

Why is Schedule C training being required in TY22?

Every AZ Tax-Aide District completes Schedule C – Profit or Loss from Business. Due to the increase in non-employee compensation through the gig economy, the use of Schedule C has increased.

During TY21, we reviewed Schedule C from 20+ AZ Tax-Aide sites as part of our Earned Income Tax Credit review. The results from these reviews show that we need to increase Counselor Training to improve the accuracy of creating Schedule C. We also have identified the need to adopt several new requirements for completion and Quality Review of all Schedule C.

Beginning in TY22, the IRS may increase their focus of business entities. This focus, when combined with the creation of IRS SPEC direct access to each tax return in TSO including supporting documents and volunteer notes reinforces the need to improve vigilance in accurately completing Schedule C.

**TY21 E-Filed Schedule C – Total 1,252**

D01	33	1.4%	D07	163	5.7%	D13	32	6.0%
D03	296	6.3%	D08	31	3.4%	D14	28	6.1%
D04	128	3.1%	D09	48	5.8%	D16	28	4.8%
D05	152	4.7%	D10	17	4.3%	D17	45	4.5%
D06	116	3.9%	D12	63	4.0%	D19	72	8.0%

**Schedule C Review Findings – (partial list)**

**Multiple instances** of expenses for the following (Not Family/Friends)

Contract labor (OOS), Inventory (OOS), Commissions Paid

Other Income added to line 6 (reserved for unrelated business income)

Misused Business Codes – Expenses do not match code (Ex: 531100 on Sch C – S/B Sch E (OOS))

Home Office (OOS) – (using 300 square feet as standard)

- allowing a home office expense for employee with a work location)

- home repairs, utilities, depreciation, mortgage interest in addition to home office expense (OOS)

Inventory (OOS)

Business and Personal Miles in round numbers (Business 7,000, Personal 2,000, Commuting 1,000)

No proof of mileage log

Employee with a work location (Hair Stylist, Nail Salon) with 1099-NEC claiming mileage & home office expense

Schedule C with no Business Income (W-2), but deducted Professional fees (Real Estate licenses, Nursing licenses and uniforms)

Expenses over \$35,000 and Net Losses (OOS)

**Additional items discovered:**

Mileage expense plus the purchase of a used automobile included in Other Expenses.

Mileage expense plus an extraordinary auto repair (\$3,774) included.

Donated labor expensed.

Employee (W-2) with a Schedule C showing Cost of Goods sold expenses (OOS)

Office Administrator (W-2) with no Schedule C income had Utility, License and Supply expenses

Daily mileage from home to same work location (\$8,000+ - multiple years)

Meal's expense, hotel expense AND a per diem expense of \$14,516

Medical device purchase for spouse (not involved in business) (\$8,900+)

Inappropriate expenses for Business Code: Courier – 492000 had commissions expense but no vehicle mileage

## Scope Reminder

**AARP National Schedule C Requirements:****NOT IN SCOPE:**

- Hobby income or not for profit activity
- Professional gamblers
- Bartering
- Any transaction involving, purchase, sale, or holding of any virtual currency
- Method of accounting (other than cash)
- Taxpayer does not meet the tests for material participation or is uncertain about materially participating in business
- Returns and allowances
- Cost of Goods Sold (inventory)
- Automobile expenses, except standard mileage method
- Vehicle rental or lease more than 30 days (use standard mileage rate method only)
- Contract labor expense (1099-NEC) or Employees (W-2)
- Depletion or Depreciation or when F 4562 is required
- Casualty losses, amortization, employee expenses (formerly Form 2106)
- Business use of home
- Total expenses over **\$35,000** or **any Net Loss**

**Additional NEW Arizona Schedule C Requirements:**

These Arizona requirements are **IN ADDITION** to AARP National Schedule C Requirements (above).

1. Counselors, including QR Counselors must attend Schedule C training, and complete a tax return in TSO - Practice Lab containing a Schedule C.
2. Taxpayer must complete a Schedule C **worksheet** and have **receipts** for the following expenses:
  - a. Office & Supply expenses
  - b. Repairs
  - c. Mileage – must have a log (subtotal January to June and July to December)
  - d. Other expenses (line 27a)
3. Every Schedule C must be reviewed and approved by Quality Review and Local Coordinator. Every **Out-of-Scope** Schedule C must have District Coordinator approval.
4. All Schedule Cs are subject to Tax-Aide AZ management review.

Schedule C Training includes:

1. Schedule C Training – Presentation
2. Schedule C Guidelines\_TY22 – Document
3. Schedule C Worksheet\_TY22 – Add to Counselor Chromebook Google Drive
4. Schedule C Instructions – IRS – Add to Counselor Chromebook Google Drive

Schedule C Exercise:

Create and save the Parata exercise from page 64-68 of the NTTC Workbook in TaxSlayer Practice Lab (TY22). Record your answers and compare to the instructor provided answer sheet.

Reopen the tax return and replace the TY22 Self-Employed (Sch C) Worksheet from the exercise with the new Schedule C Worksheet provided below.

Your Local Coordinator has asked you to determine the eligible amount of Business Use of the Home. In your discussion with Maru, he claims he keeps business records in a file cabinet in his home office. He does not meet clients at his home.

When complete, email the net Self Employed income (Loss) amount to: [ArizonaTaxAide@gmail.com](mailto:ArizonaTaxAide@gmail.com)

Use the below link to access the Schedule C Knowledge Check. This is a self-test and is not graded and you do not need to report your results.

<https://forms.gle/7g1jHEXDLErUfCn86>

(Complete a separate worksheet for each business)

Business Name \_\_\_\_\_ Tax Year \_\_\_\_\_

<input type="checkbox"/> I paid employees or other individuals	<input checked="" type="checkbox"/> I want to deduct a home office
<input type="checkbox"/> I had more than \$35,000 in business expenses	<input type="checkbox"/> I received a Form 1095-A
<input type="checkbox"/> I kept an inventory for my business	<input type="checkbox"/> I need to report a business loss
<input type="checkbox"/> I have assets to depreciate (any > \$2,500)	<input type="checkbox"/> I don't use the cash method of accounting

**If you checked any of the above boxes, please stop here and speak with one of our Counselors**

If you checked none of the above, please continue by completing the worksheet below

Income (Line 1 of Sch C)		Business expenses (continued)	
Forms 1099 (-NEC, -MISC, -K)	\$ 10,978.00	Business part of phone	\$ 467.00
Cash, checks, etc. (incl. tips)	\$ 30,567.00	Training for this business	\$ 150.00
Line 6: Non-related income	\$ 433.00	Tools, etc. (<\$2,500 each)	\$ 2,645.09
<b>Business expenses</b>		Business meals (restaurant)	\$ 69.79
Advertising	\$ 650.00	Other (specify) * Coveralls	\$ 123.75
Commissions and fees	\$ 110.00	Other (specify) * Utilities	\$ 342.00
Health insurance premiums	\$ 1,800.00	<b>* - Must provide receipts</b>	
Business insurance	\$ 575.00	<b>Business Use of Home</b>	
Interest on business loans	\$ 35.78	<i>Business portion must be:</i>	
Office expense/supplies	\$	<i>(1) your principal place of business, and</i>	
Rent (not home office)	\$ 1,700.00	<i>(2) used <u>exclusively</u> and regularly for business.</i>	
Repairs *	\$	Business portion of home	300 sq.ft.
Supplies *	\$ 2,956.73	Total home area	1,250 sq.ft.
Licenses or fees	\$ 670.00		
<b>Business use of car or truck</b>		<b>Vehicle expense - Mileage Log Required</b>	
Total mileage for year	9,564 mi.	Business portion of car loan interest (____%)	\$ 800.00
Business miles Jan thru Jun	300 mi.	Business portion of car license tax (____%)	\$ 472.00
Business miles Jul thru Dec	158 mi.	Parking, tolls	\$ 110.00
Commuting miles	mi.	Other (specify) Truck wash	\$ 75.00
Other miles	mi.	Truck bed liner to protect truck	\$ 250.00
Vehicle description: 2017 Ford F-150 Truck			
Date placed in service: May 5, 2018			