

Instructions for Schedule C

2023

Profit or Loss From Business

Volume 1 of 2



Department of the Treasury
Internal Revenue Service

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Use Schedule C (Form 1040) to report income or (loss) from a business you operated or a profession you practiced as a sole proprietor. An activity qualifies as a business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity

with continuity and regularity. For example, a sporadic activity, a not-for-profit activity, or a hobby does not qualify as a business. To report income from a nonbusiness activity, see the instructions for Schedule 1 (Form 1040), line 8j.

Also, use Schedule C to report (a) wages and expenses you had as a statutory employee; (b) income and deductions of certain qualified joint ventures; and (c) certain amounts shown on a Form 1099, such as Form 1099-MISC, Form 1099-NEC, and Form 1099-K. See the instructions on your Form 1099 for more information about what to report on Schedule C.

You may be subject to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Schedule C and its instructions, such as legislation enacted after they were published, go to [IRS.gov/ScheduleC](https://www.irs.gov/ScheduleC).

What's New

Redesigned Form 1040-SS. For 2023, Schedule C (Form 1040) is available to be filed with Form 1040-SS, if applicable. It replaces Form 1040-SS, Part IV. For additional information, see the Instructions for Form 1040-SS.

Standard mileage rate. The business standard mileage rate for 2023 is 65.5 cents per mile.

Business meals deduction. The temporary 100% deduction for food or beverages

provided by a restaurant has expired. The business meal deduction reverts back to the previous 50% allowable deduction beginning January 1, 2023.

Energy efficient commercial buildings deduction. The energy efficient commercial buildings deduction is now reported on new line 27b.

Bonus depreciation. The bonus depreciation deduction under section 168(k) begins its phaseout in 2023 with a reduction of the applicable limit from 100% to 80%.

Commercial clean vehicle credit.

Businesses that buy a qualified commercial clean vehicle may qualify for a clean vehicle tax credit. See Form 8936 and its instructions for more information.

Reminders

Gig economy tax center. The gig (or on-demand, sharing, or access) economy refers to an activity where people earn income providing on-demand work, services, or goods. Go to *IRS.gov/Gig* to get more information about the tax consequences of participating in the gig economy.

Excess business loss limitation. If you report a loss on line 31 of your Schedule C (Form 1040), you may be subject to a business loss limitation. The disallowed loss resulting from the limitation will not be reflected on line 31 of your Schedule C. Instead, use Form 461 to determine the amount of your excess business loss, which will be included as income on Schedule 1 (Form 1040), line 8p. Any disallowed loss resulting from this limitation will be treated as a net operating loss that must be carried forward and deducted in a subsequent year.

See Form 461 and its instructions for details on the excess business loss limitation.

Small Business and Self-Employed

(SB/SE) Tax Center. Do you need help with a tax issue or preparing your return, or do you need a free publication or form? SB/SE serves taxpayers who file Form 1040, 1040-SR, Schedules C, E, F, or Form 2106, as well as small business taxpayers with assets under \$10 million. For additional information, go to the Small Business and Self-Employed Tax Center at [IRS.gov/SmallBiz](https://www.irs.gov/SmallBiz).

General Instructions

Other Schedules and Forms You May Have To File

- Schedule A (Form 1040) to deduct interest, taxes, and casualty losses not related to your business.

- Schedule E (Form 1040) to report rental real estate and royalty income or (loss) that is not subject to self-employment tax.
- Schedule F (Form 1040) to report profit or (loss) from farming.
- Schedule J (Form 1040) to figure your tax by averaging your farming or fishing income over the previous 3 years. Doing so may reduce your tax.
- Schedule SE (Form 1040) to pay self-employment tax on income from any trade or business.
- Form 461 to report an excess business loss.
- Form 3800 to claim any of the general business credits.
- Form 4562 to claim depreciation and amortization on assets placed in service in 2023, to claim amortization that began in 2023, to make an election under section

179 to expense certain property, or to report information on listed property.

- Form 4684 to report a casualty or theft gain or (loss) involving property used in your trade or business or income-producing property.
- Form 4797 to report sales, exchanges, and involuntary conversions (not from a casualty or theft) of trade or business property.
- Form 6198 to apply a limitation to your loss if you have a business loss and you have amounts invested in the business for which you are not at risk.
- Form 6252 to report income from an installment agreement.
- Form 7205 to claim the IRC 179D deduction for qualifying energy efficient commercial building expenses.

- Form 8582 to apply a limitation to your loss from passive activities.
- Form 8594 to report certain purchases or sales of groups of assets that constitute a trade or business.
- Form 8824 to report like-kind exchanges.
- Form 8829 to claim actual expenses for business use of your home.
- Form 8936 to claim the commercial clean vehicle credit.
- Form 8960 to pay Net Investment Income Tax on certain income from your passive activities.
- Form 8990 to determine whether your business interest deduction is limited.
- Form 8995 or 8995-A to claim a deduction for qualified business income.

Single-member limited liability company (LLC). Generally, a single-member domestic LLC is not treated as a separate entity for federal income tax purposes. If you are the sole member of a domestic LLC, file Schedule C (or Schedule E or F, if applicable) unless you have elected to treat the domestic LLC as a corporation. See Form 8832 for details on making this election and for information about the tax treatment of a foreign LLC.

Single-member LLCs with employees. A single-member LLC must file employment tax returns using the LLC's name and employer identification number (EIN) rather than the owner's name and EIN, even if the LLC is not treated as a separate entity for federal income tax purposes.

Heavy highway vehicle use tax. If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a federal highway motor vehicle use tax. See the Instructions for Form

2290 to find out if you must pay this tax and go to [IRS.gov/Trucker](https://www.irs.gov/Trucker) for the most recent developments.

Information returns. You may have to file information returns for wages paid to employees, and certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. See *Line I*, later, and the 2023 General Instructions for Certain Information Returns for details and other payments that may require you to file a Form 1099.

If you received cash of more than \$10,000 in one or more related transactions in your trade or business, you may have to file Form 8300. For details, see Pub. 1544. See also the IRS Form 8300 Reference Guide, available at [IRS.gov/Businesses/Small-Businesses-SelfEmployed/IRS-Form-8300-ReferenceGuide](https://www.irs.gov/Businesses/Small-Businesses-SelfEmployed/IRS-Form-8300-ReferenceGuide).

Business Owned and Operated by Spouses

Generally, if you and your spouse jointly own and operate an unincorporated business and share in the profits and losses, you are partners in a partnership, whether or not you have a formal partnership agreement. You generally have to file Form 1065 instead of Schedule C for your joint business activity; however, you may not have to file Form 1065 if either of the following applies.

- You and your spouse elect to be treated as a qualified joint venture. See Qualified Joint Venture next.
- You and your spouse wholly own the unincorporated business as community property and you treat the business as a sole proprietorship. See Community Income, later. Otherwise, use Form 1065. See Pub. 541 for information about partnerships.

Qualified Joint Venture

You and your spouse can elect to treat an unincorporated business as a qualified joint venture instead of a partnership if you:

- Each materially participate in the business (see Material participation, later, in the instructions for line G);
- Are the only owners of the business; and
- File a joint return for the tax year.

Making the election will allow you to avoid the complexity of Form 1065, but still give each of you credit for social security earnings on which retirement benefits, disability benefits, survivor benefits, and insurance (Medicare) benefits are based. In most cases, this election will not increase the total tax owed on the joint return.

Jointly owned property. You and your spouse must operate a business to make this election. Do not make the election for jointly

owned property that is not a trade or business.



Only businesses that are owned and operated by spouses as co-owners (and not in the name of a state law entity) qualify for the election. Thus, a business owned and operated by spouses through an LLC does not qualify for the election of a qualified joint venture.

Making the election. To make this election, divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse based on your respective interests in the business. Each of you must file a separate Schedule C or F. Enter your share of the applicable income, deduction, or (loss) on the appropriate lines of your separate Schedule C or F. Each of you may also need to file a separate Schedule SE to pay self-employment tax. If the business was taxed as a partnership before you made the election, the

partnership will be treated as terminating at the end of the preceding tax year. For information on how to report the termination of the partnership, see Pub. 541.

Revoking the election. The election can be revoked only with the permission of the IRS. However, the election remains in effect only for as long as you and your spouse continue to meet the requirements to make the election. If you and your spouse fail to meet the requirements for any year, you will need to make a new election to be treated as a qualified joint venture in any future year.

Employer identification number (EIN).

You and your spouse do not need to obtain an EIN to make the election. But you may need an EIN to file other returns, such as employment or excise tax returns. To apply for an EIN, see the Instructions for Form SS-4 or go to [IRS.gov/EIN](https://www.irs.gov/ein).

Rental real estate business. If you and your spouse make the election for your rental real estate business, you must each report your share of income and deductions on Schedule E. Rental real estate income is not generally included in net earnings from self-employment subject to self-employment tax and is generally subject to the passive loss limitation rules. Electing qualified joint venture status does not alter the application of the self-employment tax or the passive loss limitation rules.

More information. For more information on qualified joint ventures, go to [IRS.gov/QJV](https://www.irs.gov/QJV).

Community Income

If you and your spouse wholly own an unincorporated business as community property under the community property laws of a state, foreign country, or U.S. territory, you can treat your wholly owned, unincorporated business as a sole

proprietorship, instead of a partnership. Any change in your reporting position will be treated as a conversion of the entity.

Report your income and deductions as follows.

- If only one spouse participates in the business, all of the income from that business is the self-employment earnings of the spouse who carried on the business.
- If both spouses participate, the income and deductions are allocated to the spouses based on their distributive shares.
- If either or both spouses are partners in a partnership, see Pub. 541.
- If both spouses elected to treat the business as a qualifying joint venture, see Qualified Joint Venture, earlier.

States with community property laws include Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. See Pub. 555 for more information about community property laws.

Reportable Transaction Disclosure Statement

Use Form 8886 to disclose information for each reportable transaction in which you participated. Form 8886 must be filed for each tax year that your federal income tax liability is affected by your participation in the transaction. You may have to pay a penalty if you are required to file Form 8886 but do not do so. You may also have to pay interest and penalties on any reportable transaction understatements. The following are reportable transactions.

- Any listed transaction that is the same as or substantially similar to tax avoidance transactions identified by the IRS.

- Any transaction offered to you or a related party under conditions of confidentiality for which you paid an advisor a fee of at least \$50,000.
- Certain transactions for which you or a related party have contractual protection against disallowance of the tax benefits.
- Certain transactions resulting in a loss of at least \$2 million in any single tax year or \$4 million in any combination of tax years. (At least \$50,000 for a single tax year if the loss arose from a foreign currency transaction defined in section 988(c)(1), whether or not the loss flows through from an S corporation or partnership.)
- Certain transactions of interest entered into that are the same or substantially similar to one of the types of transactions that the IRS has identified by published guidance as a transaction of interest.

See the Instructions for Form 8886 for more details.

Capital Construction Fund

Do not claim on Schedule C the deduction for amounts contributed to a capital construction fund set up under chapter 535 of title 46 of the United States Code. Instead, reduce the amount you would otherwise enter on Form 1040 or 1040-SR, line 15, by the amount of the deduction. Next to line 15, enter "CCF" and the amount of the deduction. For details, see Pub. 595.

Additional Information

See Pub. 334 for more information for small businesses.

Specific Instructions

Filers of Form 1041. Do not complete the block labeled "Social security number (SSN)." Instead, enter the EIN issued to the estate or trust on line C.

Line A

Describe the business or professional activity that provided your principal source of income reported on line 1. If you owned more than one business, complete a separate Schedule C for each business. Give the general field or activity and the type of product or service. If your general field or activity is wholesale or retail trade, or services connected with production services (mining, construction, or manufacturing), also give the type of customer or client; for example, "wholesale sale of hardware to retailers" or "appraisal of real estate for lending institutions."

Line B

Enter on line B the six-digit code from the Principal Business or Professional Activity Codes chart at the end of these instructions. For nonstore retailers, select the PBA code by the primary product that your establishment sells. For example, establishments primarily selling prescription and non-prescription drugs, select PBA code *456110 Pharmacies & drug retailers*.

Line D

Enter on line D the EIN that was issued to you on Form SS-4. Do not enter your SSN on this line. Do not enter another taxpayer's EIN (for example, from any Forms 1099-MISC that you received). **If you do not have an EIN, leave line D blank.**

You need an EIN only if you have a qualified retirement plan or are required to file employment, excise, alcohol, tobacco, or firearms returns, or are a payer of gambling

winnings. If you need an EIN, see the Instructions for Form SS-4.

Single-member LLCs. If you are the sole owner of an LLC that is not treated as a separate entity for federal income tax purposes, enter on line D the EIN that was issued to the LLC (in the LLC's legal name) for a qualified retirement plan, to file employment, excise, alcohol, tobacco, or firearms returns, or as a payer of gambling winnings. **If you do not have such an EIN, leave line D blank.**

Line E

Enter your business address. Show a street address instead of a box number. Include the suite or room number, if any. If you conducted the business from your home located at the address shown on page 1 of your tax return, you do not have to complete this line.

Line F

Generally, you can use the cash method, an accrual method, or any other method permitted by the Internal Revenue Code. In all cases, the method used must clearly reflect income. Unless you are a small business taxpayer (defined later under *Part III*), you must use an accrual method for sales and purchases of inventory items. Special rules apply to long-term contracts (see section 460 for details). See also Rev. Proc. 2022-9 for changes in accounting periods and methods of accounting, available at [IRS.gov/irb/ 2022-02 IRB#REV-PROC-2022-9](https://www.irs.gov/irb/2022-02_IRB#REV-PROC-2022-9).

If you use the cash method, show all items of taxable income actually or constructively received during the year (in cash, property, or services). Income is constructively received when it is credited to your account or set aside for you to use. Also, show amounts actually paid during the year for

deductible expenses. However, if the payment of an expenditure creates an asset having a useful life that extends beyond 12 months or the end of the next tax year, it may not be deductible or may be deductible only in part for the year of the payment. See chapter 2 of Pub. 334, Tax Guide for Small Business.

For amounts includible in income and deductible as expense under an accrual method, see Pub. 538.

To change your accounting method, you must generally file Form 3115. You may also have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a section 481(a) adjustment.

Example. You change to the cash method of accounting and choose to account for inventorable items in the same manner as non-incidental materials and supplies for the 2023 tax year. You accrued sales in 2022 for which you received payment in 2023. You

must report those sales in both years as a result of changing your accounting method and must make a section 481(a) adjustment to prevent duplication of income.

A net negative section 481 adjustment is generally taken into account in the year of change. A net positive section 481(a) adjustment is generally taken into account over a period of 4 years. Include any net positive section 481(a) adjustments on line 6. If the net section 481(a) adjustment is negative, report it in Part V.

More information. For more information about changing your accounting method and the section 481(a) adjustment, see the Instructions for Form 3115. Additional information is also available in various revenue procedures. See Rev. Proc. 2022-14 (and any subsequent revenue procedures modifying Rev. Proc. 2022-14) for a list of automatic changes, including a description of its effect on prior lists of automatic changes.

Rev. Proc. 2022-14 is available at [IRS.gov/irb/2022-07_IRB#REVPROC-2022-14](https://www.irs.gov/irb/2022-07_IRB#REVPROC-2022-14).

Line G

If your business activity is not a rental activity and you meet any of the material participation tests, explained next, or the exception for oil and gas applies, check the “Yes” box. Otherwise, check “No.” If you check “No,” this activity is passive. If you have a loss from a passive activity, see Limit on losses, later. If you have a profit from the rental of property to a nonpassive activity, see *Recharacterization of Passive Income* in Pub. 925 to find out how to report the net income.

Material participation. For purposes of the seven material participation tests listed later, participation generally includes any work you did in connection with an activity, if you owned an interest in the activity at the time you did the work. The capacity in which you

did the work does not matter. However, work is not treated as participation if it is work that an owner would not customarily do in the same type of activity and one of your main reasons for doing the work was to avoid the disallowance of losses or credits from the activity under the passive activity rules.

Work you did as an investor in an activity is not treated as participation unless you were directly involved in the day-to-day management or operations of the activity.

Work performed as an investor includes:

- Studying and reviewing financial statements or reports on the activity,
- Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use, and
- Monitoring the finances or operations of the activity in a nonmanagerial capacity.

Participation by your spouse during the tax year in an activity in which you own an

interest can be counted as your participation in the activity. This rule applies even if your spouse did not own an interest in the activity and whether or not you and your spouse file a joint return. However, this rule does not apply for purposes of determining whether you and your spouse can elect to have your business treated as a qualified joint venture instead of a partnership (see *Qualified Joint Venture*, earlier).

For purposes of the passive activity rules, you materially participated in the operation of a trade or business activity during 2023 if you met any of the following seven tests.

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals (including individuals who

did not own any interest in the activity) for the tax year.

3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other person for the tax year. This includes individuals who did not own any interest in the activity.
4. The activity is a significant participation activity for the tax year, and you participated in all significant participation activities for more than 500 hours during the year. An activity is a "significant participation activity" if it involves the conduct of a trade or business, you participated in the activity for more than 100 hours during the tax year, and you did not materially participate under any of the material participation tests (other than this test 4).

5. You materially participated in the activity for any 5 of the prior 10 tax years.
6. The activity is a personal service activity in which you materially participated for any 3 prior tax years. A personal service activity is an activity that involves performing personal services in the field of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting, or any other trade or business in which capital is not a material income-producing factor.
7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis for more than 100 hours during the tax year. Your participation in managing the activity does not count in determining if you

meet this test if any person (except you) (a) received compensation for performing management services in connection with the activity, or (b) spent more hours during the tax year than you spent performing management services in connection with the activity (regardless of whether the person was compensated for the services).

Rental of personal property. Generally, a rental activity (such as long-term equipment leasing) is a passive activity even if you materially participated in the activity. However, if you met any of the five exceptions listed under *Rental Activities* in the Instructions for Form 8582, the rental of the property is not treated as a rental activity and the material participation rules explained earlier apply.

Exception for oil and gas. If you are filing Schedule C to report income and deductions from an oil or gas well in which you own a working interest directly or through an entity that does not limit your liability, check the “Yes” box. The activity of owning a working interest is not a passive activity, regardless of your participation.

Limit on losses. Your business activity loss may be limited if you checked the “No” box on line G. In addition, your rental activity loss may be limited even if you materially participated. In general, a business activity in which you do not materially participate or a rental activity is a passive activity and you have to use Form 8582 to apply a limitation that may reduce the loss, if any, that you may enter on Schedule C, line 31. For details, see Pub. 925.

Note. Line G doesn't apply to filers of Form 1040-SS.

Line H

If you started or acquired this business in 2023, check the box on line H. Also, check the box if you are reopening or restarting this business after temporarily closing it, and you did not file a 2022 Schedule C for this business.

Line I

If you made any payment in 2023 that would require you to file any Forms 1099, check the "Yes" box. Otherwise, check the "No" box.

You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, a deposit-commission, or other similar basis for resale.

Note. Line I doesn't apply to filers of Form 1040-SS.



The Guide to Information Returns in the 2023 General Instructions for Certain Information Returns identifies which Forms 1099 must be filed, the amounts to report, and the due dates for the required Forms 1099.

Part I. Income

Except as otherwise provided in the Internal Revenue Code, gross income includes income from whatever source derived. In certain circumstances, however, gross income does not include extraterritorial income that is qualifying foreign trade income. Use Form 8873 to figure the extraterritorial income exclusion. Report it on Schedule C as explained in the Instructions for Form 8873.

If you were a debtor in a chapter 11 bankruptcy case during 2023, see *Chapter 11 Bankruptcy Cases* in the Instructions for Form

1040 (under *Income*) and the Instructions for Schedule SE.

Be sure to report all income attributable to your trade or business from all sources. You may receive one or more Forms 1099 from people who are required to provide information to the IRS listing amounts that may be income you received as a result of your trade or business activities. The following is a list of some of the common Forms 1099.

- 1099-MISC. For more information about what is reported on Form 1099-MISC, see the *Instructions for Recipient* included on that form.
- 1099-NEC. For more information about what is reported on Form 1099-NEC, see the *Instructions for Recipient* included on that form.
- 1099-K. For more information about what is reported on Form 1099-K, see the

Instructions for Payee included on that form and go to [IRS.gov/Gig](https://www.irs.gov/Gig).



Income you report on Schedule C may be qualified business income and entitle you to a deduction on Form 1040 or 1040-SR, line 13. See Forms 8995 and 8995-A, and [IRS.gov/Newsroom/Facts-Aboutthe-Qualified-Business-IncomeDeduction](https://www.irs.gov/Newsroom/Facts-Aboutthe-Qualified-Business-IncomeDeduction).

Line 1

Enter gross receipts from your trade or business. Be sure to check any Forms 1099 you received for business income that must be reported on this line.

If you received one or more Forms 1099-NEC, be sure line 1 includes amounts properly shown on your Forms 1099-NEC. If the total amounts that were reported in box 1 of Forms 1099-NEC are more than the total you are reporting on line 1, attach a statement explaining the difference.

Statutory employees. If you received a Form W-2, Wage and Tax Statement, and the "Statutory employee" box in box 13 of that form was checked, report your income and expenses related to that income on Schedule C. Enter your statutory employee income from box 1 of Form W-2 on line 1 of Schedule C and check the box on that line. Social security and Medicare tax should have been withheld from your earnings; as a result, you do not owe self-employment tax on these earnings. Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons, and certain homeworkers.

If you had both self-employment income and statutory employee income, you must file two Schedules C. You cannot combine these amounts on a single Schedule C.

Note. Statutory employees information doesn't apply to Form 1040-SS filers.



Qualified joint ventures should report rental real estate income not subject to self-employment tax on Schedule E.

See Qualified Joint Venture, earlier, and the Instructions for Schedule E.

Installment sales. Generally, the installment method cannot be used to report income from the sale of (a) personal property regularly sold under the installment method, or (b) real property held for resale to customers. But the installment method can be used to report income from sales of certain residential lots and timeshares if you elect to pay interest on the tax due on that income after the year of sale. See section 453(l)(2) (B) for details. If you make this election, include the interest in the total on Schedule 2 (Form 1040), line 14, and enter the amount of interest and “453(l) (3)” on the line next to the entry space.

If you use the installment method, attach a statement to your return. Show separately for

2023 and the 3 preceding years: gross sales, cost of goods sold, gross profit, percentage of gross profit to gross sales, amounts collected, and gross profit on amounts collected.

Line 2

Report your sales returns and allowances as a positive number on line 2. A sales return is a cash or credit refund you gave to customers who returned defective, damaged, or unwanted products.

A sales allowance is a reduction in the selling price of products, instead of a cash or credit refund.

Line 6

Report on line 6 business income not reported elsewhere in Part I. Be sure to include amounts from the following.

- Finance reserve income.
- Scrap sales.

- Bad debts you recovered.
- Interest (such as on notes and accounts receivable).
- State gasoline or fuel tax refunds you received in 2023.
- Any amount of credit for biofuel claimed on line 3 of Form 6478.
- Any amount of credit for biodiesel, renewable diesel, and sustainable aviation fuel claimed on line 11 of Form 8864.
- Credit for federal tax paid on fuels claimed on your 2022 Form 1040 or 1040-SR.
- Prizes and awards related to your trade or business.
- Amounts you received in your trade or business as shown on Form 1099-PATR.
- The amount of any payroll tax credit taken by an employer for qualified paid sick leave and qualified paid family leave

under the Families First Coronavirus Response Act (FFCRA), and the American Rescue Plan Act of 2021 (ARP). See Form 941, lines 11b, 11d, 13c, and 13e, and Form 944, lines 8b, 8d, 10d, and 10f. You must include the full amount (both the refundable and nonrefundable portions) of the credit for qualified sick and family leave wages in gross income for the tax year that includes the last day of any calendar quarter with respect to which a credit is allowed.

Note. A credit is available only if the leave was taken after March 31, 2020, and before October 1, 2021, and only after the qualified leave wages were paid, which might under certain circumstances not occur until a quarter after September 30, 2021, including quarters during 2023. Accordingly, all lines related to qualified sick and family leave wages remain on the employment tax returns for 2023.

- Any amount of credit for COBRA premium assistance. See your Form(s) 941 or Form 944 for 2023 for the nonrefundable and refundable portions of this credit that you claimed against your employment taxes.
- Other kinds of miscellaneous business income.

If the business use percentage of any listed property (defined under Line 13, later) dropped to 50% or less in 2023, report on this line any recapture of excess depreciation, including any section 179 expense deduction. Use Part IV of Form 4797 to figure the recapture. Also, if the business use percentage drops to 50% or less on leased listed property (other than a vehicle), include on this line any inclusion amount. See chapter 5 of Pub. 946 to figure the amount.

Part II. Expenses

Capitalizing costs of producing property and acquiring property for resale. If you produced real or tangible personal property or acquired real or personal property for resale, you must generally capitalize certain expenses in inventory or other property.

These expenses include the direct costs of the property and any indirect costs properly allocable to that property. Reduce the amounts on lines 8 through 26, 27b, and Part V by amounts capitalized. See Pub. 538 for a discussion of the uniform capitalization rules.

Exception for a small business taxpayer.

A small business taxpayer (defined later under *Part III*) is not required to capitalize certain expenses to inventory or other property. See Pub. 538 for more details.

Exception for creative property. If you are a freelance artist, author, or photographer, you may be exempt from the capitalization

rules. However, your personal efforts must have created (or reasonably be expected to create) the property. This exception does not apply to any expense related to printing, photographic plates, motion picture films, videotapes, or similar items. These expenses are subject to the capitalization rules. For details, see *Uniform Capitalization Rules* in Pub. 538.

Line 9

You can deduct the actual expenses of operating your car or truck or take the standard mileage rate. This is true even if you used your vehicle for hire (such as a taxicab). You must use actual expenses if you used five or more vehicles simultaneously in your business (such as in fleet operations). You can't use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can take the standard mileage rate for 2023 only if you:

- Owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, or
- Leased the vehicle and are using the standard mileage rate for the entire lease period.

If you take the standard mileage rate:

- Multiply the number of business miles driven by 65.5;
- Add to this amount your parking
- fees and tolls; and
- Enter the total on line 9. Do not deduct depreciation, rent or lease payments, or your actual operating expenses.
- If you deduct actual expenses:
- Include on line 9 the business portion of expenses for gasoline, oil, repairs, insurance, license plates, etc.; and

- Show depreciation on line 13 and rent or lease payments on line 20a.

For details, see chapter 4 of Pub. 463.

Information on your vehicle. If you claim any car and truck expenses, you must provide certain information on the use of your vehicle by completing one of the following.

1. Complete Schedule C, Part IV, if (a) you are claiming the standard mileage rate, you lease your vehicle, or your vehicle is fully depreciated; and (b) you are not required to file Form 4562 for any other reason. If you used more than one vehicle during the year, attach a statement with the information requested in Schedule C, Part IV, for each additional vehicle.
2. Complete Form 4562, Part V, if you are claiming depreciation on your vehicle or you are required to file Form

4562 for any other reason (see Line 13, later).

Line 10

Enter the total commissions and fees for the tax year. Do not include commissions or fees that are capitalized or deducted elsewhere on your return.

You must file Form 1099-NEC to report certain commissions and fees of \$600 or more during the year. See the Instructions for Forms 1099-MISC and 1099-NEC for details.

Sales of property. Generally, commissions and other fees paid to facilitate the sale of property must be capitalized. However, if you are a dealer in property, enter on line 10 the commissions and fees you paid to facilitate the sale of that property.

Note. A dealer in property is a person who regularly sells property in the ordinary course of their trade or business.

For more information on the capitalization of commissions and fees, see the examples under Regulations section 1.263(a)-1(e).

Line 11

Enter the total cost of contract labor for the tax year. Contract labor includes payments to persons you do not treat as employees (for example, independent contractors) for services performed for your trade or business. Do not include contract labor deducted elsewhere on your return, such as contract labor includible on line 17, 21, 26, or 37. Also, do not include salaries and wages paid to your employees; instead, see Line 26, later.

You must file Form 1099-NEC to report contract labor payments of \$600 or more during the year. See the Instructions for Forms 1099-MISC and 1099-NEC for details.

Line 12

Enter your deduction for depletion on this line. If you have timber depletion, attach Form T (Timber). See chapter 9 of Pub. 535 for 2022, a prior year version, for details.

Line 13

Depreciation and section 179 expense deduction. Depreciation is the annual deduction allowed to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. You can also depreciate improvements made to leased business property. However, stock in trade, inventories, and land are not depreciable. Depreciation starts when you first use the property in your business or for the production of income. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business or for the production of income. You can also elect

under section 179 to expense part or all of the cost of certain property you bought in 2023 for use in your business. See the Instructions for Form 4562 and Pub. 946 to figure the amount to enter on line 13.

When to attach Form 4562. You must complete and attach Form 4562 only if you are claiming:

- Depreciation on property placed in service during 2023;
- Depreciation on listed property (defined later), regardless of the date it was placed in service; or
- A section 179 expense deduction.

If you acquired depreciable property for the first time in 2023, see Pub. 946.

Listed property. Listed property generally includes but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less;

- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pickup trucks, etc.; and
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment).

Exception. Listed property does not include photographic, phonographic, communication, or video equipment used exclusively in your trade or business or at your regular business establishment. For purposes of this exception, a portion of your home is treated as a regular business establishment only if that portion meets the requirements under section 280A(c)(1) for deducting expenses for the business use of your home.

Recapture. See Line 6, earlier, if the business use percentage of any listed property dropped to 50% or less in 2023.

Line 14

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 19. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs. If you made contributions on your behalf as a self-employed person to a dependent care assistance program, complete Form 2441, Parts I and III, to figure your deductible contributions to that program.

You cannot deduct contributions you made on your behalf as a self-employed person for group-term life insurance.

Do not include on line 14 any contributions you made on your behalf as a self-employed person to an accident and health plan.

However, you may be able to deduct on Schedule 1 (Form 1040), line 17, the amount you paid for health insurance on behalf of yourself, your spouse, and dependents, even

if you do not itemize your deductions. See the instructions for line 17, Schedule 1, contained within the Instructions for Form 1040.

You must reduce your line 14 deduction by the amount of any credit for small employer health insurance premiums determined on Form 8941. See Form 8941 and its instructions to determine which expenses are eligible for the credit.

Line 15

Deduct premiums paid for business insurance on line 15. Deduct on line 14 amounts paid for employee accident and health insurance. Do not deduct amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability. For details, see Pub. 334, chapter 8.

Lines 16a and 16b

Interest allocation rules. The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. “Interest allocation” rules require you to allocate (classify) your interest expense so it is deducted (or capitalized) on the correct line of your return and receives the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule C.

Generally, you allocate interest expense by tracing how the proceeds of the loan were used. See chapter 4 of Pub. 535 for 2022, a prior year version, for details.

Limitation on business interest. You must file Form 8990 to deduct any interest expenses of this trade or business unless you are a small business taxpayer (defined under *Part III*) or meet one of the other filing

exceptions listed in the Instructions for Form 8990.

If you must file Form 8990, figure the limit on your business interest expenses on Form 8990 before completing lines 16a and 16b. Follow the instructions under *How to report*, later, but report the reduced interest on lines 16a and 16b. The interest you can't deduct this year will carry forward to next year on Form 8990.

If you are a small business taxpayer or meet one of the other filing exceptions for Form 8990, follow the instructions under *How to report*, later, and report all of your deductible interest on lines 16a and 16b.

How to report. If you have a mortgage on real property used in your business, enter on line 16a the interest you paid for 2023 to banks or other financial institutions for which you received a Form 1098 (or similar statement). If you did

not receive a Form 1098, enter the interest on line 16b.

If you paid more mortgage interest than is shown on Form 1098, see chapter 4 of Pub. 535 for 2022, a prior year version, to find out if you can deduct the additional interest. If you can, include the amount on line 16a. Attach a statement to your return explaining the difference and enter "See attached" in the margin next to line 16a.



The Tax Cuts and Jobs Act, section 11043, limited the deduction for mortgage interest paid on home equity loans and lines of credit. See section 163(h)(3)(F).

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, include your share of the interest on line 16b. Attach a statement to your return showing the name and address of the person

who received the Form 1098. In the margin next to line 16b, enter "See attached."

If you paid interest in 2023 that also applies to future years, deduct only the part that applies to 2023.

Line 17

Include on this line fees charged by accountants and attorneys that are ordinary and necessary expenses directly related to operating your business.

Include fees for tax advice related to your business and for preparation of the tax forms related to your business. Also, include expenses incurred in resolving asserted tax deficiencies related to your business.

For more information, see Pub. 334.

Line 18

Include on this line your expenses for office supplies and postage.

Line 19

Enter your deduction for the contributions you made for the benefit of your employees to a pension, profit-sharing, or annuity plan (including SEP, SIMPLE, and SARSEP plans described in Pub. 560). If the plan included you as a self-employed person, enter the contributions made as an employer on your behalf on Schedule 1 (Form 1040), line 16, not on Schedule C.

This deduction may be subject to limitations. For more information on potential limitations, see Pub. 560.

In most cases, you must file the applicable form listed below if you maintain a pension, profit-sharing, or other funded-deferred compensation plan. The filing requirement is not affected by whether or not the plan qualified under the Internal Revenue Code, or whether or not you claim a deduction for the current tax year. There is a penalty for failure to timely file these forms.

Form 5500-EZ. File this form if you have a one-participant retirement plan that meets certain requirements. A one-participant plan is a plan that covers only you (or you and your spouse).

Form 5500-SF. File this form electronically with the Department of Labor (at efast.dol.gov) if you have a small plan (fewer than 100 participants in most cases) that meets certain requirements.

Form 5500. File this form electronically with the Department of Labor (at efast.dol.gov) for a plan that does not meet the requirements for filing Form 5500-EZ or Form 5500-SF. For details, see Pub. 560.

Lines 20a and 20b

If you rented or leased vehicles, machinery, or equipment, enter on line 20a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction by the inclusion amount. See *Leasing a Car* in chapter 4 of Pub. 463 to figure this amount.

Enter on line 20b amounts paid to rent or lease other property, such as office space in a building.

Line 21

Deduct the cost of incidental repairs and maintenance that do not add to the property's value or appreciably prolong its life. Do not deduct the value of your own labor. Do not deduct amounts spent to restore or replace property; they must be capitalized.

Line 22

In most cases, you can deduct the cost of materials and supplies only to the extent you actually consumed and used them in your business during the tax year (unless you deducted them in a prior tax year). However, if you had incidental materials and supplies on hand for which you kept no inventories or records of use, you can deduct the cost of those you actually purchased during the tax year, provided that method clearly reflects income.