

## Tips to fill out the Self-employment Tax Organizer – a “Cheat Sheet”

You've found out you're eligible\* for self-employment tax services at AccountAbility Minnesota and the first thing we do (after giving you an appointment) is send you the SETO – the Self-Employment Tax Organizer. You ask:

### **What is this SETO? How do you fill it out? What goes where?**

The SETO was modeled after Schedule C Profit/Loss from a business. Schedule C is an attachment to the IRS Form 1040 - the main tax form that most people fill out. Self-employed individuals attach Schedule C to the 1040 reporting their income and expenses from self-employment. On the SETO (just like Schedule C), you report your income and expenses from your business or service. Transferring data from the SETO to the tax preparation software is easier for our tax preparers than using our customers' worksheets or spreadsheets.

### **How do you fill out the SETO? What goes where? What do you do if you have expenses where there's no line for them on the form?**

Not all sections of the SETO will apply to your business or service; fill out the sections that do apply. If you have an expense and you don't see a line for it just list it in the “other” expense box or simply write what it is somewhere on the form. If you had expenses and you didn't save the receipts for them, make the best estimates you can. Don't round off numbers. Do what you can to track down the amount of the cost and in the case of mileage, go to a site like MapQuest, or another website, and recreate your mileage log. The challenge with not having receipts is that in a review or audit your lack of documentation may disallow the expense.

### **What if you have self-employed income from two different sources?**

That will depend if the positions are related or not. For example, if you have self-employed income from being a musician and a house painter then you will need to do two Schedules C's (and two SETO's) to list the income and expenses from those two fields. You can't deduct guitar picks on your Schedule C for house painting and you can't deduct paint for your music business. If the fields are related then you can list the income and expenses on the same SETO. For example, you have income from being a free-lance writer and you also are an editor for another publication. Those are related fields and, therefore, you will need to fill out only one SETO.

### **What if you don't consider yourself as having a business but you get paid as an independent contractor receiving a 1099-MISC or by receiving cash from customers?**

On the 1099-MISC the compensation listed in box 7 is nonemployee compensation. Translation: you're not an employee; you need to think of your service or position as a business with income and expenses. If you receive cash for services provided, the process will be the same. You need to fill out the SETO and will attach Schedule C to your 1040. If you were expecting a W-2 or considered yourself an employee, not an independent contractor, contact us.

### **Do you include income and expenses from a regular job (a “W-2” job) with your self-employment income and expenses?**

No. On the SETO, list only income and expenses from self-employment. Unreimbursed employee expenses are not listed on a Schedule C.

### **What to bring to your tax appointment?**

There is a complete list of what to bring on page 1 of the SETO. You need to bring:

- Your tax documents
- Photo ID
- Social Security numbers and birthdates of everyone to be included on the tax return (bring the Social Security cards)
- The previous year's tax return.

The previous years' tax return can be very important as it has information about your business that may be needed for this year's return **AND** if you don't have all your Social Security cards, we can use the information off the previous year's return to verify Social Security numbers and the names attached to them.

*\*Eligibility for services: sole proprietor, independent contractor, or single member LLC with total annual household income of \$53,000 or less. We do not prepare returns for taxi drivers, day traders, members of the clergy, or taxpayers with employees or income from rental property.*

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Here are the parts of the SETO and what you need to do with them.

| <b>MAIN INFORMATION</b>      |   |
|------------------------------|---|
| Profession or business       | <i>What do you do? Carpenter, real estate agent, daycare operator, performing artist.</i> |
| Business name, address, etc. | <i>You may not have a separate business address; it may be your home address.</i>         |
| Business telephone           | <i>Could be your cell phone</i>   |
| Business start date          | <i>The very first day you went into business</i>  |

| <b>INCOME</b>                            |   |
|--|---|
| Form 1099(s) including 1099K & 1099-MISC | <i>All compensation from any 1099-MISC or 1099K</i>                             |
| Total cash & checks received             | <i>Cash refers to actual cash, checks, or credit cards payments made to you</i> |
| Sales tax collected                      | <i>Sales tax paid by your clients included in your bill to them</i>             |
| <b>TOTAL GROSS INCOME</b>                | <i>Include all of the above</i>   |

| <b>HEALTH INSURANCE PREMIUMS</b>   |                                |
|--|--------------------------------|
| Did you pay health insurance premiums in 2013?   | Yes    No    If yes, how much? |
| <i>These premiums, in the name of the business or self-employed taxpayer, may be 100% deductible</i> |                                |

| <b>ESTIMATED TAX PAMENTS</b>   |                                       |
|--|---------------------------------------|
| Did you pay 2013 estimated tax payments to the IRS or the MN Department of Revenue?                                  | IRS:    Yes    No<br>MN:    Yes    No |
| <i>Bring records, notes, or canceled checks showing when and how much you paid to the IRS or State of Minnesota.</i> |                                       |

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| <b>BUSINESS EXPENSES</b>   |  |
|--|--|
| <b>Advertising</b>   | <i>Business cards, internet advertising, other promotional activities</i>  |
| <b>Commissions and fees</b>                                      | <i>Fees or commissions paid to someone else to sell your product</i>   |
| <b>Business liability insurance</b>                              | <i>Insurance policy costs to cover your business (not your home or car)</i>  |
| <b>Interest on business loans or business credit cards</b>       | <i>Interest paid for a business bank account or business credit card</i>   |
| <b>Legal and professional fees</b>                               | <i>Did you pay an attorney or accountant for business services in 2013?</i>  |
| <b>Office supplies</b>   | <i>Pens, paper, toner, envelopes, and other supplies for the office</i>  |
| <b>Rent or lease of equipment &amp; property (renting space)</b> | <i>Did you rent equipment to get a job done? Paint sprayer, scaffolding, and other equipment? Did you rent or lease space like a chair at a hair salon?</i>  |
| <b>Repairs and maintenance of equipment</b>                      | <i>Repair and maintenance costs to keep your equipment functioning.</i>  |
| <b>Other supplies</b>  | <i>Miscellaneous supply costs</i>  |
| <b>Business licenses</b>   | <i>License to be a: barber, daycare operator, real estate agent, other</i>   |
| <b>Sales tax paid to state</b>                                   | <i>Sales tax <u>paid by you</u> to the state for the products you sold or service you provided. Could be included above in the income section or calculated based on your gross income if you didn't collect it from your customers.</i> |
| <b>Business meals</b>  | <i>Meals paid for by you for your customers when conducting business</i>   |
| <b>Utilities (other than household)</b>                          | <i>Electricity, other utilities you paid for at your business location (not your home)</i>   |
| <b>Professional education</b>                                    | <i>Classes for your business: marketing, technology, CPR, Excel, new techniques (e.g., a massage therapist learns a new massage method)</i>  |
| <b>Bank charges</b>  | <i>Charges from your bank on your business accounts: maintenance fees, overdrafts, etc.</i>  |
| <b>Safety equipment and specialized clothing</b>                 | <i>Safety goggles, steel-toed boots, rubber gloves, and uniforms.<br/>Rule: if you can wear it off the job it's probably <b>not</b> deductible.</i>  |
| <b>Freight and postage</b>                                       | <i>Shipping and mailing costs</i>  |
| <b>Dues and publications</b>                                     | <i>Cost of belonging to professional organizations (CPA Society) or subscribing to professional journals</i>   |
| <b>Telephone and long distance costs</b>                         | <i><u>Cannot</u> be main line into your home. Could be internet or fax service attached to that line. For cell phones see below.</i>   |
| <b>Cell phone</b>  | <i>List annual cost</i>  |
| <b>Cell phone &amp; business use</b>                             | <i>Did you use your cell phone 50, 60, 90% of the time for business?<br/>Maximum allowable 95%</i>   |
| <b>Other</b>   | <i>List here those items that don't have a line on the organizer. We'll figure it out.</i>   |

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### Office in the home deduction

To qualify for the office in the home deduction, your space must be used regularly and EXCLUSIVELY to meet with clients, perform administrative tasks or other business activity. It need not be an entire room but the space must be used only for the business and not used by others or you for something other than business activities. For instance, if your children use the office computer for homework, then it's not exclusive. If you cut hair in your kitchen, it's not exclusive if you also eat there. Daycare care operations do not need to be exclusive; they are an exception to the exclusivity rule.

| <b>EXPENSES: OFFICE IN THE HOME</b>  |  |
|--|--|
| Area used for business or storage  | <i>What is the square footage of the space used for business?</i>  |
| Total area of house or apartment   | <i>The total square footage of the apartment or house? The deduction for business use of the home will be based on the percentage of space used for the business. For example, if 10 % of the home is used for business - ten percent of the following expenses will be deductible. We'll do the math if you list the square feet.</i> |
| Yearly rent  | <i>Rent of the apartment or house you live in</i>  |
| Mortgage Interest (homeowners)   | <i>Mortgage interest, not principal payments, is the deductible expense</i>  |
| Yearly real estate taxes (homeowners)  | <i>Check your property tax statement or look it up online at your county's website.</i>  |
| Annual renter or homeowner insurance premiums  | <i>For renters or homeowners</i>   |
| Repairs and maintenance  | <i>Mainly for homeowners</i>   |
| Gas and electric   | <i>Homeowners or renters</i>   |
| Water, sewer, garbage  | <i>Usually homeowners but maybe some renters do pay water, etc.</i>  |
| Homeowners only:<br>a) What was the purchase price of home?<br>b) What date was the home purchased?<br>c) What date was it placed into business use? | <i>Check your closing papers for price and date of purchase.<br/>First day of business in home</i>   |

### Major purchases

The following section is for the **major purchases** you make for your business. Computers, office furniture, equipment and tools like ladders, table saws, trailers and other costly, tangible purchases you need to do business. Depreciation techniques will deduct the costs over a number of years or, in some cases, deduct the cost in a single tax year. What we need:

| <b>EXPENSES: MAJOR PURCHASES PLUS PREVIOUS YEARS DEPRECIATION</b> |                                     |                           |
|---|-------------------------------------|---------------------------|
| Item  | Month/day/year of purchase          | Cost (exact cost, please) |
| <i>Laptop, band saw, power sprayer?</i>                           | <i>Date you purchased the item.</i> | <i>Cost of the item.</i>  |

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### Inventory, cost of goods, supplies.

If sell something or purchase materials for your business then you probably have heard these terms. First, let's differentiate between supplies and inventory. Supplies are what you may have on hand to get the job done. For example, if you're a plumber and after repairing your customer's toilet you have on hand a faucet to repair a leaking sink that's not inventory; they are extra supplies you have on hand. If you're involved in direct sales and after making a sale, the company (Herbal Life, Avon, etc.) ships the order directly to the customer that's not inventory either. However, if you buy product in bulk to later resell (to a number of different customers) then you probably have inventory. For tax purposes, it's the inventory you sell that's deductible not the total purchase price of the materials or products you bought during the year.

| PRODUCTS SOLD BY DIRECT SELLER   |   |
|--|---|
| 1. Inventory at the beginning of the year  | <i>What you have on Jan. 1 of the tax year</i>  |
| 2. Product purchased during the year (less cost of products taken for personal use)<br><br>List amount here of product taken for personal use \$ | <i>Product purchased during the year. Keep track of what you took out for personal use (sorry, that's not deductible)</i> |
| 3. Materials and supplies added to product for resale  | <i>Packaging, ribbons, anything added to original product before selling it</i>   |
| 4. Other costs (miscellaneous)   | <i>Costs to package, assemble, paint the product</i>  |
| 5. Add lines 1 through 4   | <i>Add 1 - 4</i>  |
| 6. Inventory at end of year.<br><i>Note: the inventory that you have on Dec. 31 should be exactly what you have on Jan. 1 (the next day)</i>     | <i>All of the inventory you have on Dec. 31 of the tax year</i>   |
| <i>For volunteer tax preparer use</i><br>Cost of goods sold (subtract line 6 from line 5)  | <i>Totals from above will determine the inventory sold in the tax year. (feel free to do the math too!)</i>               |

### Transportation expenses

Transportation expenses can be deducted in two ways: **Actual Costs** and **Mileage** deductions. **Actual costs** are when you deduct the cost of gas, oil changes, repairs, new tires, etc., **but** those deductions are limited to business percentage use of the vehicle. Meaning: if you drive your vehicle 20% of the time for business, then you can only deduct 20% of the cost of those new tires. **Mileage** deductions are easier to track and are usually as beneficial (frequently more so) than deducting actual costs. For a number of reasons, AAM customers need to deduct mileage only when deducting transportation expenses.

**Business Mileage** is the only deductible business miles on Schedule C. Business miles are defined as travel from one work location to another work location. For some self-employed taxpayers their home is considered a work location if they take the business use of the home deduction. More on that later. **Commuting miles** are miles driven from your home to get to a work location and from a work location to go home. **Personal miles** are those trips to the movies, visit a friend, go shopping, etc. In other words, all mileage that is not either business or commuting.

Taxpayers need to track business and personal miles OR business and commuting miles. Who should track what? It depends on your situation and whether you have an office in the home.

Let's take a look at two scenarios with business use of home and without it.

