CHAPTER 19

TAXES: WRITING INCOME AND EXPENSES

"To produce an income tax return that has any depth to it, any feeling, one must have Lived—and Suffered." The truth of this quip by author Frank Sullivan might be felt most vividly in April, when many writers who must report self-employment income scramble to gather the information, and sometimes the funds, to file their tax returns. Occasionally, taxpayers can take steps near the end of the year to relieve their tax burdens, but more often than not, the end of the year is too late. Chapters 19 and 20 are intended to help you to plan ahead, keep proper records on a regular basis, and pay your estimated taxes on time. Professional writers should keep their tax information current on a regular basis throughout the year. If you follow the fairly simple recommendations provided here, your tax preparation should be relatively simple, your tax bill might be smaller, and you should be well prepared to handle an IRS audit.

Please note that the advice given here is no substitute for the advice or tax preparation services of a qualified accountant or tax lawyer. Tax rules change continuously and few, if any, off the shelf resources can aspire to be comfortably accurate and current when it comes to income tax rules. It is penny-wise and pound-foolish for anyone earning self-employment income to prepare her own tax returns. You need a good accountant. These chapters are intended to give an overview of the issues most important to writers based on current federal tax law, so you can prepare and carry out a tax strategy that will make your accountant's job easier.

For tax purposes, a writer's taxable income typically includes all amounts received for sales and licenses of her written work, including advances and royalties paid by book publishers and licensees, royalties from sales of self-published ebooks,[127] lecture fees and honoraria, prizes, awards, and most grants. Regular wages also count, of course, though your wages reported by your employer on Form W-2 are distinct from self-employment income. All of this income is taxed as ordinary income by the federal government and, as applicable, by the state and municipality of the writer's residence. The business expenses incurred by a writer may be deducted from her income, thereby reducing the amount subject to taxation.[128]

Self-employed professionals, including professional writers, must include Schedule C, Profit or (Loss) from Business or Profession, as an addendum to their Form 1040 tax returns. Self-employment income and related business expenses are reported on Schedule C.[129] Schedule C is not terribly difficult to complete, especially if you work with a tax accountant, but you may use the even simpler Schedule C-EZ if you meet the following requirements: (1) you have only one sole proprietorship, (2) you have incurred no net business loss, (3) your business expenses are $5,000 or less, (4) you maintain no inventory at any time during the tax year, (6) you use the cash method of accounting, (7) you do not claim a home office expense, (7) you do not need to report depreciation on Form 4562, (8) your business has not previously claimed suspended passive activity losses, and (9) your business had no other employees during the year. You should discuss which form is best to use with your tax advisor. The official 2011 Schedules C and C-EZ are reproduced at the end of this chapter so you can follow them as you read this overview.

[127] The tax rules are different for publishers, so if you self-publish extensively, you might be subject to a different regime, but professional writers selling their works as ebooks should be able to count sales proceeds as self-employment income. Check with your accountant to be certain.

[128] A writer employed and earning a salary for writing services might be able to claim deductions for writing-related expenses if they are either not reimbursed or reimbursed but reported as income by the employer. Again, ask your accountant.

[129] If a writer earns both self-employment income and a salary from an employer, she must file two separate Schedule Cs so as to avoid paying self-employment tax twice on her wages.

General guides to federal taxation include IRS Publication 17, *Your Federal Income Tax*, for individuals and IRS Publication 334, *Tax Guide for Small Businesses (for Individuals Who Use Schedule C or C-EZ)*, each of which cover the rules in great detail. These and all other IRS publications can be downloaded from the IRS's website: at www.irs.gov/formspubs. (Some IRS forms, schedules, and publications are available in Spanish.) The IRS also provides advice on the phone via toll free numbers Monday through Friday (see www.irs.gov/contact). You can also contact your local IRS office for a face-to-face meeting. Be aware that IRS publications and advice represent the views of the IRS and have been known to conflict with precedent established by tax courts. Of course, tax policy is one of the most potent ways to regulate the economy and public policy, so Congress and the White House (as well as states and municipalities) are constantly amending the tax laws. Keep abreast of the changes through your tax accountant, one of many privately published guides, such as the *J. K. Lasser* line, or with a tax return software program.

In addition to income tax, you will also need to determine whether other kinds of state or local taxes, such as unincorporated business tax, must be paid. These taxes vary with each state and municipality and will not specifically be addressed here.

RECORD-KEEPING

Keeping clear and current records of your income and expenses not only makes the task of filling out tax returns and paying estimated tax much easier, it can also help you sail through an audit. If you are audited, the IRS will require you to back up all income and deductions claimed with credible and accurate documentation. Get into the habit of promptly recording all income and expenses generated from your writing in a ledger or spreadsheet regularly used for that purpose. The entries should specify the date and amount of money received and paid out, the character of the receipt or payout, the source or destination of the payment, and other relevant data. Keep copies or originals of all checks, bills, and receipts. The IRS favors self-employed taxpayers maintaining separate business bank accounts solely for their self-employment income and expenses, and it is a good idea to do that. IRS Publications 552, *Recordkeeping for Individuals*, and 583, *Starting a*

Business and Keeping Records, details the "permanent, accurate and complete" records the IRS requires.

To illustrate, the following example is one method of setting up an efficient ledger on paper (if you choose, Excel, Quicken, Quickbook and other computerized spreadsheets are even easier once you learn them). The first column is for the date, the second for a description of the kind of income or expense, the third for the check or receipt number, the fourth for the amount of income, the fifth for the amount of the expense, the sixth and subsequent columns for the specific kinds of expenses listed on Schedule C that correspond to a writer's typical deductible expenses. (Note that with this method, every expense is entered twice, once in the expense column and again under its particular category). If maintained regularly, a ledger like this greatly expedites the process of completing Schedule C, especially if you match your expense categories to it.

					Expense Categories					
Date	Description	Check/ Receipt	Income	Expense	1	2	3	4	5	6 etc.

To show how easy it is to keep records this way, suppose you paid $24 for office supplies on January 8. In your ledger, enter the following: the date, January 8; "office supplies" as the description; a check number if payment was by check as well as an assigned receipt number if you received one (number and file your actual receipts by month or category to locate them easily). If you receive payments from several sources, try creating income categories (such as royalties/advances according to book title, articles by name of publication, speaking appearances, and so on).

ACCOUNTING METHODS AND PERIODS

Like any other taxpayer, writers may choose either of two methods of accounting: the cash method or the accrual method. The cash method is simpler and most commonly used. It requires that you report all income actually received and deduct all expenses actually paid during the tax year. The accrual method requires that you report all income that you earned and have a right to receive in the tax year, even if you do not actually receive it until the following tax year, and that you deduct expenses for the year they are incurred instead of when they are paid.[130] For simplicity, this chapter assumes you are using the cash method.

The tax year used by most taxpayers is January 1 through December 31. Theoretically, one could use a different fiscal year, such as July 1 through June 30, but the IRS must accept a filer's reasons for not using a calendar year. More information on accounting methods and periods is available in IRS Publication 538, *Accounting Periods and Methods*. This chapter assumes you are filing based on a calendar year.

One basic tax-saving technique for filers using the cash method is to pay as many expenses as possible before year end and to put off the receipt of income until the following tax year. The idea is to decrease the current year's tax bill by offsetting income through expense deductions while deferring income until the following tax year. Or, if you anticipate that a significant increase in your income in the next year will put you into a higher tax bracket, or if the tax rate is set to increase in the new year,

[130] Under the cash method, there might be a few cases in which income not actually received in a tax year must nonetheless be reported. This would happen if the income is credited or segregated such that it is subject to the taxpayer's control, for example, if it is received by the writer's agent, unless the agent is legally restricted from forwarding the payment during the tax year.

try to receive as much income during the present year as you can, and to defer paying expenses until the following year. If you are negotiating an advance to be paid in installments, these considerations should enter into your calculations.

INCOME EARNED BY WRITERS

In general, all income earned by you from your trade—advances, royalties, payment for freelance contributions or works for hire, kill fees, speaking fees—must be reported as gross receipts from your trade or business, i.e., self-employment income.[131] Either the party that pays you or the one that pays your agent should send you a Form 1099-Misc by February 1 of the new year that reports all payments made to you in the previous year.[132] If you earn a salary, your employer should report that income on Form W-2 and you will complete a separate Schedule C for that income. An important distinction is made in the Tax Code between ordinary income and capital gains income. "Ordinary income" is that which is realized from all the income-producing activities of one's profession and is taxed at regular income tax rates. "Capital gains income" is that which is realized from the sale of capital assets, such as stocks, bonds, mutual funds, real estate, or precious metals. Capital gains from assets owned for longer than one year are classified as long-term gains and generally receive significantly better tax treatment (i.e., a much lower tax rate and no self-employment tax) than does regular income.

Unfortunately, copyrights and writings prepared by a writer are not considered capital assets of the writer. Income from copyrights, literary, musical, and artistic compositions, letters or memoranda, or similar property received by the taxpayer who created them are taxed as ordinary income.[133] Another important distinction is between earned and unearned income. The professional income of an author is considered earned income, but

[131] Self-employment income tax also includes the full amount of Social Security and Medicare tax that a salaried employee shares with her employer.

[132] A publisher or commissioning party that pays you less than $600 in a year does not have to send you a Form 1099, but you still must report the amount you received as income.

[133] If a writer sells her copyright or a manuscript to someone else, the buyer will own the work as a capital asset, and the buyer's profit from selling it can be taxed at the capital gains rate.

income from stock dividends, interest, rent, and capital gains, for example, is treated as unearned income.

BASIS

The cost of creating a work (or of acquiring a capital asset) is called its "basis" for tax purposes. An author who uses the cash method and deducts business expenses when they are paid may not double dip and deduct these costs from the basis when she sells a work. In other words, if you deduct expenses currently, then your work product has a zero basis and the entire amount of the proceeds to you from its sale or license is taxable income.

GRANTS

Grants awarded to writers are usually taxed as "other income" on Line 6 of Schedule C. Degree candidates may exclude scholarships or fellowships from reportable income only to the extent the award is used for tuition and course-related fees, books, supplies, and equipment at a qualified educational institution. To qualify as nontaxable, such grants or scholarships may not include expenses for meals, lodging, or travel. Nor may they include payments to the recipient for teaching, research, or any other services rendered in exchange for the scholarship. Nondegree candidates may not exclude scholarships or grants from income. More information on the taxation of grants and scholarships is in IRS Publication 970, *Tax Benefits for Education* (Section 1, Scholarships and Fellowships).

PRIZES AND AWARDS

Authors must report all prizes, monetary and nonmonetary, as "other income." Nonmonetary prizes should be valued at their fair market value. If you receive a prize for your achievement as a writer and you designate a tax-exempt institution to receive the prize, the prize and the donation are not treated for tax purposes as income and a deductible charitable contribution; the prize is treated as no receipt of income. Should you win and keep a monetary prize, you may choose to enter the amount received on Form 1040 as "other income" instead of on Schedule C, and thus avoid paying self-employment tax on the prize. On the other hand, if you are concerned about a home-office deduction or hobby loss challenge by the IRS (which are explained below), consider entering prizes as income on

Schedule C so as to offset penalties for underpayment of self-employment tax. Discuss how to treat a prize with your tax advisor.

BUSINESS EXPENSES

Deductible business expenses, which must be reported on Schedule C, include all of the ordinary and necessary expenditures you incur that help you earn income from your writing. They include, but are not limited to, advertising and promotional costs, writing materials and supplies, workspace rental, office equipment, professional books and journals, writers organization dues and conference fees, office and equipment repairs, travel and car use for business purposes, telephone, postage, agents' commissions, and legal and accounting fees. Expenses claimed must be reasonable, and certain kinds of major expenditures, such as computers, might not be fully deductible in the year they are incurred, but must be depreciated over the course of several years.

SUPPLIES AND OFFICE EXPENSES

Items with a useful life of less than one year are typically considered current expenses, fully deductible in the year purchased. They include writing materials and supplies such as paper, ink, pens, erasers, rental of computers, photocopying, stationery, and similar items. You may include sales tax paid in the expense calculation. Postage is deductible as soon as the expense is incurred. The cost of professional journals and books used to prepare specific works is deductible. Telephone bills and an answering service are deductible in full for a business telephone. Repairs to professional equipment are fully deductible in the year incurred. As with all expenses, however, if you use an item or service for both personal and business purposes, then you may only deduct the portion of the cost attributed to your business use. For phone expenses, the IRS expects clear and thorough records itemizing both long-distance and local message units expended for business purposes.

PROFESSIONAL DEVELOPMENT

Educational expenses are generally deductible if they were incurred to maintain or improve your writing skills, but are not deductible if incurred to learn or qualify for a new profession. Consult IRS Publication 529, *Miscellaneous Deductions*, for more information. Dues for membership in professional organizations (but not for clubs) are deductible, as are fees to attend workshops and programs sponsored by the organizations.

MOVING EXPENSES

If you move to a new residence, the pro rata share of the moving expenses attributable to professional equipment is deductible as a business expense. More substantial deductions for reasonable moving expenses can be taken if a self-employed person's new work location is at least fifty miles farther from her former residence than her old job location and certain other requirements are met. This deduction is explained in IRS Publication 521, *Moving Expenses*.

HEALTH INSURANCE PREMIUMS

Self-employed people may deduct 100 percent of their premiums for health insurance as an expense on Form 1040. This deduction may not be claimed for any month you are covered by an employer's (or your spouse's employer's) subsidized health plan. The health insurance deduction may not exceed your Schedule C income, but any health insurance premiums that may not be deducted on Form 1040 might be deductible on Schedule A if you itemize deductions.

WORKSPACE EXPENSES AND THE HOME-OFFICE DEDUCTION

If you rent workspace at a location different from your home, all of the rent and expenses in connection with that workspace are deductible. However, the tax code has strict rules about business deductions attributable to a home office or studio (and anecdotal evidence suggests that those claiming a home office deduction are more likely to be audited). The home office deduction is allowed only if the filer uses a discreet part of the home exclusively for her business and uses it on a regular basis as her principal place of business. Even if you have another profession, as long as your home office is the principal place of your writing business and is used regularly and for no other purpose, you may take the deduction. If you maintain a separate structure and use it exclusively and regularly in connection with your writing business, you may deduct the full expenses attributable to it. For employees (as opposed to the self-employed), the home-office deduction is available only if your exclusive use of it is for the convenience of your employer, in addition to the criteria described above. You must calculate and report the home office deduction on Form 8829, *Expenses for Business Use of Your Home.* Publication 587, *Business Use of Your Home*, explains the rules further.

You may deduct expenses related solely to the office portion of your home, such as repairs to that area, in full. Other expenses that benefit your whole home including the home office portion are deductible only in the proportion of the office to your entire home.

This means that you may deduct that portion of your expenses for utilities, insurance, and cleaning that are attributable to your home office. Likewise, repairs to maintain the home are deductible on a pro rata basis. Property taxes and mortgage interest are deductible if you itemize personal deductions on Schedule A of Form 1040 whether or not you claim a home office deduction. If you do not itemize, the home office portions of your property taxes and mortgage interest that are deductible business expenses can be claimed on Schedule C.

To determine the portion of deductible expenses attributable to a home office, first you must calculate the portion of the total space used as your exclusive workspace. If you rent your home, and one-fifth of the area is used as workspace, 20 percent of the rent is deductible. A homeowner makes the same calculation to find the amount of workspace used, but as a capital asset, the house must be depreciated. A house (but not land) has a basis for depreciation, which is usually what it cost plus any major improvement costs. The calculation used to determine the number of years over which depreciation is taken and the percentage of basis taken as a deduction each year depends on when the house was acquired. Depreciation of capital assets, including a home, is explained below and in IRS Publications 529, *Miscellaneous Deductions*, 946, *How to Depreciate Property,* and 534, *Depreciating Property Placed in Service Before 1987*.

If you qualify to take the home office deduction, your related business expense deductions may not exceed your gross income from writing, reduced by your Schedule A itemized deductions (i.e., deductions incurred outside of business use, such as real estate taxes and mortgage interest). In other words, the tax code disallows any home office business expense deduction to the extent that it creates or increases a net loss from your writing business. But any disallowed amounts may be carried forward and deducted in future years.

As an example: A writer earns income of $3,000 in a year from writing, while exclusively and on a regular basis using one-quarter of her home as the principal place of her writing business. She owns her home, mortgage interest is $2,000 and real estate taxes are $1,600, for a total of $3,600 in deductions that she may take on Schedule A, whether or not incurred in connection with her business. Other home expenses, such as electricity, heat, cleaning, and depreciation, total $8,800. Allocating one-quarter of these expenses to the home office expense would attribute $900 of mortgage interest and real estate taxes and $2,200 of the other expenses to the business. The writer's gross self-employment income of $3,000 must be reduced by the $900 allocated to the home office portion of mortgage interest and real estate taxes, leaving $2,100 as the maximum amount of her workspace expenses that she may deduct.

Gross income	$3,000
Home office expenses allocated to the business	
Interest and property taxes	$900
Electricity, heat, cleaning, depreciation	$2,200
Total home-office expenses	$3,100
Expenses of writing business (excluding home-office expenses)	$2,400
Total expenses	$5,500

The writer will apply against her gross self-employment income (1) deductions for her business expenses (excluding expenses allocable to the home office), and (2) the taxes and interest allocable to her business use of the home. Since (1) $2,400, and (2) $900, total $3,300, her gross writing income of $3,000 would be reduced to a negative figure. A zero or negative figure means that no additional expenses may be deducted, so the other expenses allocable to the home office ($2,200) are lost for the year. She may carry forward the expenses that are not deductible this year as a deduction in future years when her income is sufficient. Mortgage interest and property taxes would remain fully deductible on Schedule A if she itemizes her deductions.

TRAVEL, TRANSPORTATION, AND ENTERTAINMENT EXPENSES

Travel, transportation, and entertainment expenses for business purposes are partly deductible, but keep careful records and deduct the amounts accurately. Travel expenses are defined as the ordinary and necessary expenses, including meals, lodging, and transportation, incurred for travel for more than an average workday spent away from home in pursuit of professional activities. You may deduct such expenses, for example, if you travel to another city to give a lecture series and stay several days to complete your work. If you are not required to sleep or rest while away from home on business, deductible transportation expenses are limited to the cost of travel. Meals and entertainment expenses, such as business luncheons, receptions, or similar, are currently 50 percent deductible but only if they are directly related to your writing business or involve a substantial business discussion.

If you use a car to make necessary trips for your work, such as travel to interview subjects or to do research, you might be able to deduct the expenses incurred in connection with the car, including gas, oil, insurance, license and registration fees, parking, tolls, repairs, and so on, or to take a standard mileage deduction. Several limitations apply, however. If you do not claim a home office deduction, you generally may not deduct your driving expenses. Costs of commuting to your office are not deductible. You may, however, deduct driving expenses between different work locations. If you claim driving expenses, be meticulous about recording every trip, including date, mileage, and the business reason, and keep all receipts. If you use your car solely for business, you can claim all the expenses on Schedule C. If you use it for personal reasons as well, you must prorate the expense deduction according to the percentage of business use. Some taxpayers find that taking the standard mileage deduction (55.5 cents per mile for 2012) more advantageous, but you must use that method in the first year of business use of the car; if you deduct actual driving expenses the first year, you may not switch in later years to the standard mileage method. If you use the standard mileage record, you cannot also depreciate the cost basis of the car; depreciation is included in the standard mileage rate.

Accurate and contemporaneous records detailing your business purposes (and the business relationship to any person entertained or receiving a gift), date, place, and cost are especially important for all these deductions. Get into the habit of writing these details on copies of bills or credit card charge receipts. IRS Publication 463, *Travel, Entertainment, Gift and Car Expenses*, gives more details, including the current permissible mileage charge. Self-promotional items, such as advertising, business cards, and sending holiday greetings to professional associates, are also deductible expenses.

COMMISSIONS, FEES, AND SALARIES

Your agent should provide you with Form 1099s that will show your writing income earned through her; note that it will properly report your gross income and not what you earned net of her commission. The proper way to deduct her commission is as a business expense. As well, fees paid to lawyers or accountants for business purposes are tax deductible, as are payments made to typists, researchers, freelance editors, and other service providers. If you can, it is better to employ and pay people as independent contractors rather than employees, so you can avoid liability for social security, disability, and withholding tax payments. The IRS applies a multifactor test to determine who is an employee and who is an independent contractor. It explains these factors in IRS Publication 15-A, *Business Expenses*. Treating an employee as an independent contractor could result in liability for back taxes and substantial penalties. If you have any concerns that someone who works for you is an employee rather than an independent contractor, discuss it with your tax advisor. If you use independent contractors, you must file with the IRS and give to the contractor Form 1099-MISC, Statement for Recipients of Miscellaneous Income, if you paid the contractor at least $10 in a year in gross royalties or at least $600 for their services.

PROFESSIONAL EQUIPMENT

Traditionally, the cost of professional equipment having a useful life of more than one year (cars, computers, homes, and the like) could not be fully deducted in the year of purchase. Its value had to be depreciated over a certain number of years at a certain rate, with corresponding deductions allowed in each year. Over the years, the law has significantly changed the method by which depreciation is determined. With some exceptions, the method of depreciation that you must use is based on when the property was placed in service. IRS Publication 946, *How to Depreciate Property*, aids in the computation of depreciation. Form 4562, *Depreciation and Amortization*, applies for all types of depreciation discussed here. Following is a brief overview of the different relevant time periods and the current expensing method:

1) 1987 to the Present: The Modified Accelerated Cost Recovery System (MACRS) applies to property placed in service from 1987 to the present. MACRS depreciates property using several different depreciation methods.

It places assets into different classes with different class "lives." "Five-year property" includes cars; "seven-year property" includes office furniture and fixtures. Residential real property has a twenty-seven-and-one-half year "life." These classifications, and the methods of depreciation, determine how quickly the cost of this property may be expensed. The law restricts the use of MACRS for cars (and other personal transportation vehicles), entertainment and recreational property, and computers, unless these types of equipment are used more than 50 percent for business purposes. If they are used less than 50 percent for business purposes, other depreciation rules apply. Publication 962 and Form 4562, *Depreciation and Amortization,* explain the rules in more detail.

2) 1981 to 1986: Almost all equipment placed in use from 1981–1986 must have depreciation computed under the Accelerated Cost Recovery System (ACRS). ACRS provides different categories for depreciation, which depends on the nature of the equipment acquired. Instead of using the ACRS percentages, it is possible to choose an alternate ACRS method, which allows the basis simply to be divided out over a specified number of years. Consult IRS Publication 946, and for every depreciation issue, consult your tax advisor.

Section 179 Deduction: An alternative to depreciating your big-ticket items over time is to take a one-time deduction, called a "Section 179 deduction," which allows you to take the entire basis of your depreciable business property in one year. Depending on your situation, a Section 179 deduction might be better for you than depreciating a capital asset. The amount you can deduct under Section 179 is limited to $500,000 for 2011 (but is only $3,060 for a car) and it cannot exceed your annual business income, though any excess may be carried forward to subsequent tax years. IRS publication 946 describes the Section 179 deduction in detail.

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

► For information on Schedule C and its instructions, go to *www.irs.gov/schedulec.*

► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2012

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 2012? If "No," see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2012, check here . . . ► ☐

I Did you make any payments in 2012 that would require you to file Form(s) 1099? (see instructions) . . . ☐ **Yes** ☐ **No**

J If "Yes," did you or will you file required Forms 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 (see instructions) . . .	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, meals, and entertainment:		
14	Employee benefit programs (other than on line 19) . .	14		a	Travel . . .	24a	
				b	Deductible meals and entertainment (see instructions) .	24b	
15	Insurance (other than health)	15					
16	Interest:			25	Utilities . . .	25	
a	Mortgage (paid to banks, etc.)	16a		26	Wages (less employment credits) .	26	
b	Other . . .	16b		27a	Other expenses (from line 48) . .	27a	
17	Legal and professional services	17		b	**Reserved for future use** . . .	27b	

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27a . . . ►	28	
29	Tentative profit or (loss). Subtract line 28 from line 7 . . .	29	
30	Expenses for business use of your home. Attach **Form 8829.** Do **not** report such expenses elsewhere . .	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Form 1040, line 12** (or **Form 1040NR, line 13**) 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 **Form 1040, line 12,** (or **Form 1040NR, line 13**) 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 your tax return instructions. Cat. No. 11334P **Schedule C (Form 1040) 2012**

Schedule C (Form 1040) 2012 Page 2

Part III Cost of Goods Sold (see instructions)

33 Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation . . . ☐ Yes ☐ No

35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	
36	Purchases less cost of items withdrawn for personal use	36	
37	Cost of labor. Do not include any amounts paid to yourself	37	
38	Materials and supplies	38	
39	Other costs	39	
40	Add lines 35 through 39	40	
41	Inventory at end of year	41	
42	**Cost of goods sold.** Subtract line 41 from line 40. Enter the result here and on line 4	42	

Part IV Information on Your Vehicle.

Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ► / /

44 Of the total number of miles you drove your vehicle during 2012, enter the number of miles you used your vehicle for:

a Business ________ b Commuting (see instructions) ________ c Other ________

45 Was your vehicle available for personal use during off-duty hours? . . . ☐ Yes ☐ No

46 Do you (or your spouse) have another vehicle available for personal use? . . . ☐ Yes ☐ No

47a Do you have evidence to support your deduction? . . . ☐ Yes ☐ No

b If "Yes," is the evidence written? . . . ☐ Yes ☐ No

Part V Other Expenses.

List below business expenses not included on lines 8–26 or line 30.

48 **Total other expenses.** Enter here and on line 27a	48	

Schedule C (Form 1040) 2012

SCHEDULE C-EZ (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Net Profit From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.
▶ Attach to Form 1040, 1040NR, or 1041. ▶ See instructions on page 2.

OMB No. 1545-0074

2012

Attachment Sequence No. **09A**

Name of proprietor | **Social security number (SSN)**

Part I **General Information**

You May Use Schedule C-EZ Instead of Schedule C Only If You:

- Had business expenses of $5,000 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as either a sole proprietor, qualified joint venture, or statutory employee.

And You:

- Had no employees during the year.
- Are not required to file **Form 4562,** Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service | **B** **Enter business code (see page 2)** ▶

C Business name. If no separate business name, leave blank. | **D** **Enter your EIN (see page 2)**

E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.

City, town or post office, state, and ZIP code

F Did you make any payments in 2012 that would require you to file Form(s) 1099? (see the Schedule C instructions) . . . ☐ **Yes** ☐ **No**

G If "Yes," did you or will you file required Forms 1099? . . . ☐ **Yes** ☐ **No**

Part II **Figure Your Net Profit**

1	**Gross receipts. Caution.** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see *Statutory Employees* in the instructions for Schedule C, line 1, and check here . . . ▶ ☐	**1**	
2	**Total expenses** (see page 2). If more than $5,000, you **must** use Schedule C . . .	**2**	
3	**Net profit.** Subtract line 2 from line 1. If less than zero, you **must** use Schedule C. Enter on both **Form 1040, line 12,** and **Schedule SE, line 2,** or on **Form 1040NR, line 13** and **Schedule SE, line 2** (see instructions)**.** (Statutory employees, **do not** report this amount on Schedule SE, line 2.) Estates and trusts, enter on **Form 1041, line 3** . . .	**3**	

Part III **Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ▶ ____________ .

5 Of the total number of miles you drove your vehicle during 2012, enter the number of miles you used your vehicle for:

a Business ____________ **b** Commuting (see page 2) ____________ **c** Other ____________

6 Was your vehicle available for personal use during off-duty hours? . . . ☐ **Yes** ☐ **No**

7 Do you (or your spouse) have another vehicle available for personal use? . . . ☐ **Yes** ☐ **No**

8a Do you have evidence to support your deduction? . . . ☐ **Yes** ☐ **No**

b If "Yes," is the evidence written? . . . ☐ **Yes** ☐ **No**

SCHEDULE C-EZ (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Net Profit From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.
▶ Attach to Form 1040, 1040NR, or 1041. ▶ See instructions on page 2.

OMB No. 1545-0074
2012
Attachment Sequence No. **09A**

Name of proprietor | **Social security number (SSN)**

Part I General Information

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- Had business expenses of $5,000 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as either a sole proprietor, qualified joint venture, or statutory employee.

And You:

- Had no employees during the year.
- Are not required to file **Form 4562,** Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service | **B Enter business code (see page 2)** ▶

C Business name. If no separate business name, leave blank. | **D Enter your EIN (see page 2)**

E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.

City, town or post office, state, and ZIP code

F Did you make any payments in 2012 that would require you to file Form(s) 1099? (see the Schedule C instructions) . . . ☐ **Yes** ☐ **No**

G If "Yes," did you or will you file required Forms 1099? . . . ☐ **Yes** ☐ **No**

Part II Figure Your Net Profit

1 **Gross receipts. Caution.** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see *Statutory Employees* in the instructions for Schedule C, line 1, and check here . . . ▶ ☐ **1**

2 **Total expenses** (see page 2). If more than $5,000, you **must** use Schedule C . . . **2**

3 **Net profit.** Subtract line 2 from line 1. If less than zero, you **must** use Schedule C. Enter on both **Form 1040, line 12,** and **Schedule SE, line 2,** or on **Form 1040NR, line 13** and **Schedule SE, line 2** (see instructions)**.** (Statutory employees, **do not** report this amount on Schedule SE, line 2.) Estates and trusts, enter on **Form 1041, line 3** . . . **3**

Part III Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ▶ ______________.

5 Of the total number of miles you drove your vehicle during 2012, enter the number of miles you used your vehicle for:

a Business ______________ **b** Commuting (see page 2) ______________ **c** Other ______________

6 Was your vehicle available for personal use during off-duty hours? . . . ☐ **Yes** ☐ **No**

7 Do you (or your spouse) have another vehicle available for personal use? . . . ☐ **Yes** ☐ **No**

8a Do you have evidence to support your deduction? . . . ☐ **Yes** ☐ **No**

b If "Yes," is the evidence written? . . . ☐ **Yes** ☐ **No**

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 14374D **Schedule C-EZ (Form 1040) 2012**