

## Schedule C Guide

**If you are self-employed and set up your business as a sole proprietorship, you will file Schedule C with your Form 1040.**

For an activity to qualify as a business activity, it must be conducted regularly and continuously with the intent of making a profit. A Schedule C is not needed to report income from a hobby.

Schedule C is for two types of businesses: sole proprietorships and single-member limited liability companies (LLCs). Schedule C is not for C corporations or S corporations.

A sole proprietorship is an unincorporated business in which one person owns and operates it and is responsible for its profits, losses, and liabilities. Many people who freelance, have a side gig, are independent contractors or run their own business choose this option.

A single-member LLC is a business entity owned by just one person. There is generally no distinction between the business owner and the LLC for income tax purposes; the business's profits and income go straight to the owner's personal tax return.

Your business is a sole proprietorship if:

- You don't have another legal business entity such as a corporation or partnership
- You don't have a boss or manager who withholds tax money from your salary
- Your business exists to earn money
- Your business isn't just a hobby; it's a source of income
- You are an LLC with a single member and have not elected to be taxed as an S Corp

Even if you're employed by someone, you may need to file a Schedule C. In other words, if you freelance, you need to file a Schedule C.

The IRS defines you as a business if you make money by pursuing your side hustle continuously and regularly.

## Is there a minimum income to file Schedule C?

**There is no minimum income requirement to file Schedule C. All income and expenses must be reported on Schedule C, regardless of how much you earn.**

There is, however, a \$400 minimum threshold for self-employment taxes. You won't have to pay this tax if you make less than \$400. Do not assume, though, that you do not have to report your self-employment income. If you earn income from self-employment, you must report it.

## What is needed to file a Schedule C

To calculate the net profit or loss of a business is based on income less expenses. The results are then transferred to your personal 1040 tax return and are used to calculate your overall tax liability. If you operate more than one sole proprietorship, you must file a separate Schedule C for each one.

You'll need the following information available before you begin:

- A statement of income and balance for your business for the year
- A statement of business expenses and receipts
- Inventory records, if applicable
- If you used a vehicle for business, the mileage and other records
- If you have a qualified home office for your business, the monthly home expenses (utilities, rent/mortgage interest, property taxes, and insurance)

## How to deduct Business Use of Home

There are two basic requirements to qualify for the business use of home deduction.

1. The portion of your home office must be exclusively used for your business
2. The home office must be used on a regular basis

You must use part of your home for one of the following:

- Exclusively and regularly as a place where patients, clients or customers are met in the normal course of a trade or business
- As a separate structure that's not attached to a home that is used exclusively and regularly in connection with a trade or business and on the property of your primary residence.
- On a regular basis for storage of inventory or product samples used in a trade or business of selling products at retail or wholesale
- For rental use
- As a daycare facility

The term "home" for purposes of this deduction:

- Includes a house, apartment, condominium, mobile home, boat, or similar property.
- Includes structures on the property, like an unattached garage, studio, barn, or greenhouse
- Doesn't include any part of the taxpayer's property used exclusively as a hotel, motel, inn, or a similar business

## Claiming Vehicle Expenses

Information needed order to claim mileage on your return:

- Do you have a qualified home office?
- When did you place your vehicle in service for business purposes?
- What were the total business miles driven?
- What were the total commuting miles drive?
- Was your vehicle available for personal use during off-duty hours?
- Do you (or your spouse) have another vehicle available for person use?
- What is your evidence to support your mileage deduction?

There is another option for claiming vehicle expenses, which is your actual costs. This is for vehicles used for any amount of business use, such as 100% business, or 50% business and 50% personal.

To claim a vehicle deduction, you must keep mileage records, regardless of whether you take the mileage deduction or the actual expenses deduction. Make sure you have evidence to support your expense claim.

## Retirement Contribution Options:

As a sole proprietor or single-member LLC, there are five main choices for the self-employer or small-business owners to contribute to a retirement plan and take a deduction for it. A retirement contribution deduction decreases the amount of income you will have a tax liability on. Below are the types and contribution limits for 2023?

- Solo 401(k) – Contributions limited to \$66,000 or \$73,500 if age 50 or older
- SEP IRA – Contributions limited to the lesser of \$66,000 or 20% of net earnings
- Simple Plan – Contributions limited to \$15,500 or \$18,500 if age 50 or older

Income and expense planning for your business before you start it is important on selecting a retirement plan. As your business grows, your options for retirement plans can change as per the regulations of the IRS.