deduction? ☐ YES ☐ NO

If yes, is the evidence in writing?
(e.g. mileage log or app for tracking mileage) ☐ YES ☐ NO

SELF-EMPLOYED RETIREMENT ACCOUNT CONTRIBUTIONS

Did you contribute to a retirement savings account for 2024? ☐ YES ☐ NO

Account Custodian	Account Type	Contribution Date*	Amount
			$ ______________
			$ ______________

* Contribution deadline: April 15, 2025 without extension; October 15, 2025 with extension

DAY CARE IN THE HOME

Daily start and end time of day care operations	________ AM to ________ PM
Area used for day care operations	Square feet: ______________
Total area of the house or apartment	Square feet: ______________
Mortgage interest (homeowners)	$
Real estate taxes (homeowners)	$
Renter or homeowner insurance premiums	$
Rent	$
Repairs & maintenance	$
Utilities (e.g. gas, electric, water, sewer, garbage)	$
Homeowners only:	
A) What was the purchase price of the home?	$
B) What was the value of the land?	$
C) What date was the home first used for business? (month/day/year)	/ /

MINI SELF-EMPLOYMENT TAX ORGANIZER
TAX YEAR 2024

PREPARE + PROSPER

The Miniature Self-Employment Tax Organizer (Mini SETO) gathers information about your self-employment income and expenses. The Mini SETO is used to prepare Schedule C, Profit or Loss from Business, and report your net business income on Form 1040, your tax return. Please complete all Mini SETO sections that apply to your business. (Use the full SETO if you have business use of the home, inventory, or depreciation.)

BASIC INFORMATION

Your name	______________
Business name (If no separate business name, leave blank)	______________
Business address (If no separate business address, leave blank)	______________
Business or profession (What do you do?)	NAICS code ______________

INCOME FROM SELF-EMPLOYMENT

Form 1099-NEC	Number of 1099-NEC forms received ______	(Enter total from all forms received.) $ ______
Form 1099-K (Enter total from all forms received)		$ ______
Total cash, checks, and credit card payments paid to you (Include tips in this amount)		$ ______
Other self-employment income, such as grants/awards for the business (Describe the type of income. DO NOT include W-2 income.)		$ ______
	Total income from self-employment	$ ______

EXPENSES

Advertising	$ ______	Rent or lease of equipment or space	$ ______
Commissions & fees	$ ______	Repairs & maintenance on business equipment	$ ______
Business liability insurance	$ ______	Other supplies	$ ______
Interest – paid on a business loan or business credit card	$ ______	Business licenses	$ ______
Legal & professional services	$ ______	Sales tax paid to the state (if paid but not collected from customers)	$ ______
Office supplies (paper, toner, etc.)	$ ______	Business travel (airfare, hotel, ground transportation, etc.)	$ ______
Postage and freight	$ ______	Business meals with customers or while traveling	$ ______

CELL PHONE AND INTERNET EXPENSES

If you used your cell phone for business:

1. Annual cost for your cell phone $________
2. Percentage of time used for business ________%

Expense amount $__________

If you paid for internet service for your business:

1. Annual cost for your internet $________
2. Percentage of time used for business ________%

Expense amount $__________

OTHER EXPENSES

Professional education	$	Parking & tolls	$
Safety equipment or specialized clothing (goggles, uniforms, etc.)	$	Professional organization membership dues or publications	$
Other: ____________________	$	Other: ____________________	$
Other: ____________________	$	Other: ____________________	$

VEHICLE INFORMATION

Date vehicle was <u>first used for business</u> (month/day/year) / /

Make and model of vehicle (ex: Kia Sol or Ford F-150)

Report your mileage in 2024

Business miles: ____________	Commuting miles: ____________	Personal miles: ____________
From one work site to another work site or from a W2 job to a work site.	From home to a work site or returning from a work site to home.	Not related to work.

Do you (or your spouse) have another vehicle available for personal use? ☐ YES ☐ NO

Was your vehicle available for personal use during off-duty hours? ☐ YES ☐ NO

Do you have evidence to support your deduction? ☐ YES ☐ NO

If yes, is the evidence in writing? (e.g. mileage log or app for tracking mileage) ☐ YES ☐ NO

Uber/Lyft/DoorDash drivers: Do you have a mileage summary from your online account? ☐ YES ☐ NO

ESTIMATED TAX PAYMENTS

Did you make estimated payments to the IRS or Minnesota Department of Revenue during 2024 or 2025 for tax year 2024? ☐ YES ☐ NO

Amount(s) and quarter(s) of estimated payments, if any:

IRS	Q1 Apr $________	Q2 Jun $________	Q3 Sep $________	Q4 Jan $________	Extension $________
MN	Q1 Apr $________	Q2 Jun $________	Q3 Sep $________	Q4 Jan $________	Extension $________