



Note: *The draft you are looking for begins on the next page.*

Caution: DRAFT—NOT FOR FILING

This is an early release draft of an IRS tax form, instructions, or publication, which the IRS is providing for your information. **Do not file draft forms.** We incorporate all significant changes to forms posted with this coversheet. However, unexpected issues occasionally arise, or legislation is passed—in this case, we will post a new draft of the form to alert users that changes were made to the previously posted draft. Thus, there are never any changes to the last posted draft of a form and the final revision of the form. Forms and instructions are subject to OMB approval before they can be officially released, so we post drafts of them until they are approved. Drafts of instructions and pubs usually have some additional changes before their final release. Early release drafts are at [IRS.gov/DraftForms](https://www.irs.gov/DraftForms) and remain there after the final release is posted at [IRS.gov/LatestForms](https://www.irs.gov/LatestForms). Also see [IRS.gov/Forms](https://www.irs.gov/Forms).

Most forms and publications have a page on IRS.gov: [IRS.gov/Form1040](https://www.irs.gov/Form1040) for Form 1040; [IRS.gov/Pub501](https://www.irs.gov/Pub501) for Pub. 501; [IRS.gov/W4](https://www.irs.gov/W4) for Form W-4; and [IRS.gov/ScheduleA](https://www.irs.gov/ScheduleA) for Schedule A (Form 1040), for example, and similarly for other forms, pubs, and schedules for Form 1040. When typing in a link, type it into the address bar of your browser, not a Search box on IRS.gov.

If you wish, you can submit comments to the IRS about draft or final forms, instructions, or pubs at [IRS.gov/FormsComments](https://www.irs.gov/FormsComments). Include “NTF” followed by the form or pub number (for example, “NTF1040”, “NTFW4”, “NTF501”, etc.) in the body of the message to route your message properly. We cannot respond to all comments due to the high volume we receive and may not be able to consider many suggestions until the subsequent revision of the product, but we will review each “NTF” message. If you have comments on reducing paperwork and respondent (filer) burden, with respect to draft or final forms, please respond to the relevant information collection through the Federal Register process; for more info, click [here](#).



Tax Guide for Small Business

(For Individuals Who Use Schedule C)

Publication 334

For use in preparing

2025 Returns

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Future Developments

For the latest information about developments related to Pub. 334, such as legislation enacted after it was published, go to [IRS.gov/Pub334](https://www.irs.gov/pub334).

Introduction

This publication provides general information about the federal tax laws that apply to you if you are a self-employed person or a statutory employee. This publication has information on business income, expenses, and tax credits that may help you, as a small business owner, file your income tax return.

This publication does not cover the topics listed in the following table.

IF you need information about:	THEN you should see:
Corporations	Pub. 542
Farming	Pub. 225
Fishers (Capital Construction Fund)	Pub. 595
International business	IRS.gov/International
Partnerships	Pub. 541
Passive activities	Pub. 925
Recordkeeping and starting a business	Pub. 583
Rental	Pub. 527
S corporations	Instructions for Form 1120-S

Are You Self-Employed?

You are a self-employed person if you carry on a trade or business as a sole proprietor or an independent contractor.



You do not have to carry on regular full-time business activities to be self-employed. Having a part-time business in addition to your regular job or business may be self-employment.

Trade or business. A trade or business is generally an activity carried on to make a profit. The facts and circumstances of each case determine whether or not an

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activity is a trade or business. You do not need to actually make a profit to be in a trade or business as long as you have a profit motive. You do need to make ongoing efforts to further the interests of your business.

Limited liability company (LLC). An LLC is an entity formed under state law by filing articles of organization. Generally, for income tax purposes, a single-member LLC is disregarded as an entity separate from its owner and reports its income and deductions on its owner's federal income tax return. For example, if the single-member LLC is not engaged in farming and the owner is an individual, they may use Schedule C (Form 1040).

Sole proprietor. A sole proprietor is someone who owns an unincorporated business by themselves. You are also a sole proprietor for income tax purposes if you are an individual and the sole member of a domestic LLC unless you elect to have the LLC treated as a corporation.

Independent contractor. People such as doctors, dentists, veterinarians, lawyers, accountants, contractors, subcontractors, public stenographers, or auctioneers who are in an independent trade, business, or profession in which they offer their services to the general public are generally independent contractors. However, whether they are independent contractors or employees depends on the facts in each case. The general rule is that an individual is an independent contractor if the person paying for the work has the right to control or to direct only the result of the work and not how it will be done. The earnings of a person who is working as an independent contractor are subject to self-employment tax. For more information on determining whether you are an employee or independent contractor, see Pub. 15-A, Employer's Supplemental Tax Guide.

Are You a Statutory Employee?

A statutory employee has a checkmark in box 13 of their Form W-2, Wage and Tax Statement. Statutory employees use Schedule C (Form 1040) to report their wages and expenses.

Business Owned and Operated by Spouses

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. Do not use Schedule C (Form 1040). Instead, file Form 1065, U.S. Return of Partnership Income. For more information, see Pub. 541, Partnerships.

Exception—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 the business either as a sole proprietorship or a partnership. States with community property laws include Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. A change in your reporting

position will be treated as a conversion of the entity. See Pub. 555, Community Property, for more information about community property laws.

Exception—qualified joint venture (QJV). If you and your spouse each materially participate as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make a joint election to be treated as a QJV instead of a partnership for the tax year. Making this election will allow you to avoid the complexity of Form 1065 but still give each spouse credit for social security earnings on which retirement benefits are based. For an explanation of "material participation," see the Instructions for Schedule C (Form 1040), line G.



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 QJV.

To make this election, you must divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule C (Form 1040) and a separate Schedule SE (Form 1040). For more information, see *Qualified Joint Ventures* in the Instructions for Schedule SE (Form 1040).

Additional Information

What you need to know. [Table A](#) provides a list of questions you need to answer to help you meet your federal tax obligations. After each question is the location in this publication where you will find the related discussion.

The IRS mission. Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Comments and suggestions. We welcome your comments about this publication and suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications. **Don't** send tax questions, tax returns, or payments to the above address.

Getting answers to your tax questions. If you have a tax question not answered by this publication or the [How To Get Tax Help](#) section at the end of this publication, go to the IRS Interactive Tax Assistant page at [IRS.gov/Help/ITA](https://www.irs.gov/Help/ITA) where you can find topics by using the search feature or viewing the categories listed.

Table A. What You Need To Know About Federal Taxes

(**Note:** The following is a list of questions you may need to answer so you can fill out your federal income tax return. Chapters are given to help you find the related discussion in this publication.)

What must I know?	Where to find the answer
What kinds of federal taxes do I have to pay? How do I pay them?	See chapter 1 .
What forms must I file?	See chapter 1 .
What must I do if I have employees?	See Employment Taxes in chapter 1.
Do I have to start my tax year in January, or can I start it in any other month?	See Accounting Periods in chapter 2.
What method can I use to account for my income and expenses?	See Accounting Methods in chapter 2.
What must I do if I disposed of business property during the year?	See chapter 3 .
What kinds of business income do I have to report on my tax return?	See chapter 5 .
What kinds of business expenses can I deduct on my tax return?	See Business Expenses in chapter 8.
What kinds of expenses are not deductible as business expenses?	See Expenses You Cannot Deduct in chapter 8.
What happens if I have a business loss? Can I deduct it?	See chapter 9 .
What are my rights as a taxpayer?	See chapter 11 .
Where do I go if I need help with federal tax matters?	See chapter 12 .

Getting tax forms, instructions, and publications. Go to [IRS.gov/Forms](https://www.irs.gov/Forms) to download current and prior-year forms, instructions, and publications.

Ordering tax forms, instructions, and publications. Go to [IRS.gov/OrderForms](https://www.irs.gov/OrderForms) to order current forms, instructions, and publications; call 800-829-3676 to order prior-year forms and instructions. The IRS will process your order for forms and publications as soon as possible. **Don't** resubmit requests you've already sent us. You can get forms and publications faster online.

What's New for 2025

The following are some of the tax changes for 2025.

Maximum net earnings. The maximum net self-employment earnings subject to the social security part of the self-employment tax is \$176,100 for 2025. There is no maximum limit on earnings subject to the Medicare part.

Bonus depreciation. A 100% additional first-year depreciation deduction is allowed for certain qualified property acquired after January 19, 2025. However, you may instead elect to claim 40% (60% for property with a long production period and certain aircraft) additional first-year depreciation deduction for certain property placed in service after January 19, 2025. See the Instructions for Form 4562 for more information.

Standard mileage rate. For 2025, the standard mileage rate for the cost of operating your car, van, pickup, or panel truck for each mile of business use during 2025 increased to 70 cents a mile.

For more information, see [Car and Truck Expenses](#) in chapter 8.

No tax on qualified overtime. Beginning in 2025, if you earned qualified overtime pay, you may be eligible to deduct up to \$12,500 (\$25,000 if married filing jointly) of your qualified overtime compensation. The deduction is claimed on Schedule 1-A (Form 1040), not on your

Schedule C (Form 1040). See the Instructions for Schedule 1-A (Form 1040), which are included in the Instructions for Form 1040, for more information.

No tax on qualified tips. Beginning in 2025, you may be eligible to take a deduction for qualified tips you received in 2025. You can't deduct more than \$25,000 of those tips. The deduction is claimed on Schedule 1-A (Form 1040), not on your Schedule C (Form 1040). See the Instructions for Schedule 1-A (Form 1040), which are included in the Instructions for Form 1040, for more information.

Form 7205, Energy Efficient Commercial Buildings Deduction. This form and its separate instructions are used to claim the section 179D deduction for qualifying energy efficient commercial building expenses that are now reported on line 27a of Schedule C (Form 1040). P.L. 119-21, commonly known as the One Big Beautiful Bill Act (OBBBA), section 70507, eliminates the deduction for new energy efficient commercial buildings for property beginning construction after June 30, 2026. See Form 7205 and its instructions for more information.

Qualified sound recording productions. You may be eligible to deduct up to \$150,000 of qualified sound recording production costs. This applies to costs of qualified sound recording productions commencing in taxable years after July 4, 2025, and commencing before January 1, 2026. See section 181 for more information.

Domestic research and experimental expenditures. Beginning in 2025, you can deduct your domestic research and experimental expenditures as current business expenses or you can elect to capitalize and amortize the expenditures ratably over a period of 60 months or more. See Revenue Procedure 2025-28 for more information about making certain retroactive elections under P.L. 119-21, section 70302(f), for domestic research or experimental expenditures.

Section 179 deduction dollar limits increased. Beginning in 2025, the maximum section 179 expense deduction is \$2.5 million. This limit is reduced by the amount by

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which the cost of section 179 property placed in service during the tax year exceeds \$4 million. See the Instructions for Form 4562 for more information.

No tax on car loan interest. Beginning in 2025, you may be able to deduct qualified passenger vehicle loan interest you paid or accrued during the year. See the Instructions for Schedule 1-A (Form 1040), which are included in the Instructions for Form 1040, and [Interest on car loans](#), later, for more information.

Commercial clean vehicle credit. Businesses that buy a qualified commercial clean vehicle may qualify for a clean vehicle tax credit. P.L. 119-21, section 70503, amended section 45W to eliminate the credit for vehicles acquired after September 30, 2025. See Form 8936 and its instructions for more information.

What's New for 2026

The following are some of the tax changes for 2026. For information on other changes, go to [IRS.gov](#).

Maximum net earnings. The maximum net self-employment earnings subject to the social security part of the self-employment tax is \$184,500 for 2026.

Standard mileage rate. For 2026, the standard mileage rate for the cost of operating your car, van, pickup, or panel truck for each mile of business use is 72.5 cents a mile.

Excess business loss limitations made permanent. P.L. 119-21, commonly known as the OBBBA, section 70601, permanently extends the disallowance of a deduction for excess business losses. The threshold for allowable deductions is indexed for inflation for tax years beginning after 2025. See the Instructions for Form 461.

Information reporting threshold for certain payees. For reportable payments made after 2025, the threshold increases to \$2,000 for information reporting as well as for backup withholding. See section 6041(a).

Qualified business income deduction (QBI). P.L. 119-21, section 70105, makes the 20% QBI deduction permanent for qualified active trades or businesses. Income thresholds for QBI deduction limitations have also increased.

Instructions for certain information returns. For guidance preparing 2026 information returns, see Pub. 1099.

Reminders

Bad debts. Pub. 535, Business Expenses, has been discontinued, and the bad debts information provided in that publication has now been incorporated in the [Bad Debts](#) section in chapter 8 of this publication.

Redesigned Form 1040-SS. Beginning in 2024, Schedule(s) C and SE (Form 1040) are available to be filed with Form 1040-SS, if applicable. For additional information, see the Instructions for Form 1040-SS.

Business meal expense. Deductions for meal expenses generally remain limited to 50% of such expenses. See

[Meals and lodging](#), later, for more information. See also Pub. 463.

Excess business loss limitation. Your loss from a trade or business may be limited. Use Form 461 to determine the amount of your excess business loss, if any. Your excess business loss will be included as income on line 8p of Schedule 1 (Form 1040) and treated as a net operating loss (NOL) that you must carry forward and deduct in a subsequent tax year. See Form 461 and its instructions.

Reportable transactions. You must file Form 8886, Reportable Transaction Disclosure Statement, to report certain transactions. 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. Reportable transactions include:

1. Transactions the same as or substantially similar to tax avoidance transactions identified by the IRS;
2. Transactions offered to you under conditions of confidentiality for which you paid an advisor a minimum fee;
3. Transactions for which you have, or a related party has, contractual protection against disallowance of the tax benefits;
4. Transactions that result in losses of at least \$2 million in any single tax year (\$50,000 if from certain foreign currency transactions) or \$4 million in any combination of tax years; and
5. Transactions the same as or substantially similar to one of the types of transactions the IRS has identified as a transaction of interest.

For more information, see the Instructions for Form 8886 or [IRS.gov/Abusive-Tax-Shelters-and-Transactions](#). See also chapter 2 of Pub. 550.

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? The SB/SE Tax Center serves taxpayers who file Form 1040; Form 1040-SR; Schedule C, E, or F (Form 1040); or Form 2106, as well as small business taxpayers with assets under \$10 million. For additional information, go to the SB/SE Tax Center at [IRS.gov/Businesses/Small](#).

Gig Economy Tax Center. The gig (or on-demand, sharing, or access) economy refers to an area of 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.

Photographs of Missing Children

The Internal Revenue Service is a proud partner with the [National Center for Missing & Exploited Children® \(NCMEC\)](#). Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling

1-800-THE-LOST (1-800-843-5678) if you recognize a child.

1.

Filing and Paying Business Taxes

Introduction

This chapter explains the business taxes you may have to pay and the forms you may have to file. It also discusses taxpayer identification numbers (TINs).

[Table 1-1](#) lists the benefits of filing electronically.

[Table 1-2](#) lists the federal taxes you may have to pay, due dates, and the forms you use to report them.

[Table 1-3](#) provides checklists that highlight the typical forms and schedules you may need to file if you go out of business.



You may want to get Pub. 509, Tax Calendars. It has tax calendars that tell you when to file returns and make tax payments.

Useful Items

You may want to see:

Publication

- 505** Tax Withholding and Estimated Tax
- 583** Starting a Business and Keeping Records

Form (and Instructions)

- 461** Limitation on Business Losses
- 1040** U.S. Individual Income Tax Return
- 1040-SR** U.S. Tax Return for Seniors
- 1040-ES** Estimated Tax for Individuals
- 7205** Energy Efficient Commercial Buildings Deduction
- Sch C (Form 1040)** Profit or Loss From Business
- Sch SE (Form 1040)** Self-Employment Tax

See [chapter 12](#) for information about getting publications and forms.

Identification Numbers

This section explains three types of TINs, who needs them, when to use them, and how to get them.

Social security number (SSN). Generally, use your SSN as your TIN. You must report this number on each of

your individual income tax forms, such as Form 1040 and its schedules.

To apply for an SSN, use **Form SS-5**, Application for a Social Security Card. This form is available at Social Security Administration (SSA) offices or by calling 800-772-1213. It is also available from the SSA website at [SSA.gov/forms/ss-5](https://www.ssa.gov/forms/ss-5).

Individual taxpayer identification number (ITIN). The IRS will issue an ITIN if you are a nonresident or resident alien and you do not have and are not eligible to get an SSN. The ITIN will expire for any taxpayer who does not file a federal income tax return (or who is not included as a dependent on the return of another taxpayer) for 3 consecutive years. In general, if you need to obtain an ITIN, you must attach **Form W-7**, Application for IRS Individual Taxpayer Identification Number, with your signed, original, completed tax return and any other required documentation and mail them to the address in the Instructions for Form W-7. Exceptions are covered in the instructions. If you must include another person's SSN on your return and that person does not have and cannot get an SSN, enter that person's ITIN. The application is also available in Spanish. The form is available at [IRS.gov/FormW7](https://www.irs.gov/FormW7).



An ITIN is for tax use only. It does not entitle the holder to social security benefits or change the holder's employment or immigration status.

Employer identification number (EIN). You must also have an EIN to use as a TIN if you do either of the following.

- Pay wages to one or more employees.
- File pension or excise tax returns.

If you must have an EIN, include it along with your SSN on your Schedule C (Form 1040) as instructed.

You can apply for an EIN:

- Online by going to [IRS.gov/EIN](https://www.irs.gov/EIN). As long as the principal business location is in the United States or U.S. territories, the EIN is issued immediately once the application information is validated;
- By telephone at 267-941-1099 (not a toll-free number) **only** if the principal business is located outside the United States or U.S. territories; or
- By mailing or faxing **Form SS-4**, Application for Employer Identification Number.

New EIN. You may need to get a new EIN if either the form or the ownership of your business changes. For more information, see Pub. 1635, Understanding Your EIN.

When you need identification numbers of other persons. In operating your business, you will probably make certain payments you must report on information returns. These payments are discussed under [Information Returns](#), later in this chapter. You must give the recipient of these payments (the payee) a statement showing the total amount paid during the year. You must include the payee's identification number and your identification number on

the returns and statements. See the General Instructions for Certain Information Returns.

Employee. If you have employees, you must get an SSN from each of them. Record the name and SSN of each employee exactly as they are shown on the employee's social security card. If the employee's name is not correct as shown on the card, the employee should request a new card from the SSA. This may occur if the employee's name was changed due to marriage or divorce. See Pub. 15.

Form W-4, Employee's Withholding Allowance Certificate, is completed by each employee so the correct federal income tax can be withheld from their pay.

If your employee does not have an SSN, they should file Form SS-5 with the SSA.

Other payee. If you make payments to someone who is not your employee and you must report the payments on an information return, get that person's SSN. If you must report payments to an organization, such as a corporation or partnership, you must get its EIN.

To get the payee's SSN or EIN, use **Form W-9**, Request for Taxpayer Identification Number and Certification.

A payee who does not provide you with an identification number may be subject to backup withholding. For information on backup withholding, see the Instructions for the Requester of Form W-9 and the General Instructions for Certain Information Returns.

Income Tax

This part explains whether you have to file an income tax return and when you file it. It also explains how you pay the tax.

Do I Have To File an Income Tax Return?

You have to file an income tax return for 2025 if your net earnings from self-employment were \$400 or more. If your net earnings from self-employment were less than \$400, you still have to file an income tax return if you meet any other filing requirement listed in the Instructions for Form 1040.

How Do I File?

File your income tax return on **Form 1040** or **1040-SR** and attach **Schedule C (Form 1040)**. Enter the net profit or loss from Schedule C (Form 1040) on Schedule 1 (Form 1040). Use Schedule C (Form 1040) to figure your net profit or loss from your business. If you operated more than one business as a sole proprietorship, attach a separate Schedule C (Form 1040) for each business.

IRS e-file (Electronic Filing)



You may be able to file your tax returns electronically using an IRS *e-file* option. [Table 1-1](#) lists the benefits of IRS *e-file*. IRS *e-file* uses automation to replace most of the manual steps needed to process paper returns. As a result, the processing of IRS *e-file* returns is faster and more accurate than the processing of paper returns. As with a paper return, you are responsible for making sure your return contains accurate information and is filed on time.

Using IRS *e-file* does not affect your probability of an IRS examination of your return.

You can file most commonly used business forms using IRS *e-file*. For more information, go to [IRS.gov](https://www.irs.gov).

E-signatures. Paperless filing is easier than you think and it's available to most taxpayers who file electronically, including first-time filers who were 16 or older at the end of 2025. If you file electronically using tax preparation software or a tax professional, you will sign your return using the Self-Select PIN (personal identification number) method for IRS *e-file*. If you are married filing jointly, you and your spouse will each need to create a PIN and enter these PINs as your electronic signatures.

To create a PIN, you must know your adjusted gross income (AGI) from your originally filed 2024 income tax return (not from an amended return, Form 1040-X, or after receiving any math error notice from the IRS). You will also need to provide your date of birth (DOB). Make sure your DOB is accurate and matches the information on record with the SSA before you *e-file*. To do this, check your annual Social Security Statement.

With a Self-Select PIN, there is nothing to sign and nothing to mail, not even your Form(s) W-2. For more details on the Self-Select PIN method, go to [IRS.gov/E-File-Providers/Self-Select-Pin-Method-for-Forms-1040-and-4868-Modernized-E-File-MeF](https://www.irs.gov/E-File-Providers/Self-Select-Pin-Method-for-Forms-1040-and-4868-Modernized-E-File-MeF).

State returns. In most states, you can file an electronic state return simultaneously with your federal return. For more information, check with your state tax agency, a tax professional, or [IRS.gov](https://www.irs.gov).

Refunds and direct deposit. If you have access to U.S. banking services or electronic payment systems, you should use direct deposit for any refunds. The IRS also recommends paying electronically whenever possible. Options to pay electronically include using your bank account with Direct Pay, your debit or credit card, your digital wallet, or your IRS Online Account.

With IRS *e-file*, your refund will be issued in half the time as when filing on paper. Most refunds are issued in less than 21 days.

Offset against debts. As with a paper return, you may not get all of your refund if you (or your spouse, if filing a joint return) owe certain past-due amounts, such as federal tax, state tax, a student loan, or past-due child

support, including past-due support owed to any Indian tribe or tribal organization. You will be notified if the refund you claimed has been offset against your debts. You may file an injured spouse claim on Form 8379, Injured Spouse Allocation, or Form 8857, Request for Innocent Spouse Relief, to recover part or all of a joint refund transferred to pay the separate liabilities of your spouse.

Refund inquiries. You can check the status of your refund if it has been at least 24 hours (4 weeks if you mailed a paper return) from the date you filed your return. Be sure to have a copy of your tax return available because you will need to know the filing status, the first SSN shown on the return, and the exact whole-dollar amount of the refund. To check on your refund, do one of the following.

- Go to [IRS.gov/Refunds](https://www.irs.gov/Refunds).
- Download the free IRS2Go app to your smart phone and use it to check your refund status.
- Call 800-829-1954 for automated refund information and follow the recorded instructions.

The IRS can't issue refunds before mid-February 2026 for returns that claimed the earned income credit or the additional child tax credit. This applies to the entire refund, not just the portion associated with these credits.

Balance due and electronic payments. If your return shows that you owe tax, you must pay it by the due date of your return (without regard to any extension to file) to avoid late-payment penalties and interest. For calendar-year 2025, pay by April 15, 2026. The IRS recommends paying electronically whenever possible. Options to pay electronically include using your bank account with Direct Pay, your debit or credit card, your digital wallet, or your IRS Online Account. Go to [IRS.gov/Payments](https://www.irs.gov/Payments) to see all your payment options.

Using an Authorized IRS e-file Provider

Many tax professionals can electronically file paperless returns for their clients. You have two options.

1. You can prepare your return, take it to an authorized IRS *e-file* provider, and have the provider transmit it electronically to the IRS.
2. You can have an authorized IRS *e-file* provider prepare your return and transmit it for you electronically.

You will be asked to complete Form 8879, IRS *e-file* Signature Authorization, to authorize the provider to enter your self-selected PIN on your return.

Depending on the provider and the specific services requested, a fee may be charged. To find an authorized IRS *e-file* provider near you, go to [IRS.gov/Efile/Providers](https://www.irs.gov/Efile/Providers).

Using Your Personal Computer

A computer with Internet access is all you need to file your tax return using IRS *e-file*. When you use your personal computer, you can *e-file* your return from your home any time of the day or night. Sign your return electronically using a self-selected PIN to complete the process. There is no signature form to submit or Forms W-2 to send in.

Free software options for filing your taxes. If your AGI was \$89,000 or less in 2025, you can use free tax software to prepare and *e-file* your tax return.

Free File. This public-private partnership, between the IRS and tax software providers, makes approximately a dozen brand-name commercial software products and *e-file* available for free. Go to [IRS.gov/FreeFile](https://www.irs.gov/FreeFile) for details. You can review each software provider's criteria for free usage or use an online tool to find which free software products match your situation. Some software providers offer state tax return preparation for free.

Free File Fillable Forms. The IRS also offers electronic versions of IRS paper forms that can be *e-filed* for free. Free File Fillable Forms is best for people experienced in preparing their own tax returns. There is no income limitation to using these forms. Free File Fillable Forms does basic math calculations. It supports only federal tax forms.

Filing Through Employers and Financial Institutions

Some businesses offer free *e-file* to their employees, members, or customers. Others offer it for a fee. Ask your employer or financial institution if they offer IRS *e-file* as an employee, member, or customer benefit.

Free Help With Your Return

Free help in preparing your return is available nationwide from IRS-trained volunteers. The Volunteer Income Tax Assistance (VITA) program is designed to help low-income taxpayers, and the Tax Counseling for the Elderly (TCE) program is designed to assist taxpayers age 60 or older with their tax returns. Some locations offer free electronic filing.

Table 1-1. Benefits of IRS e-file

Accuracy	• Your chance of getting an error notice from the IRS is significantly reduced.
Security	• Your privacy and security are assured.
Electronic signatures	• Create your own personal identification number (PIN) and file a completely paperless return through your tax preparation software or tax professional. There is nothing to mail.
Proof of acceptance	• You receive an electronic acknowledgment within 48 hours that the IRS has accepted your return for processing.
Fast refunds	• If you have access to banking services or electronic services, you get your refund faster with direct deposit.
Free Internet filing options	• Use IRS.gov to access commercial tax preparation and e-file services available at no cost to eligible taxpayers.
Electronic payment options	• Convenient, safe, and secure electronic payment options are available. E-file and pay your taxes in a single step. Schedule direct payment from your checking or savings account (up to and including April 15, 2026) or pay by debit or credit card. See Balance due and electronic payments , earlier.
Federal/State filing	• Prepare and file your federal and state tax returns together and double the benefits you get from e-file.

When Is My Tax Return Due?

For calendar-year 2025, Form 1040 or 1040-SR is due by April 15, 2026. If you use a fiscal year (explained in chapter 2), your return is due by the 15th day of the 4th month after the end of your fiscal year. If you file late, you may have to pay penalties and interest.

If you cannot file your return on time, use **Form 4868**, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, to request an automatic 6-month extension. For calendar-year taxpayers, this will extend the tax filing due date until October 15. Filing an extension does not extend the time to pay your taxes, only the time to file the tax return.

How Do I Pay Income Tax?

Federal income tax is a pay-as-you-go tax. You must pay it as you earn or receive income during the year. An employee usually has income tax withheld from their pay. If you do not pay your tax through withholding, or do not pay enough tax that way, you might have to pay estimated tax.

Estimated tax payments. You generally have to make estimated tax payments if you expect to owe taxes, including self-employment tax (discussed later), of \$1,000 or more when you file your return. Use **Form 1040-ES** to figure and pay the tax. If you do not have to make estimated tax payments, you can pay any tax due when you file your return. For more information on estimated tax, see Pub. 505.

What are my options for paying estimated tax?

You can pay your estimated tax electronically using various options. If you pay electronically, there is no need to mail in Form 1040-ES payment vouchers. These options include:

1. Paying electronically through the Electronic Federal Tax Payment System (EFTPS),
2. Paying with Direct Pay by authorizing an electronic funds withdrawal when you file Form 1040 or 1040-SR electronically, or
3. Paying by credit or debit card over the phone or by Internet.

Other options include crediting an overpayment from your 2024 return to your 2025 estimated tax.

EFTPS.

1. To enroll in EFTPS, go to [EFTPS.gov](https://www.irs.gov) or call 800-555-4477.
2. When you request a new EIN, you may be automatically enrolled in EFTPS.
3. Benefits of EFTPS include the following.
 - a. The chance of an error in making your payments is reduced.
 - b. You receive immediate confirmation of every transaction.

Penalty for underpayment of tax. If you did not pay enough income tax and self-employment tax for 2025 by withholding or by making estimated tax payments, you may have to pay a penalty on the amount not paid. The IRS will figure the penalty for you and send you a bill. Or you can use Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, to see if you have to pay a penalty and to figure the penalty amount. For more information, see Pub. 505.

Self-Employment (SE) Tax

SE tax is a social security and Medicare tax primarily for individuals who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of most wage earners.



If you earned income as a statutory employee, you don't pay SE tax on that income. Social security and Medicare taxes should have already been withheld from those earnings.

Social security coverage. Social security benefits are available to self-employed persons just as they are to wage earners. Your payments of SE tax contribute to your coverage under the social security system. Social security coverage provides you with retirement benefits, disability benefits, survivor benefits, and hospital insurance (Medicare) benefits.



Be sure to report all of your self-employment income. By not reporting all of it, you could cause your social security benefits to be lower when you retire.

How to become insured under social security. You must be insured under the social security system before you begin receiving social security benefits. You are insured if you have the required number of credits (also called quarters of coverage), discussed next.

Earning credits in 2025 and 2026. For 2025, you received one credit, up to a maximum of four credits, for each \$1,810 (\$1,890 for 2026) of income subject to social security tax. Therefore, for 2025, if you had income (self-employment and wages) of \$7,240 that was subject to social security tax, you received four credits (\$7,240 ÷ \$1,810).

For an explanation of the number of credits you must have to be insured and the benefits available to you and your family under the social security program, consult your nearest SSA office.



Making false statements to get or to increase social security benefits may subject you to penalties.

The SSA time limit for posting self-employment income. Generally, the SSA will give you credit only for self-employment income reported on a tax return filed within 3 years, 3 months, and 15 days after the tax year you earned the income. If you file your tax return or report a change in your self-employment income after this time limit, the SSA may change its record but only to remove or reduce the amount. The SSA will not change its records to increase your self-employment income.

Who must pay SE tax. You must pay SE tax and file Schedule SE (Form 1040) if either of the following applies.

1. Your net earnings from self-employment (excluding church employee income) were \$400 or more.
2. You had church employee income of \$108.28 or more.



The SE tax rules apply no matter how old you are and even if you are already receiving social security or Medicare benefits.

SE tax rate. The SE tax rate on net earnings is 15.3% (12.4% social security tax plus 2.9% Medicare tax).

Maximum earnings subject to SE tax. Only the first \$176,100 of your combined wages, tips, and net earnings in 2025 is subject to any combination of the 12.4% social security part of SE tax, social security tax, or the Tier 1 part of railroad retirement tax.

All your combined wages, tips, and net earnings in 2025 are subject to any combination of the 2.9% Medicare part of SE tax, Medicare tax, or Medicare part of railroad retirement tax.

If wages and tips you receive as an employee are subject to either social security tax or the Tier 1 part of railroad retirement tax, or both, and total at least \$176,100, don't pay the 12.4% social security part of the SE tax on any of your net earnings. However, you must pay the 2.9% Medicare part of the SE tax on all your net earnings.



Deduct one-half of your SE tax as an adjustment to income on line 15 of Schedule 1 (Form 1040).

Additional Medicare Tax. A 0.9% Additional Medicare Tax may apply to you if your net earnings from self-employment exceed one of the following threshold amounts (based on your filing status).

- Married filing jointly—\$250,000.
- Married filing separately—\$125,000.
- Single, Head of household, or Qualifying surviving spouse—\$200,000.

If you have both wages and self-employment income, the threshold amount for applying the Additional Medicare Tax on the self-employment income is reduced (but not below zero) by the amount of wages subject to Additional Medicare Tax. Use Form 8959, Additional Medicare Tax, to figure this tax.

More information. For information on methods of calculating SE tax, see [chapter 10](#).

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Table 1-2. Which Forms Must I File?

IF you are liable for...	THEN use Form...	DUE by... ¹
Income tax	1040, or 1040-SR, and Schedule C ²	15th day of 4th month after end of tax year.
Self-employment tax	Schedule SE (Form 1040)	File with Form 1040, Form 1040-SR, 1040-SS, or 1040-NR.
Estimated tax	1040-ES	15th day of 4th, 6th, and 9th months of tax year, and 15th day of 1st month after the end of tax year.
Social security and Medicare taxes and income tax withholding	941 or 944	April 30, July 31, October 31, and January 31. ³ See Pub. 15.
Providing information on social security and Medicare taxes and income tax withholding	W-2 (to employee) W-2 and W-3 (to the SSA)	January 31. ³ January 31. ³
Federal unemployment tax (FUTA)	940	January 31. ³ April 30, July 31, October 31, and January 31, but only if the liability for unpaid tax is more than \$500.
Filing information returns for payments to nonemployees and transactions with other persons	See Information Returns	Forms 1099—to the recipient by January 31 and to the IRS by February 28 (March 31 if filing electronically). ⁴ Other forms—see the General Instructions for Certain Information Returns.
Excise tax	See Excise Taxes	See the instructions for the forms.

¹ If a due date falls on a Saturday, Sunday, or legal holiday, file by the next day that is not a Saturday, Sunday, or legal holiday. For more information, see Pub. 509.

² File a separate schedule for each business.

³ See the form instructions if you go out of business, change the form of your business, or stop paying wages.

⁴ Form 1099-NEC—to the IRS by January 31 (even if filing electronically) if you are reporting nonemployee compensation.

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Employment Taxes

If you have employees, you need to file forms to report employment taxes. Employment taxes include the following items.

- Social security and Medicare taxes.
- Federal income tax withholding.
- Federal unemployment tax (FUTA).

For more information, see Pub. 15 (Circular E), Employer's Tax Guide. That publication explains your tax responsibilities as an employer.

To help you determine whether the people working for you are your employees, see Pub. 15-A. That publication has information to help you determine whether an individual is an independent contractor or an employee.



If you incorrectly classify an employee as an independent contractor, you may be held liable for employment taxes for that worker plus a penalty.

An independent contractor is someone who is self-employed. You generally do not have to withhold or pay any taxes on payments made to an independent contractor.

Excise Taxes

This section identifies some of the excise taxes you may have to pay and the forms you have to file if you do any of the following.

- Manufacture or sell certain products.
- Operate certain kinds of businesses.
- Use various kinds of equipment, facilities, or products.
- Receive payment for certain services.

For more information on excise taxes, see Pub. 510, Excise Taxes.

Form 720. The federal excise taxes reported on Form 720, Quarterly Federal Excise Tax Return, consist of several broad categories of taxes, including the following.

- Environmental taxes on the sale or use of ozone-depleting chemicals and imported products containing or manufactured with these chemicals.
- Communications and air transportation taxes.
- Fuel taxes.
- Tax on the first retail sale of heavy trucks, trailers, and tractors.

- Manufacturer's taxes on the sale or use of a variety of different articles.
- Tax on indoor tanning services.

Form 2290. There is a federal excise tax on the use of certain trucks, truck tractors, and buses on public highways. The tax applies to vehicles having a taxable gross weight of 55,000 pounds or more. Report the tax on Form 2290, Heavy Highway Vehicle Use Tax Return. For more information, see the Instructions for Form 2290.

Depositing excise taxes. If you have to file a quarterly excise tax return on Form 720, you may have to deposit your excise taxes before the return is due. For details on depositing excise taxes, see the Instructions for Form 720.

Information Returns

If you make or receive payments in your business, you may have to report them to the IRS on information returns. The IRS compares the payments shown on the information returns with each person's income tax return to see if the payments were included in income. You must furnish a copy of each information return you are required to file to the recipient or payee. In addition to the forms described below, you may have to use other returns to report certain kinds of payments or transactions. For more details on information returns and when you have to file them, see the General Instructions for Certain Information Returns.

Form 1099-MISC. Use Form 1099-MISC, Miscellaneous Information, to report certain payments you make in your business. These payments include the following items.

- Rent payments of \$600 or more, other than rents paid to real estate agents.
- Prizes and awards of \$600 or more that are not for services, such as winnings on TV or radio shows.
- Royalty payments of \$10 or more.
- Payments to certain crew members by owners or operators of fishing boats.
- Amounts paid for the purchase of fish for resale from any person engaged in the business of catching fish.

You also use Form 1099-MISC to report your sales of \$5,000 or more of consumer products to a person for resale anywhere other than in a permanent retail establishment.

Form 1099-NEC. File Form 1099-NEC, Nonemployee Compensation, for each person in the course of your business to whom you have paid at least \$600 during the year in:

- Services performed by someone who is not your employee (including parts and materials) (box 1),
- Cash payments for fish (or other aquatic life) you purchase from anyone engaged in the trade or business of catching fish (box 1), or
- Payments to an attorney (box 1).

You must also file Form 1099-NEC for each person from whom you have withheld any federal income tax (report in box 4) under the backup withholding rules regardless of the amount of the payment.



If you use Form 1099-NEC to report sales totaling \$5,000 or more of consumer products, then you are required to file Form 1099-NEC with the IRS by January 31.

Form W-2. You must file Form W-2 to report payments to your employees, such as wages, tips, and other compensation, and withheld income, social security, and Medicare taxes. You can file Form W-2 online. For more information about Form W-2, see the General Instructions for Forms W-2 and W-3.

Penalties. The law provides for the following penalties if you do not file Form(s) 1099-MISC, Form(s) 1099-NEC, or Form(s) W-2 or do not correctly report the information. For more information, see the General Instructions for Certain Information Returns.

- Failure to file information returns. This penalty applies if you do not file information returns by the due date, do not include all required information, or report incorrect information.
- Failure to furnish correct payee statements. This penalty applies if you do not furnish a required statement to a payee by the required date, do not include all required information, or report incorrect information.

Other penalties. Accuracy-related or fraud penalties may apply in the case of an underpayment of tax attributable to negligence, substantial understatement of income tax, reportable transaction understatements, or fraud. See sections 6662, 6662A, and 6663.

Waiver of penalties. These penalties will not apply if you can show that the failure was due to reasonable cause and not willful neglect.

In addition, there is no penalty for failure to include all required information, or for including incorrect information, on a de minimis (small) number of information returns if you correct the errors by August 1 of the year the returns are due. (A de minimis number of returns is the greater of 10 or one-half of 1% of the total number of returns you are required to file for the year.)

Form 8300. File Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, if you receive more than \$10,000 in cash in one transaction or two or more related business transactions. Cash includes U.S. and foreign coin and currency. It also includes certain monetary instruments such as cashier's and traveler's checks and money orders. Cash does not include a check drawn on an individual's personal account (personal check). For more information, see Pub. 1544, Reporting Cash Payments of Over \$10,000.

Penalties. There are civil and criminal penalties, including up to 5 years in prison, for not filing Form 8300, filing (or causing the filing of) a false or fraudulent Form

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8300, or structuring a transaction to evade reporting requirements.

Table 1-3. Going Out of Business Checklists

(**Note:** The following checklists highlight the typical final forms and schedules you may need to file if you go out of business. For more information, see the instructions for the listed forms.)

IF you are liable for...	THEN you may need to...
Income tax	<input type="checkbox"/> File Schedule C (Form 1040) with your Form 1040 or 1040-SR for the year in which you go out of business. <input type="checkbox"/> File Form 4797 with your Form 1040 or 1040-SR for each year in which you sell or exchange property used in your business or in which the business use of certain section 179 or listed property drops to 50% or less. <input type="checkbox"/> File Form 8594 with your Form 1040 or 1040-SR if you sold your business.
SE tax	<input type="checkbox"/> File Schedule SE (Form 1040) with your Form 1040 or 1040-SR for the year in which you go out of business.
Employment taxes	<input type="checkbox"/> File Form 941 for the calendar quarter (or Form 944 for the year) in which you make final wage payments. Note: Do not forget to check the box and enter the date final wages were paid on line 17 of Form 941 or line 14 of Form 944. <input type="checkbox"/> File Form 940 for the calendar year in which final wages were paid. Note: Don't forget to check box d, Final: Business closed or stopped paying wages under Type of Return.
Information returns	<input type="checkbox"/> Provide Forms W-2 to your employees for the calendar year in which you make final wage payments. <input type="checkbox"/> File Form W-3 to file Forms W-2. <input type="checkbox"/> Provide Form(s) 1099-MISC and Form(s) 1099-NEC to each person to whom you have paid at least \$600 for services (including parts and materials) during the calendar year in which you go out of business. <input type="checkbox"/> File Form 1096 to file Form(s) 1099-MISC and Form(s) 1099-NEC.

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2.

Accounting Periods and Methods

Introduction

You must figure your taxable income and file an income tax return for an annual accounting period called a tax year. Also, you must consistently use an accounting method that clearly shows your income and expenses for the tax year.

Useful Items

You may want to see:

Publication

- 538** Accounting Periods and Methods

See [chapter 12](#) for information about getting publications and forms.

Accounting Periods

When preparing a statement of income and expenses (generally your income tax return), you must use your books and records for a specific interval of time called an accounting period. The annual accounting period for your income tax return is called a **tax year**. You can use one of the following tax years.

- A calendar tax year.
- A fiscal tax year.

Unless you have a required tax year, you adopt a tax year by filing your first income tax return using that tax year. A required tax year is a tax year required under the Internal Revenue Code or the Income Tax Regulations.

Calendar tax year. A calendar-tax year is 12 consecutive months beginning January 1 and ending December 31.

You must adopt the calendar-tax year if any of the following apply.

- You do not keep books.
- You have no annual accounting period.
- Your present tax year does not qualify as a fiscal year.
- Your use of the calendar-tax year is required under the Internal Revenue Code or the Income Tax Regulations.

If you filed your first income tax return using the calendar-tax year and you later begin business as a sole proprietor, you must continue to use the calendar-tax year unless you get IRS approval to change it or are otherwise allowed to change it without IRS approval. For more information, see [Change in tax year](#), later.

If you adopt the calendar-tax year, you must maintain your books and records and report your income and expenses for the period from January 1 through December 31 of each year.

Fiscal tax year. A fiscal-tax year is 12 consecutive months ending on the last day of any month except December. A 52-53-week tax year is a fiscal-tax year that varies from 52 to 53 weeks but does not have to end on the last day of a month.

If you adopt a fiscal-tax year, you must maintain your books and records and report your income and expenses using the same tax year.

For more information on a fiscal-tax year, including a 52-53-week tax year, see Pub. 538.

Change in tax year. Generally, you must file Form 1128, Application To Adopt, Change, or Retain a Tax Year, to request IRS approval to change your tax year. See the Instructions for Form 1128 for exceptions. If you qualify for an automatic approval request, a user fee is not required. If you do not qualify for automatic approval, a ruling must be requested. See the Instructions for Form 1128 for information about user fees if you are requesting a ruling.

Accounting Methods

An accounting method is a set of rules used to determine when and how income and expenses are reported. Your accounting method includes not only the overall method of accounting you use, but also the accounting treatment you use for any material item.

You choose an accounting method for your business when you file your first income tax return that includes a Schedule C (Form 1040) for the business. After that, if you want to change your accounting method, you must generally get IRS approval. See [Change in Accounting Method](#), later.

Kinds of methods. Generally, you can use any of the following accounting methods.

- Cash method.
- An accrual method.
- Special methods of accounting for certain items of income and expenses.
- Combination method using elements of two or more of the above.

You must use the same accounting method to figure your taxable income and to keep your books. Also, you must use an accounting method that clearly shows your income.

Business and personal items. You can account for business and personal items under different accounting methods. For example, you can figure your business income under an accrual method, even if you use the cash method to figure personal items.

Two or more businesses. If you have two or more separate and distinct businesses, you can use a different accounting method for each if the method clearly reflects the income of each business. They are separate and distinct only if you maintain complete and separate books and records for each business.

Cash Method

Most individuals and many sole proprietors with no inventory use the cash method because they find it easier to keep cash method records. However, if an inventory is necessary to account for your income, you must generally use an accrual method of accounting for sales and purchases, unless you are a small business taxpayer (defined later in this chapter). For more information, see [Inventories](#), later.

Income

Under the cash method, include in your gross income all items of income you actually or constructively receive during your tax year. If you receive property or services, you must include their fair market value in income.

Example. On December 30, 2024, a client sent you a check for interior decorating services you provided. You received the check on January 4, 2025. You must include the amount of the check in income for 2025.

Constructive receipt. You have constructive receipt of income when an amount is credited to your account or made available to you without restriction. You do not need to have possession of it. If you authorize someone to be your agent and receive income for you, you are treated as having received it when your agent received it.

Example. Interest is credited to your bank account in December 2025. You do not withdraw it or enter it into your passbook until 2026. You must include it in your gross income for 2025.

Delaying receipt of income. You can't hold checks or postpone taking possession of similar property from one tax year to another to avoid paying tax on the income. You must report the income in the year the property is received or made available to you without restriction.

Example. A service contractor was entitled to receive a \$10,000 payment on a contract in December 2025. They were told in December that their payment was available. At their request, they were not paid until January 2026. They must include this payment in their 2025 income because it was constructively received in 2025.

Checks. Receipt of a valid check by the end of the tax year is constructive receipt of income in that year, even if

you can't cash or deposit the check until the following year.

Example. You received a check for \$500 on December 30, 2025, from a client. You couldn't deposit the check in your business account until January 3, 2026. You must include this payment in income for 2025.

Debts paid by another person or canceled. If your debts are paid by another person or are canceled by your creditors, you may have to report part or all of this debt relief as income. If you receive income in this way, you constructively receive the income when the debt is canceled or paid. For more information, see [Canceled Debt](#) under *Kinds of Income* in chapter 5.

Repayment of income. If you include an amount in income and in a later year you have to repay all or part of it, you can usually deduct the repayment in the year in which you make it. If the amount you repay is over \$3,000, a special rule applies. For details about the special rule, see *Repayments* in chapter 8 of Pub. 17.

Expenses

Under the cash method, you generally deduct expenses in the tax year in which you actually pay them. This includes business expenses for which you contest liability. However, you may not be able to deduct an expense paid in advance or you may be required to capitalize certain costs, as explained later under [Uniform Capitalization Rules](#).

Expenses paid in advance. You can deduct an expense you pay in advance only in the year to which it applies.

Example. You are a calendar-year taxpayer and you pay \$1,000 in 2025 for a business insurance policy effective for 1 year, beginning July 1. You can deduct \$500 in 2025 and \$500 in 2026.

Accrual Method

Under an accrual method of accounting, you generally report income in the year earned and deduct or capitalize expenses in the year incurred. The purpose of an accrual method of accounting is to match income and expenses in the correct year.

Income—General Rule

Under an accrual method, you generally include an amount in your gross income for the tax year in which all events that fix your right to receive the income have occurred and you can determine the amount with reasonable accuracy. For a taxpayer with an applicable financial statement or other financial statement as the Secretary may specify, the all-events test for an item of gross income is considered met no later than when taken into account in an applicable financial statement or such other financial statement.

Example. You are a calendar-year accrual method taxpayer. You sold a computer on December 28, 2025. You billed the customer in the first week of January 2026, but you didn't receive payment until February 2026. You must include the amount received for the computer in your 2025 income.

Income—Special Rules

The following are special rules that apply to advance payments, estimating income, and changing a payment schedule for services.

Estimated income. If you include a reasonably estimated amount in gross income, and later determine the exact amount is different, take the difference into account in the tax year in which you make the determination.

Change in payment schedule for services. If you perform services for a basic rate specified in a contract, you must accrue the income at the basic rate, even if you agree to receive payments at a lower rate until you complete the services and then receive the difference.

Advance payments. Generally, you report an advance payment as income in the year you receive the payment. However, if you receive an advance payment, you can elect to postpone including the advance payment in income until the next tax year. You can't postpone including any payment beyond that tax year.

For more information, see Pub. 538 and section 451 of the Internal Revenue Code.

Expenses

Under an accrual method of accounting, you generally deduct or capitalize a business expense when both the following apply.

1. The all-events test has been met. The test has been met when:
 - a. All events have occurred that fix the fact of liability, and
 - b. The liability can be determined with reasonable accuracy.
2. Economic performance has occurred.

Economic performance. You generally can't deduct or capitalize a business expense until economic performance occurs. If your expense is for property or services provided to you, or for your use of property, economic performance occurs as the property or services are provided or as the property is used. If your expense is for property or services you provide to others, economic performance occurs as you provide the property or services. An exception allows certain recurring items to be treated as incurred during a tax year even though economic performance has not occurred. For more information on economic performance, see *Economic Performance* under *Accrual Method* in Pub. 538.

Example. You are a calendar-year taxpayer and use an accrual method of accounting. You buy office supplies in December 2025. You receive the supplies and the bill in December, but you pay the bill in January 2026. You can deduct the expense in 2025 because all events that fix the fact of liability have occurred, the amount of the liability could be reasonably determined, and economic performance occurred in that year.

Your office supplies may qualify as a recurring expense. In that case, you can deduct them in 2025 even if the supplies are not delivered until 2026 (when economic performance occurs).

Keeping inventories. When the production, purchase, or sale of merchandise is an income-producing factor in your business, you must generally take inventories into account at the beginning and the end of your tax year, unless you are a small business taxpayer. If you must account for an inventory, you must generally use an accrual method of accounting for your purchases and sales. For more information, see [Inventories](#), later.

Special rule for related persons. You can't deduct business expenses and interest owed to a related person who uses the cash method of accounting until you make the payment and the corresponding amount is includible in the related person's gross income. Determine the relationship for this rule as of the end of the tax year for which the expense or interest would otherwise be deductible. If a deduction is not allowed under this rule, the rule will continue to apply even if your relationship with the person ends before the expense or interest is includible in the gross income of that person.

Related persons include members of your immediate family, including your siblings (either whole or half), spouse, ancestors, and lineal descendants. For a list of other related persons, see section 267 of the Internal Revenue Code.

Combination Method

You can generally use any combination of cash, accrual, and special methods of accounting if the combination clearly shows your income and expenses and you use it consistently. However, the following restrictions apply.

- If an inventory is necessary to account for your income, you must generally use an accrual method for purchases and sales. (See, however, [Inventories](#), later.) You can use the cash method for all other items of income and expenses.
- If you use the cash method for figuring your income, you must use the cash method for reporting your expenses.
- If you use an accrual method for reporting your expenses, you must use an accrual method for figuring your income.
- If you use a combination method that includes the cash method, treat that combination method as the cash method.

Inventories

Generally, if you produce, purchase, or sell merchandise in your business, you must keep an inventory and use an accrual method for purchases and sales of merchandise.

Exception for small business taxpayers. If you are a small business taxpayer, you can choose not to keep an inventory, but you must still use a method of accounting for inventory that clearly reflects income. If you choose not to keep an inventory, you won't be treated as failing to clearly reflect income if your method of accounting for inventory treats inventory as non-incident material or supplies, or conforms to your financial accounting treatment of inventories. If, however, you choose to keep an inventory, you must generally use an accrual method of accounting and value the inventory each year to determine your cost of goods sold in Part III of Schedule C (Form 1040).

Small business taxpayer. You qualify as a small business taxpayer if you (a) have average annual gross receipts of \$31 million or less for the 3 prior tax years (indexed for inflation), and (b) are not a tax shelter (as defined in section 448(d)(3)). If your business has not been in existence for all of the 3-tax-year period used in figuring average gross receipts, base your average on the period it has existed, and if your business has a predecessor entity, include the gross receipts of the predecessor entity from the 3-tax-year period when figuring average gross receipts. If your business (or predecessor entity) had short tax years for any of the 3-tax-year period, annualize your business' gross receipts for the short tax years that are part of the 3-tax-year period. See Pub. 538 for more information.

Treating inventory as non-incident material or supplies. If you account for inventories as materials and supplies that are not incidental, you deduct the amounts paid or incurred to acquire or produce the inventoriable items treated as non-incident materials and supplies in the year in which they are first used or consumed in your operations. Inventory treated as non-incident materials and supplies is used or consumed in your business in the year you provide the inventory to your customers.

Financial accounting treatment of inventories. Your financial accounting treatment of inventories is determined with regard to the method of accounting you use in your applicable financial statement (as defined in section 451(b)(3)) or, if you don't have an applicable financial statement, with regard to the method of accounting you use in your books and records that have been prepared in accordance with your accounting procedures.

Changing your method of accounting for inventory. If you want to change your method of accounting for inventory, file Form 3115, Application for Change in Accounting Method. See [Change in Accounting Method](#), later.

Items included in inventory. If you are required to account for inventories, include the following items when accounting for your inventory.

- Merchandise or stock in trade.
- Raw materials.
- Work in process.
- Finished products.
- Supplies that physically become a part of the item intended for sale.

Valuing inventory. You must value your inventory at the beginning and end of each tax year to determine your cost of goods sold (Schedule C (Form 1040), line 42). To determine the value of your inventory, you need a method for identifying the items in your inventory and a method for valuing these items.

Inventory valuation rules cannot be the same for all kinds of businesses. The method you use to value your inventory must conform to generally accepted accounting principles for similar businesses and must clearly reflect income. Your inventory practices must be consistent from year to year.

More information. For more information about inventories, see Pub. 538.

Uniform Capitalization Rules

Under the uniform capitalization rules, you must capitalize the direct costs and part of the indirect costs for production or resale activities. Include these costs in the basis of property you produce or acquire for resale, rather than claiming them as a current deduction. You recover the costs through depreciation, amortization, or cost of goods sold when you use, sell, or otherwise dispose of the property.

Activities subject to the uniform capitalization rules. You may be subject to the uniform capitalization rules if you do any of the following, unless the property is produced for your use other than in a business or an activity carried on for profit.

- Produce real or tangible personal property. For this purpose, tangible personal property includes a film, sound recording, videotape, book, or similar property.
- Acquire property for resale.

Exceptions. These rules don't apply to the following.

1. [Small business taxpayers](#), defined earlier under *Inventories*.
2. Property you produce if your indirect costs of producing the property are \$200,000 or less.

Special Methods

There are special methods of accounting for certain items of income or expense. These include the following.

- Amortization, discussed in chapter 7 of Pub. 225.

- Bad debts, discussed under [Topic No. 453, Bad Debt Deduction](#).
- Depletion, discussed in chapter 7 of Pub. 225.
- Depreciation, discussed in Pub. 946, How To Depreciate Property.
- Installment sales, discussed in Pub. 537, Installment Sales.
- Long-term contract methods of accounting. See section 460.

Change in Accounting Method

Once you have set up your accounting method, you must generally get IRS approval before you can change to another method. A change in your accounting method includes a change in:

1. Your overall method, such as from cash to an accrual method; and
2. Your treatment of any material item.

To request approval, you must file Form 3115. You can get IRS approval to change an accounting method under either the automatic change procedures or the advance consent request procedures. You may have to pay a user fee. For more information, see the Instructions for Form 3115.

Automatic change procedures. Certain taxpayers can presume to have IRS approval to change their method of accounting. The approval is granted for the tax year for which the taxpayer requests a change (year of change), if the taxpayer complies with the provisions of the automatic change procedures. No user fee is required for an application filed under an automatic change procedure generally covered in Revenue Procedure 2025-23, available at [IRS.gov/irb/2025-24_IRB#REV-PROC-2025-23](#) (or its successor).

Generally, you must use Form 3115 to request an automatic change. For more information, see the Instructions for Form 3115.

3.

Dispositions of Business Property

Introduction

If you dispose of business property, you may have a gain or loss that you report on your tax return. However, in some cases, you may have a gain that is not taxable or a loss that is not deductible. This chapter discusses

whether you have a disposition, how to figure the gain or loss, and where to report the gain or loss.

Useful Items

You may want to see:

Publication

- 544** Sales and Other Dispositions of Assets

Form (and Instructions)

- 4797** Sales of Business Property
- Sch D (Form 1040)** Capital Gains and Losses

See [chapter 12](#) for information about getting publications and forms.

What Is a Disposition of Property?

A disposition of property includes the following transactions.

- You sell property for cash or other property.
- You exchange property for other property.
- You receive money as a tenant for the cancellation of a lease.
- You receive money for granting the exclusive use of a copyright throughout its life in a particular medium.
- You transfer property to satisfy a debt.
- You abandon property.
- Your bank or other financial institution forecloses on your mortgage or repossesses your property.
- Your property is damaged, destroyed, or stolen, and you receive property or money in payment.
- Your property is condemned, or disposed of under the threat of condemnation, and you receive property or money in payment.
- You give property away.

For details about damaged, destroyed, or stolen property, see Pub. 547, *Casualties, Disasters, and Thefts*. For details about other dispositions, see chapter 1 of Pub. 544.

Nontaxable exchanges. Certain exchanges of property are not taxable. This means any gain from the exchange is not recognized and you cannot deduct any loss. Your gain or loss will not be recognized until you sell or otherwise dispose of the property you receive.

Like-kind exchanges. A like-kind exchange is the exchange of property for other like-kind property. It is the most common type of nontaxable exchange. Section 1031 like-kind exchange treatment applies only to exchanges of real property held for use in a trade or business or for investment, other than real property held primarily for sale.

Report the exchange of like-kind property on Form 8824, *Like-Kind Exchanges*. For more information about like-kind exchanges, see chapter 1 of Pub. 544.

Installment sales. An installment sale is a sale of property where you receive at least one payment after the tax year of the sale. If you finance the buyer’s purchase of your property, instead of having the buyer get a loan or mortgage from a third party, you probably have an installment sale.

For more information about installment sales, see Pub. 537.

Sale of a business. The sale of a business is usually not a sale of one asset. Instead, all the assets of the business are sold. Generally, when this occurs, each asset is treated as being sold separately for determining the treatment of gain or loss.

Both the buyer and seller involved in the sale of a business must report to the IRS the allocation of the sales price among the business assets. Use Form 8594, *Asset Acquisition Statement Under Section 1060*, to provide this information. The buyer and seller should each attach Form 8594 to their federal income tax return for the year in which the sale occurred.

For more information about the sale of a business, see Pub. 544.

How Do I Figure a Gain or Loss?

Table 3-1. How To Figure a Gain or Loss

IF your...	THEN you have a...
adjusted basis is more than the amount realized	loss.
amount realized is more than the adjusted basis	gain.

Basis, adjusted basis, amount realized, fair market value, and amount recognized are defined next. You need to know these definitions to figure your gain or loss.

Basis. The cost or purchase price of property is usually its basis for figuring the gain or loss from its sale or other disposition. However, if you acquired the property by gift, by inheritance, or in some way other than buying it, you must use a basis other than its cost. For more information about basis, see Pub. 551, *Basis of Assets*.

Adjusted basis. The adjusted basis of property generally is your original cost or other basis plus certain additions, and minus certain deductions such as depreciation and casualty losses. In determining gain or loss, the costs of transferring property to a new owner, such as selling expenses, are added to the adjusted basis of the property.

Amount realized. Generally, the amount you realize from a disposition is the total of all money you receive plus the fair market value of all property or services you receive. The amount you realize also includes any of your liabilities that were assumed by the buyer and any liabilities to which the property you transferred is subject, such as real estate taxes or a mortgage.

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Fair market value. Fair market value is the price at which the property would change hands between a buyer and a seller, neither having to buy or sell, and both having reasonable knowledge of all necessary facts.

Amount recognized. Your gain or loss realized from a disposition of property is usually a recognized gain or loss for tax purposes. Recognized gains must be included in gross income. Recognized losses are deductible from gross income yet may be limited. See Pub. 925. However, a gain or loss realized from certain exchanges of property is not recognized. See [Nontaxable exchanges](#), earlier. Also, you cannot deduct a loss from the disposition of property held for personal use.

Is My Gain or Loss Ordinary or Capital?

You must classify your gains and losses as either ordinary or capital gains or losses. You must do this to figure your net capital gain or loss. Generally, you will have a capital gain or loss if you dispose of a capital asset. For the most part, everything you own and use for personal purposes or investment is a capital asset.

Certain property you use in your business is not a capital asset. A gain or loss from a disposition of this property is an ordinary gain or loss. However, if you held the property longer than 1 year, you may be able to treat the gain or loss as a capital gain or loss. These gains and losses are called section 1231 gains and losses.

For more information about ordinary and capital gains and losses, see chapters 2 and 3 of Pub. 544.

Is My Capital Gain or Loss Short Term or Long Term?

If you have a capital gain or loss, you must determine whether it is long term or short term. Whether a gain or loss is long or short term depends on how long you own the property before you dispose of it. The time you own property before disposing of it is called the holding period.

Table 3-2. **Do I Have a Short-Term or Long-Term Gain or Loss?**

IF you hold the property...	THEN you have a...
1 year or less	short-term capital gain or loss.
more than 1 year	long-term capital gain or loss.

For more information about short-term and long-term capital gains and losses, see chapter 4 of Pub. 544.

Where Do I Report Gains and Losses?

Report gains and losses from the following dispositions on the forms indicated. The instructions for the forms explain how to fill them out.

Dispositions of business property and depreciable property. Use Form 4797. If you have taxable gain, you may also have to use Schedule D (Form 1040).

Like-kind exchanges. Use Form 8824. You may also have to use Form 4797 and Schedule D (Form 1040).

Installment sales. Use Form 6252, Installment Sale Income. You may also have to use Form 4797 and Schedule D (Form 1040).

Casualties and thefts. Use Form 4684, Casualties and Thefts. You may also have to use Form 4797.

Condemned property. Use Form 4797. You may also have to use Schedule D (Form 1040).

4.

General Business Credits

Introduction

Your general business credit for the year consists of your carryforward of business credits from prior years plus the total of your current-year business credits. In addition, your general business credit for the current year may be increased later by the carryback of business credits from later years. You subtract this credit directly from your tax.

Useful Items

You may want to see:

Form (and Instructions)

- 3800** General Business Credit
- 6251** Alternative Minimum Tax—Individuals

See [chapter 12](#) for information about getting publications and forms.

Business Credits

All of the following credits are part of the general business credit. The form you use to figure each credit is shown in parentheses. You will also have to complete Form 3800.

Some credits have expiration dates. Check the instructions for each credit to make sure it is available for 2025.

Alternative fuel vehicle refueling property credit (Form 8911). This credit applies to the cost of any qualified fuel vehicle refueling property. For more information, see Form 8911.

Expired credits. The biodiesel credit, renewable diesel credit, and biofuel producer credit, expired for fuel sold or

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used after December 31, 2024. The sustainable aviation fuel mixtures credit will no longer apply to any sale or use after September 30, 2025. For more information, see Form 8864.

Carbon oxide sequestration credit (Form 8933). This credit is for carbon oxide that is captured at a qualified facility and disposed of in secure geological storage or used in a qualified enhanced oil or natural gas recovery project. For more information, see Form 8933.

Credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846). This credit is generally equal to your (employer's) portion of social security and Medicare taxes paid on tips received by employees of your food and beverage establishment where tipping is customary. The credit applies regardless of whether the food is consumed on or off your business premises. The credit also applies to tips from customers or clients in connection with barbering or hair care, nail care, esthetics, and body spa treatments. For more information, see Form 8846.

Credit for employer differential wage payments (Form 8932). This credit provides businesses with an incentive to continue to pay wages to an employee performing services on active duty in the uniformed services of the United States for a period of more than 30 days. For more information, see Form 8932.

Credit for employer-provided childcare facilities and services (Form 8882). This credit applies to the qualified expenses you paid for employee childcare and qualified expenses you paid for childcare resource and referral services. For more information, see Form 8882.

Credit for increasing research activities (Form 6765). This credit is designed to encourage businesses to increase the amounts they spend on qualified research and experimental activities, including energy research. For more information, see Form 6765 and its instructions.

Credit for small employer health insurance premiums (Form 8941). This credit applies to the cost of certain health insurance coverage you provide to certain employees. For more information, see Form 8941.

Credit for small employer pension plan startup costs, auto-enrollment, and military spouse participation (Form 8881). This credit applies to pension plan startup costs of a new qualified defined benefit or defined contribution plan (including a section 401(k) plan), Savings Incentive Match Plan for Employees (SIMPLE) plan, or Simplified Employee Pension (SEP) plan. For more information, see Pub. 560, Retirement Plans for Small Business.

Disabled access credit (Form 8826). This credit is a nonrefundable tax credit for an eligible small business that pays or incurs expenses to provide access to persons who have disabilities. You must pay or incur the expenses to enable your business to comply with the Americans

with Disabilities Act of 1990. For more information, see Form 8826.

Distilled spirits credit (Form 8906). This credit is available to distillers and importers of distilled spirits and eligible wholesalers of distilled spirits. For more information, see Form 8906.

Employer credit for paid family and medical leave (Form 8994). This credit applies for wages paid to qualifying employees while they are on family and medical leave, subject to certain conditions. For more information, see Form 8994.

Empowerment zone employment credit (Form 8844). You may qualify for this credit if you have employees and are engaged in a business in an empowerment zone for which the credit is available. For more information, see Form 8844.

Energy efficient home credit (Form 8908). The new energy efficient home credit is available for eligible contractors that construct qualified new energy efficient homes sold for use as a residence. For more information, see Form 8908.

Investment credit (Form 3468). The investment credit is the total of several credits. For more information, see Form 3468.

Low sulfur diesel fuel production credit (Form 8896). For more information, see Form 8896.

Low-income housing credit (Form 8586). This credit generally applies to each qualified low-income building. For more information, see Form 8586.

New markets credit (Form 8874). This credit is for qualified equity investments made in qualified community development entities. For more information, see Form 8874.

Orphan drug credit (Form 8820). This credit applies to qualified clinical testing expenses paid or incurred for rare diseases or conditions. For more information, see Form 8820.

Clean vehicle credits (Form 8936). These credits are for certain clean vehicles placed in service during the tax year but must be acquired before October 1, 2025. For more information, see Form 8936 and its instructions.

Qualified railroad track maintenance credit (Form 8900). This credit applies to qualified railroad track maintenance expenditures paid or incurred during the tax year. For more information, see Form 8900.

Renewable electricity production credit (Form 8835). This credit is for electricity produced in the United States or U.S. territories from qualified energy resources at a qualified facility. For more information, see Form 8835.

Work opportunity credit (Form 5884). This credit provides businesses with an incentive to hire individuals from

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targeted groups that have a particularly high unemployment rate or other special employment needs. For more information, see Form 5884.

How To Claim the Credit

To claim a general business credit, you will first have to get the forms you need to claim your current-year business credits.

In addition to the credit form, you also need to file Form 3800.

5.

Business Income

Introduction

This chapter primarily explains business income, how to account for it on your tax return, and what items are not considered income, and provides guidelines for selected occupations.

If there is a connection between any income you receive and your business, the income is business income. A connection exists if it is clear that the payment of income would not have been made if you did not have the business.

You can have business income even if you are not involved in the activity on a regular full-time basis. Income from work you do on the side in addition to your regular job can be business income. For example, you may be in the business of providing services for a ride-sharing business as a second job.

You report most business income, such as income from selling your products or services, on Schedule C (Form 1040). But you report the income from the sale of business assets, such as land and office buildings, on other forms instead of Schedule C (Form 1040). For information on selling business assets, see [chapter 3](#).

Nonemployee compensation. Business income includes amounts you received in your business that were properly shown on Forms 1099-NEC. This includes amounts reported as nonemployee compensation in box 1 of the form. You can find more information in the instructions on the back of the Form 1099-NEC you received.

Name, Image, Likeness (NIL). NIL opportunities can be classified as self-employment income. If your NIL income is greater than \$600 from any source, including non-cash income, you should receive Form 1099-NEC or Form 1099-MISC from that source showing the amount of income you must report on your tax return.

Payment card and third-party network transactions. If you are in a business, you may receive a Form 1099-K representing the total dollar amount of total reportable payment transactions. This may not be the amount you should report as income, as it may not include all the receipts and it may include items that are not included in your receipts (such as sales tax).

Business income deduction. Income you report on Schedule C (Form 1040) may be qualified business income and entitle you to a deduction on Form 1040 or 1040-SR, line 13a. See Form 8995-A or Form 8995 to figure your deduction, if any.

Kinds of Income

You must report on your tax return all income you receive from your business, including income not reported to you on a Form 1099 filed by the payor, unless it is excluded by law. In most cases, your business income will be in the form of cash, checks, and credit card charges. But business income can be in other forms, such as property or services. These and other types of income are explained next.



If you are a U.S. citizen who has business income from sources outside the United States (foreign income), you must report that income on your tax return unless it is exempt from tax under U.S. law. If you live outside the United States, you may be able to exclude part or all of your foreign-source business income. For details, see Pub. 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad.

Bartering for Property or Services

Bartering is an exchange of property or services. You must include in your gross receipts, at the time received, the fair market value of property or services you receive in exchange for something else. If you exchange services with another person and you both have agreed ahead of time on the value of the services, that value will be accepted as the fair market value unless the value can be shown to be otherwise.

Example 1. You are a self-employed lawyer. You perform legal services for a client, a small corporation. In payment for your services, you receive shares of stock in the corporation. You must include the fair market value of the shares in income.

Example 2. You are an artist and create a work of art to compensate your landlord for the rent-free use of your apartment. You must include the fair rental value of the apartment in your gross receipts. Your landlord must include the fair market value of the work of art as rental income.

Example 3. You are a self-employed accountant. Both you and a house painter are members of a barter club, an organization that each year gives its members a directory

of members and the services each member provides. Members get in touch with other members directly and bargain for the value of the services to be performed.

In return for accounting services you provided for the house painter's business, the house painter painted your home. You must include in gross receipts the fair market value of the services you received from the house painter. The house painter's business must include the fair market value of your accounting services in its gross receipts.

Example 4. You are a member of a barter club that uses credit units to credit or debit members' accounts for goods or services provided or received. As soon as units are credited to your account, you can use them to buy goods or services or sell or transfer the units to other members.

You must include the value of credit units you received in your gross receipts for the tax year in which the units are credited to your account.

The dollar value of units received for services by an employee of the club, who can use the units in the same manner as other members, must be included in the employee's gross income for the tax year in which received. It is wages subject to social security and Medicare taxes (FICA), FUTA taxes, and income tax withholding. See Pub. 15.

Example 5. You operate a plumbing business and use the cash method of accounting. You join a barter club and agree to provide plumbing services to any member for a specified number of hours. Each member has access to a directory that lists the members of the club and the services available.

Members contact each other directly and request services to be performed. You are not required to provide services unless requested by another member, but you can use as many of the offered services as you wish without paying a fee.

You must include the fair market value of any services you receive from club members in your gross receipts when you receive them even if you have not provided any services to club members.

Information returns. If you are involved in a bartering transaction, you may have to file either of the following forms.

- Form 1099-B, Proceeds From Broker and Barter Exchange Transactions.
- Form 1099-MISC.

For information about these forms, see the General Instructions for Certain Information Returns.

Real Estate Rents

If you are a real estate dealer who receives income from renting real property or an owner of a hotel, motel, etc., who provides services (maid services, etc.) for guests, report the rental income and expenses on Schedule C (Form 1040). If you are not a real estate dealer or the kind of owner described in the preceding sentence, report the

rental income and expenses on Schedule E (Form 1040). For more information, see Pub. 527, Residential Rental Property.

Real estate dealer. You are a real estate dealer if you are engaged in the business of selling real estate to customers with the purpose of making a profit from those sales. Rent you receive from real estate held for sale to customers is subject to SE tax. However, rent you receive from real estate held for speculation or investment is not subject to SE tax.

Trailer park owner. Rental income from a trailer park is subject to SE tax if you are a self-employed trailer park owner who provides trailer lots and facilities and substantial services for the convenience of your tenants.

You are generally considered to provide substantial services for tenants if they are primarily for the tenants' convenience and are not normally provided to maintain the lots in a condition for occupancy. Services are substantial if the compensation for the services makes up a material part of the tenants' rental payments.

Examples of services that are not normally provided for the tenants' convenience include supervising and maintaining a recreational hall provided by the park, distributing a monthly newsletter to tenants, operating a laundry facility, and helping tenants buy or sell their trailers.

Examples of services that are normally provided to maintain the lots in a condition for tenant occupancy include city sewerage, electrical connections, and roadways.

Hotels, boarding houses, and apartments. Rental income you receive for the use or occupancy of hotels, boarding houses, or apartment houses is subject to SE tax if you provide services for the occupants.

Generally, you are considered to provide services for the occupants if the services are primarily for their convenience and are not services normally provided with the rental of rooms for occupancy only. An example of a service that is not normally provided for the convenience of the occupants is maid service. However, providing heat and light, cleaning stairways and lobbies, and collecting trash are services normally provided for the occupants' convenience.

Prepaid rent. Advance payments received under a lease that does not put any restriction on their use or enjoyment are income in the year you receive them. This is generally true no matter what accounting method or period you use.

Lease bonus. A bonus you receive from a lessee for granting a lease is an addition to the rent. Include it in your gross receipts in the year received.

Lease cancellation payments. Report payments you receive from your lessee for canceling a lease in your gross receipts in the year received.

Payments to third parties. If your lessee makes payments to someone else under an agreement to pay your debts or obligations, include those payments in your gross receipts when the lessee makes the payments. A common

example of this kind of income is a lessee's payment of your property taxes on leased real property.

Settlement payments. Payments you receive in settlement of a lessee's obligation to restore the leased property to its original condition are income in the amount that the payments exceed the adjusted basis of the leasehold improvements destroyed, damaged, removed, or disconnected by the lessee.

Personal Property Rents

If you are in the business of renting personal property (equipment, vehicles, formal wear, etc.), include the rental amount you receive in your gross receipts on Schedule C (Form 1040). Prepaid rent and other payments described under *Real Estate Rents*, earlier, can also be received for renting personal property. If you receive any of those payments, include them in your gross receipts as explained in that discussion.

Interest and Dividend Income

Interest and dividends may be considered business income.

Interest. Interest received on notes receivable that you have accepted in the ordinary course of business is business income. Interest received on loans is business income if you are in the business of lending money.

Uncollectible loans. If a loan payable to you becomes uncollectible during the tax year and you use an accrual method of accounting, you must generally include in gross income qualified stated interest accrued up to the time the loan became uncollectible. If the accrued interest that you previously included later becomes uncollectible, you may be able to take a bad debt deduction. See [Bad Debts](#) in chapter 8.

Unstated interest and original issue discount (OID). If little or no interest is charged on an installment sale contract, you may have to treat a part of each payment as unstated interest. See *Unstated Interest and Original Issue Discount (OID)* in Pub. 537.

Dividends. Generally, dividends are business income to dealers in securities. For most sole proprietors and statutory employees, however, dividends are nonbusiness income. If you hold stock as a personal investment separately from your business activity, the dividends from the stock are nonbusiness income.

If you receive dividends from business insurance premiums you deducted in an earlier year, you must report all or part of the dividend as business income on your return. To find out how much you have to report, see [Recovery of items previously deducted](#) under *Other Income*, later.

Canceled Debt

The following explains the general rule for including canceled debt in income and the exceptions to the general rule.

General Rule

Generally, if your debt is canceled or forgiven, other than as a gift or bequest to you, you must include the canceled amount in your gross income for tax purposes. Report the canceled amount on line 6 of Schedule C (Form 1040) if you incurred the debt in your business. If the debt is a non-business debt, report the canceled amount on line 8c of Schedule 1 (Form 1040).

Exceptions

The following discussion covers some exceptions to the general rule for canceled debt.

Price reduced after purchase. If you owe a debt to the seller for property you bought and the seller reduces the amount you owe, you generally do not have income from the reduction. Unless you are bankrupt or insolvent, treat the amount of the reduction as a purchase price adjustment and reduce your basis in the property.

Deductible debt. You do not realize income from a canceled debt to the extent the payment of the debt would have led to a deduction.

Example. You get accounting services for your business on credit. Later, you have trouble paying your business debts, but you are not bankrupt or insolvent. Your accountant forgives part of the amount you owe for the accounting services. How you treat the canceled debt depends on your method of accounting.

- Cash method—You do not include the canceled debt in income because payment of the debt would have been deductible as a business expense.
- Accrual method—You include the canceled debt in income because the expense was deductible when you incurred the debt.

For information on the cash and accrual methods of accounting, see [chapter 2](#).

Exclusions

Don't include canceled debt in income in the following situations. However, you may be required to file Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness. For more information, see Form 982.

1. The cancellation takes place in a bankruptcy case under title 11 of the U.S. Code (relating to bankruptcy), but only if your business is under the jurisdiction of a bankruptcy court and the discharge is granted by the court pursuant to a plan approved by the court. See Pub. 908, Bankruptcy Tax Guide.

2. The cancellation takes place when you are insolvent. You can exclude the canceled debt to the extent you are insolvent. See Pub. 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments.
3. The canceled debt is a qualified farm debt owed to a qualified person. See chapter 3 of Pub. 225, Farmer's Tax Guide.
4. The canceled debt is a qualified real property business debt. This situation is explained later.
5. The canceled debt is qualified principal residence indebtedness that is discharged after 2006 and before 2026 or is subject to an arrangement entered into in writing before 2026. See the Instructions for Form 982 for more information about this exclusion.

If a canceled debt is excluded from income because the cancellation takes place in a bankruptcy case, the exclusions in situations 2 through 5 don't apply. If it takes place when you are insolvent, the exclusions in situations 3 and 4 don't apply to the extent you are insolvent.

Debt. For purposes of this discussion, debt includes any debt for which you are liable or which attaches to property you hold.

Qualified real property business debt. You can elect to exclude (up to certain limits) the cancellation of qualified real property business debt. If you make the election, you must reduce the basis of your depreciable real property by the amount excluded. Make this reduction at the beginning of your tax year following the tax year in which the cancellation occurs. However, if you dispose of the property before that time, you must reduce its basis immediately before the disposition.

Cancellation of qualified real property business debt. Qualified real property business debt is debt (other than qualified farm debt) that meets all the following conditions.

1. It was incurred or assumed in connection with real property used in a trade or business. Real property used in a trade or business does not include real property developed and held primarily for sale to customers in the ordinary course of business.
2. It was secured by such real property.
3. It was incurred or assumed at either of the following times.
 - a. Before January 1, 1993.
 - b. After December 31, 1992, if incurred or assumed to acquire, construct, or substantially improve the real property.
4. It is debt to which you elect to apply these rules.

Qualified real property business debt includes refinancing of debt described in (3) above, but only to the extent it does not exceed the debt being refinanced.



If you are the owner of a disregarded entity (for example, a single-member LLC), see Qualified Real Property Business Indebtedness in chapter 1 of Pub. 4681 to see if you qualify for this exclusion.

You can't exclude more than either of the following amounts.

1. The excess (if any) of:
 - a. The outstanding principal of qualified real property business debt (immediately before the cancellation); over
 - b. The fair market value (immediately before the cancellation) of the business real property that is security for the debt, reduced by the outstanding principal amount of any other qualified real property business debt secured by this property immediately before the cancellation.
2. The total adjusted bases of depreciable real property held by you immediately before the cancellation. These adjusted bases are determined after any basis reduction due to a cancellation in bankruptcy or insolvency, or of qualified farm debt. Do not take into account depreciable real property acquired in contemplation of the cancellation.

Election. To make this election, complete Form 982 and attach it to your income tax return for the tax year in which the cancellation occurs. You must file your return by the due date (including extensions). If you timely filed your return for the year without making the election, you can still make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). For more information, see *When To File* in the form instructions.

Other Income

The following discussion explains how to treat other types of business income you may receive.

Restricted property. Restricted property is property that has certain restrictions that affect its value. If you receive restricted stock or other property for services performed, the fair market value of the property in excess of your cost is included in your income on Schedule C (Form 1040) when the restriction is lifted. However, you can choose to be taxed in the year you receive the property. For more information on including restricted property in income, see Pub. 525, Taxable and Nontaxable Income.

Gains and losses. Do not report on Schedule C (Form 1040) a gain or loss from the disposition of property that is neither stock in trade nor held primarily for sale to customers. Instead, you must report these gains and losses on other forms. For more information, see [chapter 3](#).

Promissory notes. Report promissory notes and other evidences of debt issued to you in a sale or exchange of property that is stock in trade or held primarily for sale to customers on Schedule C (Form 1040). In general, you report them at their stated principal amount (minus any

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unstated interest) or issue price (for debt instruments with OID) when you receive them.

Lost income payments. If you reduce or stop your business activities, report on Schedule C (Form 1040) any payment you receive for the lost income of your business from insurance or other sources. Report it on Schedule C (Form 1040) even if your business is inactive when you receive the payment.

Damages. You must include in gross income compensation you receive during the tax year as a result of any of the following injuries connected with your business.

- Patent infringement.
- Breach of contract or fiduciary duty.
- Antitrust injury.

Economic injury. You may be entitled to a deduction against the income if you receive compensation for actual economic injury. Your deduction is the smaller of the following amounts.

- The amount you receive or accrue for damages in the tax year reduced by the amount you pay or incur in the tax year to recover that amount.
- Your loss from the injury that you have not yet deducted.

Punitive damages. You must also include punitive damages in income.

Kickbacks. If you receive any kickbacks, include them in your income on Schedule C (Form 1040). However, do not include them if you properly treat them as a reduction of a related expense item, a capital expenditure, or cost of goods sold.

Recovery of items previously deducted. If you recover a bad debt or any other item deducted in a previous year, include the recovery in income on Schedule C (Form 1040). However, if all or part of the deduction in earlier years did not reduce your tax, you can exclude the part that did not reduce your tax. If you exclude part of the recovery from income, you must include with your return a computation showing how you figured the exclusion.

Exception for depreciation. This rule does not apply to depreciation. You recover depreciation using the rules explained next.

Recapture of depreciation. In the following situations, you have to recapture the depreciation deduction. This means you include in income part or all of the depreciation you deducted in previous years.

Listed property. If your business use of listed property (explained in chapter 8 under [Depreciation](#)) falls to 50% or less in a tax year after the tax year you placed the property in service, you may have to recapture part of the depreciation deduction. You do this by including in income on Schedule C (Form 1040) part of the depreciation you deducted in previous years. Use Part IV of Form 4797 to figure the amount to include on Schedule C (Form 1040).

For more information, see *What Is the Business-Use Requirement?* in chapter 5 of Pub. 946. That chapter explains how to determine whether property is used more than 50% in your business.

Section 179 property. If you take a section 179 deduction (explained in chapter 8 under [Depreciation](#)) for an asset and before the end of the asset's recovery period the percentage of business use drops to 50% or less, you must recapture part of the section 179 deduction. You do this by including in income on Schedule C (Form 1040) part of the deduction you took. Use Part IV of Form 4797 to figure the amount to include on Schedule C (Form 1040). See chapter 2 of Pub. 946 to find out when you recapture the deduction.

Sale or exchange of depreciable property. If you sell or exchange depreciable property at a gain, you may have to treat all or part of the gain due to depreciation as ordinary income. You figure the income due to depreciation recapture in Part III of Form 4797. For more information, see chapter 4 of Pub. 544.

Items That Are Not Income

In some cases, the property or money you receive is not income.

Appreciation. Increases in value of your property are not income until you realize the increases through a sale or other taxable disposition.

Consignments. Consignments of merchandise to others to sell for you are not sales. The title of merchandise remains with you, the consignor, even after the consignee possesses the merchandise. Therefore, if you ship goods on consignment, you have no profit or loss until the consignee sells the merchandise. Merchandise you have shipped out on consignment is included in your inventory until it is sold.

Do not include merchandise you receive on consignment in your inventory. Include your profit or commission on merchandise consigned to you in your income when you sell the merchandise or when you receive your profit or commission, depending upon the method of accounting you use.

Medicaid waiver payments. Certain medicaid waiver payments that are reported to you on Form 1099-MISC or Form 1099-NEC may not be taxable. For more information on how to report those payments, see the Instructions for Schedule C (Form 1040).

Construction allowances. If you enter into a lease after August 5, 1997, you can exclude from income the construction allowance you receive (in cash or as a rent reduction) from your landlord if you receive it under both of the following conditions.

- Under a short-term lease of retail space.

- For the purpose of constructing or improving qualified long-term real property for use in your business at that retail space.

Amount you can exclude. You can exclude the construction allowance to the extent it does not exceed the amount you spent for construction or improvements.

Short-term lease. A short-term lease is a lease (or other agreement for occupancy or use) of retail space for 15 years or less. The following rules apply in determining whether the lease is for 15 years or less.

- Take into account options to renew when figuring whether the lease is for 15 years or less. But do not take into account any option to renew at fair market value determined at the time of renewal.
- Two or more successive leases that are part of the same transaction (or a series of related transactions) for the same or substantially similar retail space are treated as one lease.

Retail space. Retail space is real property leased, occupied, or otherwise used by you as a tenant in your business of selling tangible personal property or services to the general public.

Qualified long-term real property. Qualified long-term real property is nonresidential real property that is part of, or otherwise present at, your retail space and that reverts to the landlord when the lease ends.

Exchange of like-kind property. Generally, if you exchange real property used for business or held as an investment solely for other business or investment real property of a like kind, no gain or loss is recognized. This means that the gain is not taxable and the loss is not deductible. Upon the exchange, basis is adjusted to reflect the deferred gain or loss. Gain or loss is recognized upon later disposition of the property. For more information, see Form 8824.

Leasehold improvements. If a tenant erects buildings or makes improvements to your property, the increase in the value of the property due to the improvements is not income to you. However, if the facts indicate that the improvements are a payment of rent to you, then the increase in value would be income.

Loans. Money borrowed through a bona fide loan is not income.

Sales tax. State and local sales taxes imposed on the buyer, which you were required to collect and pay over to state or local governments, are not income.

Guidelines for Selected Occupations

This section provides information to determine whether your earnings should be reported on Schedule C (Form 1040).

Direct seller. You must report all income you receive as a direct seller on Schedule C (Form 1040). This includes any of the following.

- Income from sales—payments you receive from customers for products they buy from you.
- Commissions, bonuses, or percentages you receive for sales and the sales of others who work under you.
- Prizes, awards, and gifts you receive from your selling business.

You must report this income regardless of whether it is reported to you on an information return.

You are a direct seller if you meet all the following conditions.

1. You are engaged in one of the following trades or businesses.
 - a. Selling or soliciting the sale of consumer products either in a home or other place that is not a permanent retail establishment, or to any buyer on a buy-sell basis or a deposit-commission basis for resale in a home or other place of business that is not a permanent retail establishment.
 - b. Delivering or distributing newspapers or shopping news (including any services directly related to that trade or business).
2. Substantially all your pay (whether paid in cash or not) for services described above is directly related to sales or other output (including performance of services) rather than to the number of hours worked.
3. Your services are performed under a written contract between you and the person for whom you perform the services, and the contract provides that you will not be treated as an employee for federal tax purposes.

Executor or administrator. If you administer a deceased person's estate, your fees are reported on Schedule C (Form 1040) if you are one of the following.

1. A professional fiduciary.
2. A nonprofessional fiduciary (personal representative) and both of the following apply.
 - a. The estate includes an active trade or business in which you actively participate.
 - b. Your fees are related to the operation of that trade or business.
3. A nonprofessional fiduciary of a single estate that requires extensive managerial activities on your part for a long period of time, provided these activities are enough to be considered a trade or business.

If the fees do not meet the above requirements, report them on line 8z of Schedule 1 (Form 1040).

Fishing crew member. If you are a member of a crew that catches fish or other aquatic life, your earnings are reported on Schedule C (Form 1040) if you meet all the

requirements shown in chapter 10 under [Fishing crew member](#).

Insurance agent, former. Termination payments you receive as a former self-employed insurance agent from an insurance company because of services you performed for that company are not reported on Schedule C (Form 1040) if all the following conditions are met.

- You received payments after your agreement to perform services for the company ended.
- You did not perform any services for the company after your service agreement ended and before the end of the year in which you received the payment.
- You entered into a covenant not to compete against the company for at least a 1-year period beginning on the date your service agreement ended.
- The amount of the payments depended primarily on policies sold by you or credited to your account during the last year of your service agreement or the extent to which those policies remain in force for some period after your service agreement ended, or both.
- The amount of the payment did not depend on any extent on length of service or overall earnings from services performed for the company (regardless of whether eligibility for the payments depended on length of service).

Insurance agent, retired. Income paid by an insurance company to a retired self-employed insurance agent based on a percentage of commissions received before retirement is reported on Schedule C (Form 1040). Also, renewal commissions and deferred commissions for sales made before retirement are generally reported on Schedule C (Form 1040).

However, renewal commissions paid to the survivor of an insurance agent are not reported on Schedule C (Form 1040).

Newspaper carrier or distributor. You are a direct seller and your earnings are reported on Schedule C (Form 1040) if all the following conditions apply.

- You are in the business of delivering or distributing newspapers or shopping news (including directly related services such as soliciting customers and collecting receipts).
- Substantially all your pay for these services directly relates to your sales or other output rather than to the number of hours you work.
- You perform the services under a written contract that says you will not be treated as an employee for federal tax purposes.

This rule applies whether or not you hire others to help you make deliveries. It also applies whether you buy the papers from the publisher or are paid based on the number of papers you deliver.

Newspaper or magazine vendor. If you are age 18 or older and you sell newspapers or magazines, your earnings

are reported on Schedule C (Form 1040) if all the following conditions apply.

- You sell newspapers or magazines to ultimate consumers.
- You sell them at a fixed price.
- Your earnings are based on the difference between the sales price and your cost of goods sold.

This rule applies whether or not you are guaranteed a minimum amount of earnings. It also applies whether or not you receive credit for unsold newspapers or magazines you return to your supplier.

Notary public. Fees you receive for services you perform as a notary public are reported on Schedule C (Form 1040). These payments are not subject to SE tax (see the Instructions for Schedule SE (Form 1040)).

Public official. Public officials generally don't report what they earn for serving in public office on Schedule C (Form 1040). This rule applies to payments received by an elected tax collector from state funds on the basis of a fixed percentage of the taxes collected. Public office includes any elective or appointive office of the United States or its territories, the District of Columbia, a state or its political subdivisions, or a wholly owned instrumentality of any of these.

Public officials of state or local governments report their fees from the public on Schedule C (Form 1040) if they are paid solely on a fee basis and if their services are eligible for, but not covered by, social security under a federal-state agreement.

Real estate agent or direct seller. If you are a licensed real estate agent or a direct seller, your earnings are reported on Schedule C (Form 1040) if both the following apply.

- Substantially all your pay for services as a real estate agent or direct seller directly relates to your sales or other output rather than to the number of hours you work.
- You perform the services under a written contract that says you will not be treated as an employee for federal tax purposes.

Dealer in section 1256 contracts. If you are a dealer in options or commodities, your gains and losses from dealing or trading in section 1256 contracts (regulated futures contracts, foreign currency contracts, nonequity options, dealer equity options, and dealer securities futures contracts) or property related to those contracts (such as stock used to hedge options) are reported on Schedule C (Form 1040). For more information, see sections 1256 and 1402(i).

Securities or commodities trader. You are a trader in securities or commodities if you are engaged in the business of buying and selling securities or commodities for your own account. As a trader in securities or commodities (including if you made the section 475(f) mark-to-market election as a trader in securities or commodities), your

gain or loss from the disposition of securities or commodities is not reported on Schedule C (Form 1040). For more information about traders in securities or commodities, see Pub. 550, Investment Income and Expenses, and [Topic No. 429, Traders in Securities](#).

Accounting for Your Income

Accounting for your income for income tax purposes differs at times from accounting for financial purposes. This section discusses some of the more common differences that may affect business transactions.

Figure your business income on the basis of a tax year and according to your regular method of accounting (see [chapter 2](#)). If the sale of a product is an income-producing factor in your business, you usually have to use inventories to clearly show your income. Dealers in real estate are not allowed to use inventories. For more information on inventories, see [chapter 2](#).

Income paid to a third party. All income you earn is taxable to you. You cannot avoid tax by having the income paid to a third party.

Example. You rent out your property and the rental agreement directs the lessee to pay the rent to your son. The amount paid to your son is gross income to you.

Cash discounts. These are amounts the seller permits you to deduct from the invoice price for prompt payment. For income tax purposes, you can use either of the following two methods to account for cash discounts.

1. Deduct the cash discount from purchases (see [Line 36—Purchases Less Cost of Items Withdrawn for Personal Use](#) in chapter 6).
2. Credit the cash discount to a discount income account.

You must use the chosen method every year for all your purchase discounts.

If you use the second method, the credit balance in the account at the end of your tax year is business income. Under this method, you don't reduce the cost of goods sold by the cash discounts you received. When valuing your closing inventory, you can't reduce the invoice price of merchandise on hand at the close of the tax year by the average or estimated discounts received on the merchandise.

Trade discounts. These are reductions from list or catalog prices and are usually not written into the invoice or charged to the customer. Do not enter these discounts on your books of account. Instead, use only the net amount as the cost of the merchandise purchased. For more information, see [Trade discounts](#) in chapter 6.

Payment placed in escrow. If the buyer of your property places part or all of the purchase price in escrow, you do not include any part of it in gross sales until you actually or constructively receive it. However, upon completion of the

terms of the contract and the escrow agreement, you will have taxable income, even if you don't accept the money until the next year.

Sales returns and allowances. Credits you allow customers for returned merchandise and any other allowances you make on sales are deductions from gross sales in figuring net sales.

Advance payments. Special rules dealing with an accrual method of accounting for payments received in advance are discussed in chapter 2 under [Accrual Method](#).

Insurance proceeds. If you receive insurance or another type of reimbursement for a casualty or theft loss, you must subtract it from the loss when you figure your deduction. You can't deduct the reimbursed part of a casualty or theft loss.

For information on casualty or theft losses, see Pub. 547.

6.

How To Figure Cost of Goods Sold

Introduction

If you make or buy goods to sell, you can deduct the cost of goods sold from your gross receipts on Schedule C (Form 1040). However, to determine these costs, you must value your inventory at the beginning and end of each tax year.

This chapter applies to you if you are a manufacturer, wholesaler, or retailer or if you are engaged in any business that makes, buys, or sells goods to produce income. This chapter does not apply to a personal service business, such as the business of a doctor, lawyer, carpenter, or painter. However, if you work in a personal service business and also sell or charge for the materials and supplies normally used in your business, this chapter applies to you.



There are exceptions for small business taxpayers that may change how you figure cost of goods sold for your business. For more information, see [chapter 2](#).

Figuring Cost of Goods Sold on Schedule C, Lines 35 Through 42

Figure your cost of goods sold by filling out lines 35 through 42 of Schedule C (Form 1040). These lines are

reproduced below and are explained in the discussion that follows.

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

Line 35—Inventory at Beginning of Year

If you are a merchant, beginning inventory is the cost of merchandise on hand at the beginning of the year that you will sell to customers. If you are a manufacturer or producer, it includes the total cost of raw materials, work in process, finished goods, and materials and supplies used in manufacturing the goods (see [Inventories](#) in chapter 2).

Opening inventory will usually be identical to the closing inventory of the year before. You must explain any difference in a schedule attached to your return.

Donation of inventory. If you contribute inventory (property that you sell in the course of your business), the amount you can claim as a contribution deduction is the smaller of its fair market value on the day you contributed it or its basis. The basis of donated inventory is any cost incurred for the inventory in an earlier year that you would otherwise include in your opening inventory for the year of the contribution. You must remove the amount of your contribution deduction from your opening inventory. It is not part of the cost of goods sold.

If the cost of donated inventory is not included in your opening inventory, the inventory's basis is zero and you can't claim a charitable contribution deduction. Treat the inventory's cost as you would ordinarily treat it under your method of accounting. For example, include the purchase price of inventory bought and donated in the same year in the cost of goods sold for that year.

A special rule may apply to certain donations of food inventory. See Pub. 526, Charitable Contributions.

Example 1. You are a calendar-year taxpayer who uses an accrual method of accounting. In 2025, you contributed property from inventory to a church. It had a fair market value of \$600. The closing inventory at the end of 2024 properly included \$400 of costs due to the acquisition of the property, and in 2024, you properly deducted \$50 of administrative and other expenses attributable to the property as business expenses. The charitable contribution allowed for 2025 is \$400 (\$600 – \$200). The \$200 is the amount that would be ordinary income if you had

sold the contributed inventory at fair market value on the date of the gift. The cost of goods sold you use in determining gross income for 2025 must not include the \$400. You remove that amount from opening inventory for 2025.

Example 2. If, in [Example 1](#), you acquired the contributed property in 2025 at a cost of \$400, you would include the \$400 cost of the property in figuring the cost of goods sold for 2025, an equivalent exclusion of income, and deduct the \$50 of administrative and other expenses attributable to the property for that year. You would not be allowed any charitable contribution deduction for the contributed property.

Line 36—Purchases Less Cost of Items Withdrawn for Personal Use

If you are a merchant, use the cost of all merchandise you bought for sale. If you are a manufacturer or producer, this includes the cost of all raw materials or parts purchased for manufacture into a finished product.

Trade discounts. The differences between the stated prices of articles and the actual prices you pay for them are called trade discounts. You must use the prices you pay (not the stated prices) in figuring your cost of purchases. Do not show the discount amount separately as an item in gross income.

An automobile dealer must record the cost of a car in inventory reduced by any manufacturer's rebate that represents a trade discount.

Cash discounts. Cash discounts are amounts your suppliers let you deduct from your purchase invoices for prompt payments. There are two methods of accounting for cash discounts. You can either credit them to a separate discount account or deduct them from total purchases for the year. Whichever method you use, you must be consistent. If you want to change your method of figuring inventory cost, you must file Form 3115. For more information, see [Change in Accounting Method](#) in chapter 2.

If you credit cash discounts to a separate account, you must include this credit balance in your business income at the end of the tax year. If you use this method, do not reduce your cost of goods sold by the cash discounts.

Purchase returns and allowances. You must deduct all returns and allowances from your total purchases during the year.

Merchandise withdrawn from sale. If you withdraw merchandise for your personal or family use, you must exclude this cost from the total amount of merchandise you bought for sale. Do this by crediting the purchases or sales account with the cost of merchandise you withdraw for personal use. You must also charge the amount to your drawing account.

A drawing account is a separate account you should keep to record the business income you withdraw to pay for personal and family expenses. As stated above, you

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also use it to record withdrawals of merchandise for personal or family use. This account is also known as a withdrawals account or personal account.

Line 37—Cost of Labor

Labor costs are usually an element of cost of goods sold only in a manufacturing or mining business. Small merchandisers (wholesalers, retailers, etc.) usually do not have labor costs that can properly be charged to cost of goods sold. In a manufacturing business, labor costs properly allocable to the cost of goods sold include both the direct and indirect labor used in fabricating the raw material into a finished, saleable product.

Direct labor. Direct labor costs are the wages you pay to those employees who spend all their time working directly on the product being manufactured. They also include a part of the wages you pay to employees who work directly on the product part time if you can determine that part of their wages.

Indirect labor. Indirect labor costs are the wages you pay to employees who perform a general factory function that does not have any immediate or direct connection with making the saleable product, but that is a necessary part of the manufacturing process.

Other labor. Other labor costs not properly chargeable to the cost of goods sold can be deducted as selling or administrative expenses. Generally, the only kinds of labor costs properly chargeable to your cost of goods sold are the direct or indirect labor costs and certain other costs treated as overhead expenses properly charged to the manufacturing process, as discussed later under *Line 39—Other Costs*.

Line 38—Materials and Supplies

Materials and supplies, such as hardware and chemicals, used in manufacturing goods are charged to cost of goods sold. Those that are not used in the manufacturing process are treated as deferred charges. You deduct them as a business expense when you use them. Business expenses are discussed in [chapter 8](#).

Line 39—Other Costs

Examples of other costs incurred in a manufacturing or mining process that you charge to your cost of goods sold are as follows.

Containers. Containers and packages that are an integral part of the product manufactured are a part of your cost of goods sold. If they are not an integral part of the manufactured product, their costs are shipping or selling expenses.

Freight-in. Freight-in, express-in, and cartage-in on raw materials, supplies you use in production, and merchandise you purchase for sale are all part of cost of goods sold.

Overhead expenses. Overhead expenses include expenses such as rent, heat, light, power, insurance, depreciation, taxes, maintenance, labor, and supervision. The overhead expenses you have as direct and necessary expenses of the manufacturing operation are included in your cost of goods sold.

Line 40—Add Lines 35 Through 39

The total of lines 35 through 39 equals the cost of the goods available for sale during the year.

Line 41—Inventory at End of Year

Subtract the value of your closing inventory (including, as appropriate, the allocable parts of the cost of raw materials and supplies, direct labor, and overhead expenses) from line 40. Inventory at the end of the year is also known as closing or ending inventory. Your ending inventory will usually become the beginning inventory of your next tax year.

Line 42—Cost of Goods Sold

When you subtract your closing inventory (inventory at the end of the year) from the cost of goods available for sale, the remainder is your cost of goods sold during the tax year.

7.

Figuring Gross Profit

Introduction

After you have figured the gross receipts from your business ([chapter 5](#)) and the cost of goods sold ([chapter 6](#)), you are ready to figure your gross profit. You must determine gross profit before you can deduct any business expenses. These expenses are discussed in [chapter 8](#).

Businesses that sell products. Figure your gross profit by first figuring your net receipts. Figure net receipts (line 3) on Schedule C (Form 1040) by subtracting any returns and allowances (line 2) from gross receipts (line 1). Returns and allowances include cash or credit refunds you make to customers, rebates, and other allowances off the actual sales price.

Next, subtract the cost of goods sold (line 4) from net receipts (line 3). The result is the gross profit from your business.

Businesses that sell services. You don't have to figure the cost of goods sold if the sale of merchandise is not an income-producing factor for your business. Your gross profit is the same as your net receipts (gross receipts

minus any refunds, rebates, or other allowances). Most professions and businesses that sell services rather than products can figure gross profit directly from net receipts in this way.

Illustration. This illustration of the gross profit section of the income statement of a retail business shows how gross profit is figured.

Income Statement Year Ended December 31, 2025

Gross receipts	\$400,000
Minus: returns and allowances	14,940
Net receipts	<u>\$385,060</u>
Minus: cost of goods sold	288,140
Gross profit	<u>\$96,920</u>

The cost of goods sold for this business is figured as follows.

Inventory at beginning of year	\$37,845
Plus: purchases	\$285,900
Minus: items withdrawn for personal use	<u>2,650</u>
Goods available for sale	<u>\$321,095</u>
Minus: inventory at end of year	32,955
Cost of goods sold	<u>\$288,140</u>

Items To Check

Consider the following items before figuring your gross profit.

Gross receipts. At the end of each business day, make sure your records balance with your actual cash and credit receipts for the day. You may find it helpful to use cash registers to keep track of receipts. You should also use a proper invoicing system and keep a separate bank account for your business.

Sales tax collected. Check to make sure your records show the correct sales tax collected.

If you collect state and local sales taxes imposed on you as the seller of goods or services from the buyer, you must include the amount collected in gross receipts.

If you are required to collect state and local taxes imposed on the buyer and turn them over to state or local governments, you generally do not include these amounts in income.

Inventory at beginning of year. Compare this figure with last year's ending inventory. The two amounts should usually be the same.

Purchases. If you take any inventory items for your personal use (use them yourself, provide them to your family, or give them as personal gifts, etc.), be sure to remove them from the cost of goods sold. For details on how to adjust cost of goods sold, see [Merchandise withdrawn from sale](#) in chapter 6.

Inventory at end of year. Check to make sure your procedures for taking inventory are adequate. These procedures should ensure all items have been included in inventory and proper pricing techniques have been used.

Use inventory forms and adding machine tapes as the only evidence for your inventory. Inventory forms are available at office supply stores. These forms have columns for recording the description, quantity, unit price, and value of each inventory item. Each page has space to record who made the physical count, who priced the items, who made the extensions, and who proofread the calculations. These forms will help you confirm that the total inventory is accurate. They will also provide you with a permanent record to support its validity.

[Inventories](#) are discussed in chapter 2.

Testing Gross Profit Accuracy

If you are in a retail or wholesale business, you can check the accuracy of your gross profit figure. First, divide gross profit by net receipts. The resulting percentage measures the average spread between the merchandise cost of goods sold and the selling price.

Next, compare this percentage to your markup policy. Little or no difference between these two percentages shows that your gross profit figure is accurate. A large difference between these percentages may show that you did not accurately figure sales, purchases, inventory, or other items of cost. You should determine the reason for the difference.

Example. You operate a retail business. On the average, you mark up your merchandise so that you will realize a gross profit of 33¹/₃% on its sales. The net receipts (gross receipts minus returns and allowances) shown on your income statement are \$300,000. Your cost of goods sold is \$200,000. This results in a gross profit of \$100,000 (\$300,000 – \$200,000). To test the accuracy of this year's results, you divide gross profit (\$100,000) by net receipts (\$300,000). The resulting 33¹/₃% confirms your markup percentage of 33¹/₃%.

Additions to Gross Profit

If your business has income from a source other than its regular business operations, enter the income on line 6 of Schedule C (Form 1040) and add it to gross profit. The result is gross business income. Some examples include income from an interest-bearing checking account, income from scrap sales, income from certain fuel tax credits and refunds, and amounts recovered from bad debts.

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Business Expenses

Introduction

You can deduct the costs of operating your business. These costs are known as business expenses. These are costs you don't have to capitalize or include in the cost of goods sold but can deduct in the current year.

To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your field of business. A necessary expense is one that is helpful and appropriate for your business. An expense does not have to be indispensable to be considered necessary.

For more information about the general rules for deducting business expenses, see section 162 and its regulations.

 *If you have an expense that is partly for business and partly personal, separate the personal part from the business part. The personal part is generally not deductible.*

Useful Items

You may want to see:

Publication

- 463** Travel, Gift, and Car Expenses
- 946** How To Depreciate Property

See [chapter 12](#) for information about getting publications and forms.

Bad Debts

If someone owes you money you can't collect, you have a bad debt. There are two types of bad debts—business bad debts and nonbusiness bad debts.

A business bad debt is generally one that comes from operating your trade or business. You may be able to deduct business bad debts as an expense on your business tax return.

Business bad debt. A business bad debt is a loss from the worthlessness of a debt that was either of the following.

1. Created or acquired in your business.
2. Closely related to your business when it became partly or totally worthless.

A debt is closely related to your business if your primary motive for incurring the debt is a business reason.

Business bad debts are mainly the result of credit sales to customers. They can also be the result of loans to suppliers, clients, employees, or distributors. Goods and services that customers have not paid for are shown in your books as either accounts receivable or notes receivable. If you are unable to collect any part of these accounts or notes receivable, the uncollectible part is a business bad debt.



You can take a bad debt deduction for these accounts and notes receivable only if the amount you were owed was included in your gross income either for the year the deduction is claimed or for a prior year.

Accrual method. If you use an accrual method of accounting, you normally report income as you earn it. You can take a bad debt deduction for an uncollectible receivable if you have included the uncollectible amount in income.

Cash method. If you use the cash method of accounting, you normally report income when you receive payment. You can't take a bad debt deduction for amounts owed to you that you have not received and can't collect if you never included those amounts in income.

Debts from a former business. If you sell your business but retain its receivables, these debts are business debts because they arose out of your trade or business. If any of these receivables subsequently become worthless, the loss is still a business bad debt.

Debt acquired from a decedent. The character of a loss from debts of a business acquired from a decedent is determined in the same way as debts acquired on the purchase of a business. The executor of the decedent's estate treats any loss from the debts as a business bad debt if the debts were closely related to the decedent's trade or business when they became worthless. Otherwise, a loss from these debts becomes a nonbusiness bad debt for the decedent's estate.

Liquidation. If you liquidate your business and some of the accounts receivable that you retain become worthless, they're treated as business bad debts.

Types of Business Bad Debts

Business bad debts may result from the following.

Loans to clients and suppliers. If you loan money to a client, supplier, employee, or distributor for a business reason and you're unable to collect the loan after attempting to do so, you have a business bad debt.

Debts owed by political parties. If a political party (or other organization that accepts contributions or spends money to influence elections) owes you money and the debt becomes worthless, you can claim a bad debt deduction only if all of the following requirements are met.

1. You use an accrual method of accounting.

2. The debt arose from the sale of goods or services in the ordinary course of your trade or business.
3. More than 30% of your receivables accrued in the year of the sale were from sales to political parties.
4. You made substantial and continuing efforts to collect on the debt.

Loan or capital contribution. You can't claim a bad debt deduction for a loan you made to a corporation if, based on the facts and circumstances, the loan is actually a contribution to capital.

Debts of an insolvent partner. If your business partnership breaks up and one of your former partners becomes insolvent, you may have to pay more than your pro rata share of the partnership's debts. If you pay any part of the insolvent partner's share of the debts, you can claim a bad debt deduction for the amount you paid that is attributable to the insolvent partner's share.

Business loan guarantee. If you guarantee a debt that subsequently becomes worthless, the debt can qualify as a business bad debt if all of the following requirements are met.

- You made the guarantee in the course of your trade or business.
- You have a legal duty to pay the debt.
- You made the guarantee before the debt became worthless. You meet this requirement if you reasonably expected you wouldn't have to pay the debt without full reimbursement from the borrower.
- You received reasonable consideration for making the guarantee. You meet this requirement if you made the guarantee according to normal business practice or for a good faith business purpose.

Example. Finley Zayne owns the Zayne Dress Company. Finley guaranteed payment of a \$20,000 note for Elegant Fashions, a dress outlet. Elegant Fashions is one of the dress company's largest clients. Elegant Fashions later defaulted on the loan. As a result, Finley paid the remaining balance of the loan in full to the bank.

Finley can claim a business bad debt deduction only for the amount Finley paid because the guarantee was made in the course of Finley's trade or business for a good faith business purpose. Finley was motivated by the desire to retain one of Finley's better clients and keep a sales outlet.

Deductible in the year paid. If you make a payment on a loan you guaranteed, you can deduct it in the year paid, unless you have rights against the borrower.

Rights against a borrower. When you make payment on a loan you guaranteed, you may have the right to take the place of the lender. The debt is then owed to you. If you have this right, or some other right to demand payment from the borrower, you can't claim a bad debt deduction until these rights become partly or totally worthless.

Joint debtor. If two or more debtors jointly owe you money, your inability to collect from one doesn't enable you to deduct a proportionate amount as a bad debt.

Sale of mortgaged property. If mortgaged or pledged property is sold for less than the debt, the unpaid, uncollectible balance of the debt is a bad debt.

When a Debt Becomes Worthless

A debt becomes worthless when there is no longer any chance the amount owed will be paid. This may occur on the date the debt is due or prior to that date.

To demonstrate worthlessness, you must only show that you have taken reasonable steps to collect the debt but were unable to do so.

Property received for debt. If you receive property in partial settlement of a debt, reduce the debt by the property's fair market value, which becomes the property's basis. You can deduct the remaining debt as a bad debt if and when it becomes worthless.

If you later sell the property for more than its basis, any gain on the sale is due to the appreciation of the property. It isn't a recovery of a bad debt. For information on the sale of an asset, see Pub. 544.

How To Claim a Business Bad Debt

There are two methods to claim a business bad debt.

- The specific charge-off method.
- The nonaccrual-experience method.

Generally, you must use the specific charge-off method. However, you may use the nonaccrual-experience method if you meet the requirements discussed later under [Non-accrual-Experience Method](#).

Specific charge-off method. If you use the specific charge-off method, you can deduct specific business bad debts that become either partly or totally worthless during the tax year. However, with respect to partly worthless bad debts, your deduction is limited to the amount you charged off on your books during the year.

Partly worthless debts. You can deduct specific bad debts that become partly uncollectible during the tax year. Your tax deduction is limited to the amount you charge off on your books during the year. You don't have to charge off and deduct your partly worthless debts annually. You can delay the charge-off until a later year. However, you can't deduct any part of a debt after the year it becomes totally worthless.

There are two rules regarding charge-off debts to consider.

- **Significantly modified debt.** An exception to the charge-off rule exists for debt that has been significantly modified and on which the holder recognized gain. For more information, see Regulations section 1.166-3(a)(3).

- **Deduction disallowed.** Generally, you can claim a partial bad debt deduction only in the year you make the charge-off on your books. If, under audit, the IRS doesn't allow your deduction and the debt becomes partly worthless in a later tax year, you can deduct the amount you charged off in that year plus the disallowed amount charged off in the earlier year. The charge-off in the earlier year, unless reversed on your books, fulfills the charge-off requirement for the later year.

Totally worthless debts. If a debt becomes totally worthless in the current tax year, you can deduct the entire amount minus any amount deducted in an earlier tax year when the debt was only partly worthless.

You don't have to make an actual charge-off on your books to claim a bad debt deduction for a totally worthless debt. However, you may want to do so. If you don't and the IRS later rules the debt is only partly worthless, you will not be allowed a deduction for the debt in that tax year because a deduction of a partly worthless bad debt is limited to the amount actually charged off. See [Partly worthless debts](#), earlier.

Filing a claim for refund. If you didn't deduct a bad debt on your original return for the year it became worthless, you can file a claim for a credit or refund. If the bad debt was totally worthless, you must file the claim by the later of the following dates.

- 7 years from the date your original return was due (not including extensions).
- 2 years from the date you paid the tax.

If the claim is for a partly worthless bad debt, you must file the claim by the later of the following dates.

- 3 years from the date you filed your original return.
- 2 years from the date you paid the tax.

You may have longer to file the claim if you were unable to manage your financial affairs due to a physical or mental impairment. Such an impairment requires proof of existence.

For details and more information about filing a claim, see Pub. 556. Use one of the following forms to file a claim. For more information, see the instructions for the applicable form.

Table 8-1. Forms Used To File a Claim

IF you filed as a...	THEN file...
sole proprietor or farmer	Form 1040-X.
corporation	Form 1120-X.
S corporation	Form 1120-S and check box H(4).
partnership	Form 1065-X if filing on paper or Form 1065 and check box G(5) if filing electronically.

Nonaccrual-Experience Method

Generally, a person using accrual accounting isn't required to accrue a service-provided receivable that experience shows won't be collected if:

- The service provided is health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting; or
- The person's average annual gross receipts for all previous 3-tax-year periods don't exceed \$31 million (indexed for inflation).

See section 448 for details and exceptions.

Recovery of a Bad Debt

If you claim a deduction for a bad debt on your income tax return and later recover (collect) all or part of it, you may have to include all or part of the recovery in gross income. The amount you include is limited to the amount you actually deducted. However, you can exclude the amount deducted that did not reduce your tax. Report the recovery as "Other income" on the appropriate business form or schedule.

See *Recoveries* in Pub. 525 for more information.

NOL carryover. If a bad debt deduction increases an NOL carryover that has not expired before the beginning of the tax year in which the recovery takes place, you treat the deduction as having reduced your tax. A bad debt deduction that contributes to an NOL helps lower taxes in the year to which you carry the NOL. For more information about NOLs for individuals, see the Instructions for Form 172.

More information. For more information about business bad debts, see section 166 and its regulations.

Nonbusiness Bad Debts

All other bad debts are nonbusiness bad debts and are deductible as short-term capital losses on Form 8949 and Schedule D (Form 1040). For more information on nonbusiness bad debts, see section 166 and its regulations.

Car and Truck Expenses

If you use your car or truck in your business, you may be able to deduct the costs of operating and maintaining your vehicle. You may also be able to deduct other costs of local transportation and traveling away from home overnight on business.

Local transportation expenses. Local transportation expenses include the ordinary and necessary costs of all the following.

- Getting from one workplace to another in the course of your business or profession when you are traveling within the city or general area that is your tax home. Tax home is defined later.

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- Visiting clients or customers.
- Going to a business meeting away from your regular workplace.
- Getting from your home to a temporary workplace when you have one or more regular places of work. These temporary workplaces can be either within the area of your tax home or outside that area.

Local business transportation does not include expenses you have while traveling away from home overnight. Those expenses are deductible as travel expenses and are discussed later under [Travel and Meals](#). However, if you use your car while traveling away from home overnight, use the rules in this section to figure your car expense deduction.

Generally, your tax home is your regular place of business, regardless of where you maintain your family home. It includes the entire city or general area in which your business or work is located.

Example. You operate a printing business out of rented office space. You use your van to deliver completed jobs to your customers. You can deduct the cost of round-trip transportation between your customers and your print shop.

 *You can't deduct the costs of driving your car or truck between your home and your main or regular workplace. These costs are personal commuting expenses.*

Office in the home. Your workplace can be your home if you have an office in your home that qualifies as your principal place of business. For more information, see [Business Use of Your Home](#), later.

Example. You are a graphic designer. You operate your business out of your home. Your home qualifies as your principal place of business. You occasionally have to drive to your clients to deliver your completed work. You can deduct the cost of the round-trip transportation between your home and your clients.

Methods for Deducting Car and Truck Expenses

For local transportation or overnight travel by car or truck, you can generally use one of the following methods to figure your expenses.

- Standard mileage rate.
- Actual expenses.

Standard mileage rate. You may be able to use the standard mileage rate to figure the deductible costs of operating your car, van, pickup, or panel truck for business purposes. The business standard mileage rate for 2025 is 70 cents a mile.



If you choose to use the standard mileage rate for a year, you can't deduct your actual expenses for that year except for business-related parking fees and tolls. However, you may be able to take a deduction for interest paid on a car loan even if you use the standard mileage rate. See [Vehicle interest](#), later.

Choosing the standard mileage rate. If you want to use the standard mileage rate for a car or truck you own, you must choose to use it in the first year the car is available for use in your business. In later years, you can choose to use either the standard mileage rate or actual expenses.

If you choose to use the standard mileage rate for a car you lease, you must use it for the entire lease period (including renewals).

Standard mileage rate not allowed. You can't use the standard mileage rate if you:

1. Operate five or more cars at the same time;
2. Claimed a depreciation deduction using any method other than straight line, for example, Accelerated Cost Recovery System (ACRS) or Modified Accelerated Cost Recovery System (MACRS);
3. Claimed a section 179 deduction on the car;
4. Claimed the special depreciation allowance on the car;
5. Claimed actual car expenses for a car you leased; or
6. Are a rural mail carrier who received a qualified reimbursement.

Vehicle interest. You may be able to take a deduction for interest paid on a car loan even if you use the standard mileage rate. See [Interest on car loans](#), later.

Parking fees and tolls. In addition to using the standard mileage rate, you can deduct any business-related parking fees and tolls. (Parking fees you pay to park your car at your place of work are nondeductible commuting expenses.)

Actual expenses. If you do not choose to use the standard mileage rate, you may be able to deduct your actual car or truck expenses.



If you qualify to use both methods, figure your deduction both ways to see which gives you a larger deduction.

Actual car expenses include the costs of the following items.

Depreciation	Lease payments	Registration
Garage rent	Licenses	Repairs
Gas	Oil	Tires
Insurance	Parking fees	Tolls

If you use your vehicle for both business and personal purposes, you must divide your expenses between business and personal use. You can divide your expenses based on the miles driven for each purpose.

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Example. You are the sole proprietor of a flower shop. You drove your van 20,000 miles during the year. 16,000 miles were for delivering flowers to customers and 4,000 miles were for personal use (including commuting miles). You can claim only 80% ($16,000 \div 20,000$) of the cost of operating your van as a business expense.

More information. For more information about the rules for claiming car and truck expenses, see Pub. 463. See also [Interest on car loans](#), later.

Reimbursing Your Employees for Expenses

You can generally deduct the amount you reimburse your employees for car and truck expenses. The reimbursement you deduct and the manner in which you deduct it depend in part on whether you reimburse the expenses under an accountable plan or a nonaccountable plan. For details, see Pub. 15. That publication explains accountable and nonaccountable plans and tells you whether to report the reimbursement on your employee's Form W-2.

Depreciation

If property you acquire to use in your business is expected to last more than 1 year, you generally can't deduct the entire cost as a business expense in the year you acquire it. You must spread the cost over more than 1 tax year and deduct part of it each year on Schedule C (Form 1040). This method of deducting the cost of business property is called depreciation.

The following is a brief overview. You will find more information about depreciation in Pub. 946.

What property can be depreciated? You can depreciate property if it meets all the following requirements.

- It must be property you own.
- It must be used in business or held to produce income. You can never depreciate inventory (explained in [chapter 2](#)) because it is not held for use in your business.
- It must have a useful life that extends substantially beyond the year it is placed in service.
- It must have a determinable useful life, which means that it must be something that wears out, decays, gets used up, becomes obsolete, or loses its value from natural causes. You can never depreciate the cost of land because land does not wear out, become obsolete, or get used up.
- It must not be excepted property. This includes property placed in service and disposed of in the same year.

Repairs. In general, you don't depreciate the costs of repairs or maintenance if they don't improve your property. Instead, you deduct these amounts on line 21 of Schedule C (Form 1040). Improvements are amounts paid for

betterments to your property, restorations of your property, or work that adapts your property to a new or different use.

Election to capitalize repair and maintenance costs that do not improve your property. You can make an election to treat certain repairs or replacements in your trade or business as improvements subject to depreciation. This election is available if you treat these amounts as capital expenditures on your books and records regularly used in computing your income and expenses.

Depreciation method. The method for depreciating most business and investment property placed in service after 1986 is called the Modified Accelerated Cost Recovery System (MACRS). MACRS is discussed in detail in Pub. 946.

Section 179 deduction. You can elect to deduct a limited amount of the cost of certain depreciable property in the year you place the property in service. This deduction is known as the section 179 deduction. The maximum amount you can elect to deduct during 2025 is generally \$2,500,000.

This limit is generally reduced by the amount by which the cost of the property placed in service during the tax year exceeds \$4,000,000. The total amount of depreciation (including the section 179 deduction) you can take for a passenger automobile you use in your business and first place in service in 2025 is \$12,200 (\$20,200 if you take the special depreciation allowance for qualified passenger automobiles placed in service in 2025). Special rules apply to trucks and vans. For more information, see Pub. 946. It explains what property qualifies for the deduction, what limits apply to the deduction, and when and how to recapture the deduction.



Your section 179 election for the cost of any sport utility vehicle (SUV) and certain other vehicles is limited to \$31,300. For more information, see the Instructions for Form 4562 or Pub. 946.

Listed property. You must follow special rules and recordkeeping requirements when depreciating listed property. Listed property includes any of the following.

- Most passenger automobiles.
- Most other property used for transportation.
- Any property of a type generally used for entertainment, recreation, or amusement.

For more information about listed property, see Pub. 946.

Form 4562. Use Form 4562, Depreciation and Amortization, if you are claiming any of the following.

- Depreciation on property placed in service during the current-tax year.
- A section 179 deduction.
- Depreciation on any listed property (regardless of when it was placed in service).

Employees' Pay

You can generally deduct on Schedule C (Form 1040) the pay you give your employees for the services they perform for your business. The pay may be in cash, property, or services.

To be deductible, your employees' pay must be an ordinary and necessary expense and you must pay or incur it in the tax year. In addition, the pay must meet both the following tests.

- The pay must be reasonable.
- The pay must be for services performed.

You can't deduct your own salary or any personal withdrawals you make from your business. As a sole proprietor, you are not an employee of the business.

Kinds of pay. Some of the ways you may provide pay to your employees are listed below.

- Awards.
- Bonuses.
- Education expenses.
- Fringe benefits (discussed later).
- Loans or advances you don't expect the employee to repay if they are for personal services actually performed.
- Property you transfer to an employee as payment for services.
- Reimbursements for employee business expenses.
- Sick pay.
- Vacation pay.

Fringe benefits. A fringe benefit is a form of pay for the performance of services. The following are examples of fringe benefits.

- Benefits under qualified employee benefit programs.
- Meals and lodging.
- The use of a car.
- Flights on airplanes.
- Discounts on property or services.

Employee benefit programs include the following.

- Accident and health plans.
- Adoption assistance.
- Cafeteria plans.
- Dependent care assistance.
- Educational assistance.
- Group-term life insurance coverage.
- Welfare benefit funds.

You can generally deduct the cost of fringe benefits you provide on your Schedule C (Form 1040) in whatever

category the cost falls. For example, if you allow an employee to use a car or other property you lease, deduct the cost of the lease as a rent or lease expense. If you own the property, include your deduction for its cost or other basis as a section 179 deduction or a depreciation deduction.



You may be able to exclude all or part of the fringe benefits you provide from your employees' wages. For more information about fringe benefits and the exclusion of benefits, see Pub. 15-B.

Insurance

You can generally deduct premiums you pay for the following kinds of insurance related to your business.

1. Fire, theft, flood, or similar insurance.
2. Credit insurance that covers losses from business bad debts.
3. Group hospitalization and medical insurance for employees, including long-term care insurance.
4. Liability insurance.
5. Malpractice insurance that covers your personal liability for professional negligence resulting in injury or damage to patients or clients.
6. Workers' compensation insurance set by state law that covers any claims for bodily injuries or job-related diseases suffered by employees in your business, regardless of fault.
7. Contributions to a state unemployment insurance fund are deductible as taxes if they are considered taxes under state law.
8. Overhead insurance that pays for business overhead expenses you have during long periods of disability caused by your injury or sickness.
9. Car and other vehicle insurance that covers vehicles used in your business for liability, damages, and other losses. If you operate a vehicle partly for personal use, deduct only the part of the insurance premium that applies to the business use of the vehicle. If you use the standard mileage rate to figure your car expenses, you can't deduct any car insurance premiums.
10. Life insurance covering your employees if you are not directly or indirectly the beneficiary under the contract.
11. Business interruption insurance that pays for lost profits if your business is shut down due to a fire or other cause.

Nondeductible premiums. You can't deduct premiums on the following kinds of insurance.

1. Self-insurance reserve funds. You can't deduct amounts credited to a reserve set up for

self-insurance. This applies even if you can't get business insurance coverage for certain business risks. However, your actual losses may be deductible. For more information, see Pub. 547.

2. Loss of earnings. You can't deduct premiums for a policy that pays for your lost earnings due to sickness or disability. However, see item 8 in the previous list.
3. Certain life insurance and annuities.
 - a. For contracts issued before June 9, 1997, you can't deduct the premiums on a life insurance policy covering you, an employee, or any person with a financial interest in your business if you are directly or indirectly a beneficiary of the policy. You are included among possible beneficiaries of the policy if the policy owner is obligated to repay a loan from you using the proceeds of the policy. A person has a financial interest in your business if the person is an owner or part owner of the business or has lent money to the business.
 - b. For contracts issued after June 8, 1997, you generally can't deduct the premiums on any life insurance policy, endowment contract, or annuity contract if you are directly or indirectly a beneficiary. The disallowance applies without regard to whom the policy covers.
4. Insurance to secure a loan. If you take out a policy on your life or on the life of another person with a financial interest in your business to get or protect a business loan, you can't deduct the premiums as a business expense. Nor can you deduct the premiums as interest on business loans or as an expense of financing loans. In the event of death, the proceeds of the policy are not taxed as income even if they are used to liquidate the debt.

Self-employed health insurance deduction. You may be able to deduct the amount you paid for medical and dental insurance and qualified long-term care insurance for you and your family.

How to figure the deduction. Generally, you can use the worksheet in the Instructions for Form 1040 to figure your deduction. However, if any of the following apply, you must use Form(s) 7206.

- You have more than one source of income subject to SE tax.
- You file Form 2555 (relating to foreign earned income).
- You are using amounts paid for qualified long-term care insurance to figure the deduction.

See Form 8962 and its separate instructions and use Pub. 974 if the insurance plan established, or considered to be established, under your business was obtained through the Health Insurance Marketplace and you are claiming the premium tax credit.

Prepayment. You can't deduct expenses in advance, even if you pay them in advance. This rule applies to any expense paid far enough in advance to, in effect, create an

asset with a useful life extending substantially beyond the end of the current-tax year.

Example. In 2025, you signed a 3-year insurance contract. Even though you paid the premiums for 2025, 2026, and 2027 when you signed the contract, you can only deduct the premium for 2025 on your 2025 tax return. You can deduct in 2026 and 2027 the premiums allocable to those years.

Interest

You can generally deduct as a business expense some or all interest you pay or accrue during the tax year on debts related to your business. Interest relates to your business if you use the proceeds of the loan for a business expense. It doesn't matter what type of property secures the loan. You can deduct interest on a debt only if you meet all of the following requirements.

- You are legally liable for that debt.
- Both you and the lender intend that the debt be repaid.
- You and the lender have a true debtor-creditor relationship.

Certain taxpayers are required to limit their business interest expense deduction. For tax years beginning in 2025, the calculation of adjusted taxable income includes a requirement to add back to taxable income the deductions for depreciation, amortization, and depletion to arrive at the amount that is used to determine if your interest expense is limited. See the Instructions for Form 8990 to determine whether you are required to limit your business interest expense deduction, who is required to file Form 8990, and how certain businesses may elect out of the business interest expense limitation.

Personal loans. You can't deduct on Schedule C (Form 1040) the interest you paid on personal loans. If a loan is part business and part personal, you must divide the interest between the personal part and the business part.

Interest on car loans. If you are self-employed and use your vehicle in your business, you can deduct the part of the interest expense that represents your business use of the vehicle on Schedule C (Form 1040). Additionally, you may be able to deduct as qualified passenger vehicle loan interest the part of the interest expense that represents your personal use of the vehicle on Schedule 1-A (Form 1040). If you use your vehicle for both business and personal purposes, and you claim a deduction in 2025 on Schedule 1-A (Form 1040) for vehicle loan interest allocable to your personal use, then you can't claim a deduction for that same interest on Schedule C (Form 1040). See the Instructions for Schedule 1-A (Form 1040), which are included in the Instructions for Form 1040, for more information.

Example. In 2025, you paid \$600 interest on a car loan. During 2025, you used the car 60% for business and

40% for personal purposes. You are claiming actual expenses on the car. You may deduct \$360 (60% (0.60) × \$600) for 2025 on Schedule C (Form 1040) (or if this interest is also qualified passenger vehicle loan interest, alternatively on Schedule 1-A). The remaining interest of \$240 may be deductible as qualified passenger vehicle loan interest on Schedule 1-A (Form 1040).

More information. Additional items to consider are shown below.

- How to allocate interest between personal and business use.
- Limitation on business interest.
- When to deduct interest.
- The rules for a below-market interest rate loan. (This is generally a loan on which no interest is charged or on which interest is charged at a rate below the applicable federal rate.)

Legal and Professional Fees

Legal and professional fees, such as fees charged by accountants, that are ordinary and necessary expenses directly related to operating your business are deductible on Schedule C (Form 1040). However, you usually can't deduct legal fees you pay to acquire business assets. Add them to the basis of the property.

If the fees include payments for work of a personal nature (such as making a will), you can take a business deduction only for the part of the fee related to your business.

Tax preparation fees. You can deduct on Schedule C (Form 1040) the cost of preparing that part of your tax return relating to your business as a sole proprietor or statutory employee.

Under section 62(a), you can deduct ordinary and necessary expenses paid for business software technology resources for filing taxes, for example, professional tax filing software, if it's not depreciated or expensed under section 179. Its use must not exceed 1 year. The expenditure is deductible if used exclusively for the business. If used for both personal and business purposes, only deduct the portion of the software you use for the business. The expense is reported on line 48, Schedule C (Form 1040).

You can also deduct on Schedule C (Form 1040) the amount you pay or incur in resolving asserted tax deficiencies for your business as a sole proprietor or statutory employee.

Pension Plans

You can set up and maintain the following small business retirement plans for yourself and your employees.

- SEP (Simplified Employee Pension) plans.
- SIMPLE (Savings Incentive Match Plan for Employees) plans.

- Qualified plans (including Keogh or H.R. 10 plans).

SEP, SIMPLE, and qualified plans offer you and your employees a tax-favored way to save for retirement. You can deduct contributions you make to the plan for your employees on line 19 of Schedule C (Form 1040). If you are a sole proprietor, you can deduct contributions you make to the plan for yourself on line 16 of Schedule 1 (Form 1040). You can also deduct trustees' fees if contributions to the plan don't cover them. Earnings on the contributions are generally tax free until you or your employees receive distributions from the plan. You may also be able to claim a tax credit if you begin a new qualified defined benefit or defined contribution plan (including a 401(k) plan), SIMPLE plan, or SEP plan. For details on this credit and credits for auto-enrollment and military spouse participation, see Form 8881 and its separate instructions.

Under certain plans, employees can have you contribute limited amounts of their before-tax pay to a plan. These amounts (and earnings on them) are generally tax free until your employees receive distributions from the plan.

For more information on retirement plans for small business, see Pub. 560.



Pub. 590-A, Contributions to Individual Retirement Arrangements (IRAs), discusses other tax-favored ways to save for retirement.

Rent Expense

Rent is any amount you pay for the use of property you do not own. In general, you can deduct rent as a business expense only if the rent is for property you use in your business. If you have or will receive equity in or title to the property, you can't deduct the rent.

Unreasonable rent. You can't take a rental deduction for unreasonable rents. Ordinarily, the issue of reasonableness arises only if you and the lessor are related. Rent paid to a related person is reasonable if it is the same amount you would pay to a stranger for use of the same property. Rent is not unreasonable just because it is figured as a percentage of gross receipts.

Related persons include members of your immediate family, including siblings (either whole or half), your spouse, ancestors, and lineal descendants. For a list of the other related persons, see section 267 of the Internal Revenue Code.

Rent on your home. If you rent your home and use part of it as your place of business, you may be able to deduct the rent you pay for that part. You must meet the requirements for business use of your home. For more information, see [Business Use of Your Home](#), later.

Rent paid in advance. Generally, rent paid in your business is deductible in the year paid or accrued. If you pay rent in advance, you can deduct only the amount that applies to your use of the rented property during the tax

year. You can deduct the rest of your payment only over the period to which it applies.

Taxes

You can deduct on Schedule C (Form 1040) various federal, state, local, and foreign taxes directly attributable to your business.

Income taxes. You can deduct on Schedule C (Form 1040) a state tax on gross income (as distinguished from net income) directly attributable to your business. You can deduct other state and local income taxes on Schedule A (Form 1040) if you itemize your deductions. Do not deduct federal income tax.

Employment taxes. You can deduct the social security, Medicare, and FUTA taxes you paid out of your own funds as an employer. Employment taxes are discussed briefly in [chapter 1](#). You can also deduct payments you made as an employer to a state unemployment compensation fund, state paid family and medical leave program, or state disability benefit fund. See Revenue Ruling 2025-4 and Notice 2026-6 for more information.

SE tax. You can deduct one-half of your SE tax on line 15 of Schedule 1 (Form 1040). SE tax is discussed in [chapter 1](#) and [chapter 10](#).

Personal property tax. You can deduct on Schedule C (Form 1040) any tax imposed by a state or local government on personal property used in your business.

You can also deduct registration fees for the right to use property within a state or local area.

Example. You and your spouse drove your car 7,000 business miles out of a total of 10,000 miles. You and your spouse had to pay \$25 for your annual state license tags and \$20 for your city registration sticker. You and your spouse also paid \$235 in city personal property tax on the car, for a total of \$280. You and your spouse are claiming your actual car expenses. Because you and your spouse used the car 70% for business, you and your spouse can deduct 70% of the \$280, or \$196, as a business expense.

Real estate taxes. You can deduct on Schedule C (Form 1040) the real estate taxes you pay on your business property. Deductible real estate taxes are any state, local, or foreign taxes on real estate levied for the general public welfare. The taxing authority must assess these taxes uniformly at a like rate on all real property under its jurisdiction, and the proceeds must be for general community or governmental purposes.

Sales tax. Treat any sales tax you pay on a service or on the purchase or use of property as part of the cost of the service or property. If the service or the cost or use of the property is a deductible business expense, you can deduct the tax as part of that service or cost. If the property is merchandise bought for resale, the sales tax is part of the cost of the merchandise. If the property is depreciable,

add the sales tax to the basis for depreciation. For information on the basis of property, see Pub. 551.



Don't deduct state and local sales taxes imposed on the buyer that you must collect and pay over to the state or local government. Don't include these taxes in gross receipts or sales.

Excise taxes. You can deduct on Schedule C (Form 1040) all excise taxes that are ordinary and necessary expenses of carrying on your business. Excise taxes are discussed briefly in [chapter 1](#).

Fuel taxes. Taxes on gasoline, diesel fuel, and other motor fuels you use in your business are usually included as part of the cost of the fuel. Don't deduct these taxes as a separate item.

You may be entitled to a credit or refund for federal excise tax you paid on fuels used for certain purposes. For more information, see Pub. 510.

Travel and Meals

This section briefly explains the kinds of travel and meal expenses you can deduct on Schedule C (Form 1040).

Travel expenses. These are the ordinary and necessary expenses of traveling away from home for your business. You are traveling away from home if both the following conditions are met.

1. Your duties require you to be away from the general area of your tax home (defined later) substantially longer than an ordinary day's work.
2. You need to get sleep or rest to meet the demands of your work while away from home.

Generally, your **tax home** is your regular place of business, regardless of where you maintain your family home. It includes the entire city or general area in which your business is located. See Pub. 463 for more information.

The following is a brief discussion of the expenses you can deduct.

Transportation. You can deduct the cost of travel by airplane, train, bus, or car between your home and your business destination.

Taxi, commuter bus, and limousine. You can deduct fares for these and other types of transportation between the airport or station and your hotel, or between the hotel and your work location away from home.

Baggage and shipping. You can deduct the cost of sending baggage and sample or display material between your regular and temporary work locations.

Car or truck. You can deduct the costs of operating and maintaining your vehicle when traveling away from home on business. You can deduct actual expenses or the standard mileage rate (discussed earlier under [Car and Truck Expenses](#)), as well as business-related tolls and parking. However, if you elect the standard mileage rate,

you may be able to deduct interest paid on a qualifying passenger vehicle. See [Vehicle interest](#), earlier. If you rent a car while away from home on business, you can deduct only the business-use portion of the expenses.

Meals and lodging. You can deduct the cost of meals and lodging if your business trip is overnight or long enough that you need to stop for sleep or rest to properly perform your duties. You can use actual expenses or the standard meal allowance to calculate your deduction. In most cases, you can deduct only 50% of your meal expenses. See Pub. 463 for additional information.

Cleaning. You can deduct the costs of dry cleaning and laundry while on your business trip.

Telephone. You can deduct the cost of business calls while on your business trip, including business communication by fax machine or other communication devices.

Tips. You can deduct the tips you pay for any expense in this list.

More information. For more information about travel expenses, see Pub. 463.

Reimbursing your employees for expenses. You can generally deduct the amount you reimburse your employees for travel and meal expenses. The reimbursement you deduct and the manner in which you deduct it depend in part on whether you reimburse the expenses under an accountable plan or a nonaccountable plan. For details, see Pub. 15. That publication explains accountable and non-accountable plans and tells you whether to report the reimbursement on your employee's Form W-2.

Business Use of Your Home

To deduct expenses related to the part of your home used for business, you must meet specific requirements. Even then, your deduction may be limited.

To qualify to claim expenses for business use of your home, you must meet the following tests.

1. Your use of the business part of your home must be:
 - a. Exclusive (however, see [Exceptions to exclusive use](#), later),
 - b. Regular, and
 - c. For your business.
2. The business part of your home must be:
 - a. Your principal place of business (defined later);
 - b. A place where you meet or deal with patients, clients, or customers in the normal course of your business; or
 - c. A separate structure (not attached to your home) you use in connection with your business.

Exclusive use. To qualify under the exclusive use test, you must use a specific area of your home only for your trade or business. The area used for business can be a

room or other separately identifiable space. The space does not need to be marked off by a permanent partition.

You don't meet the requirements of the exclusive use test if you use the area in question both for business and for personal purposes.

Example. You are an attorney and use a den in your home to write legal briefs and prepare clients' tax returns. Your family also uses the den for recreation. The den is not used exclusively in your profession, so you can't claim a business deduction for its use.

Exceptions to exclusive use. You don't have to meet the exclusive use test to the extent you use part of your home in either of the following ways.

1. For the storage of inventory or product samples (for businesses in retail or wholesale trade with no other fixed location).
2. As a daycare facility.

For an explanation of these exceptions, see Pub. 587, Business Use of Your Home.

Regular use. To qualify under the regular use test, you must use a specific area of your home for business on a continuing basis. You do not meet the test if your business use of the area is only occasional or incidental, even if you do not use that area for any other purpose.

Principal place of business. You can have more than one business location, including your home, for a single trade or business. To qualify to deduct the expenses for the business use of your home under the principal place of business test, your home must be your principal place of business for that business. To determine your principal place of business, you must consider all the facts and circumstances.

Your home office will qualify as your principal place of business for deducting expenses for its use if you meet the following requirements.

- You use it exclusively and regularly for administrative or management activities of your business.
- You have no other fixed location where you conduct substantial administrative or management activities of your business.

Alternatively, if you use your home exclusively and regularly for your business but your home office doesn't qualify as your principal place of business based on the previous rules, you determine your principal place of business based on the following factors.

- The relative importance of the activities performed at each location.
- If the relative importance factor doesn't determine your principal place of business, you can also consider the time spent at each location.

If, after considering your business locations, your home can't be identified as your principal place of business, you can't deduct home office expenses. However, for other

ways to qualify to deduct home office expenses, see Pub. 587.

Deduction limit. If your gross income from the business use of your home equals or exceeds your total business expenses (including depreciation), you can deduct all your business expenses related to the use of your home. If your gross income from the business use is less than your total business expenses, your deduction for certain expenses for the business use of your home is limited.

Your deduction of otherwise nondeductible expenses, such as insurance, utilities, and depreciation (with depreciation taken last), allocable to the business is limited to the gross income from the business use of your home minus the sum of the following.

1. The business part of expenses you could deduct even if you didn't use your home for business (such as mortgage interest, real estate taxes, and casualty and theft losses that are allowable as itemized deductions on Schedule A (Form 1040)).
2. The business expenses that relate to the business activity in the home (for example, business phone, supplies, and depreciation on equipment), but not to the use of the home itself.

Don't include in (2) above your deduction for one-half of your SE tax.

Use Form 8829, Expenses for Business Use of Your Home, to figure your deduction.

Simplified method. The IRS provides a simplified method to determine your expenses for business use of your home. The simplified method is an alternative to calculating and substantiating actual expenses. In most cases, you will figure your deduction by multiplying \$5 by the area of your home used regularly and exclusively for a qualified business use. The area you use to figure your deduction is limited to 300 square feet. For more information, see the Instructions for Schedule C (Form 1040).

More information. For more information on deducting expenses for the business use of your home, see Pub. 587.

De Minimis Safe Harbor for Tangible Property

Generally, you must capitalize costs to acquire or produce real or tangible personal property used in your trade or business such as buildings, equipment, or furniture. However, if you elect to use the de minimis safe harbor for tangible property, you may deduct de minimis amounts paid to acquire or produce certain tangible property if these amounts are deducted by you for financial accounting purposes or in keeping your books and records.

If you have an applicable financial statement, you may use this safe harbor to deduct amounts paid for tangible property up to \$5,000 per item or invoice. If you don't have an applicable financial statement, you may use the de

minimis safe harbor to deduct amounts paid for tangible property up to \$2,500 per item or invoice.

Amounts qualifying under this de minimis safe harbor should be included as other expenses in Part V of Schedule C (Form 1040).

More information. For details on making this election and requirements for using the de minimis safe harbor for tangible property, see [IRS.gov/Tangible-Property-Regulations](https://www.irs.gov/Tangible-Property-Regulations).

Other Expenses You Can Deduct

You may also be able to deduct the following expenses.

- Advertising.
- Bank fees.
- Donations to business organizations.
- Education expenses.
- Impairment-related expenses.
- Interview expense allowances.
- Licenses and regulatory fees.
- Moving machinery.
- Outplacement services.
- Penalties and fines you pay for late performance or nonperformance of a contract.
- Repairs and maintenance to real or tangible personal property.
- Repayments of income.
- Supplies and materials.
- Utilities.

Expenses You Cannot Deduct

You usually can't deduct the following as business expenses.

- Bribes and kickbacks.
- Charitable contributions.
- Demolition expenses or losses.
- Dues to business, social, athletic, luncheon, sporting, airline, and hotel clubs.
- Entertainment expenses.
- Improvements to real or tangible personal property. Improvements are amounts paid for betterments to your property, restorations of your property, or work that adapts your property to a new or different use.
- Lobbying expenses.
- Penalties and fines you pay to a governmental agency or instrumentality because you broke the law.

- Personal, living, and family expenses.
- Political contributions.
- Settlements or payments related to sexual harassment or sexual abuse if such settlement or payment is subject to a nondisclosure agreement. You also can't deduct attorney fees related to such settlement or payment.

- A casualty or theft resulting from a federally declared disaster.
- Rental property.

A loss from operating a business is the most common reason for an NOL.

For details about NOLs, see the Instructions for Form 172. It explains how to figure an NOL, when to use it, how to claim an NOL deduction, and how to figure an NOL carryover.

9.

Figuring Net Profit or Loss

Introduction

After figuring your business income and expenses, you are ready to figure the net profit or net loss from your business. You do this by subtracting business expenses from business income. If your expenses are less than your income, the difference is net profit and becomes part of your income on line 3 of Schedule 1 (Form 1040). If your expenses are more than your income, the difference is a net loss. You can usually deduct it from gross income on line 3 of Schedule 1 (Form 1040). But in some situations your loss is limited. This chapter briefly explains three of those situations. Other situations that may limit your loss are explained in the instructions for Schedule C (Form 1040), line G and line 32.

 *If you have more than one business, you must figure your net profit or loss for each business on a separate Schedule C (Form 1040).*

Excess business loss limitation. Your loss from a trade or business may be limited. Use Form 461 to determine the amount of your excess business loss, if any. Your excess business loss will be included as income on line 8p of Schedule 1 (Form 1040) and treated as an NOL that you must carry forward and deduct in a subsequent year.

For more information about the excess business loss limitation, see Form 461 and its instructions.

Net Operating Losses (NOLs)

If your deductions for the year are more than your income for the year, you may have an NOL. You can use an NOL by deducting it from your income in another year or years.

Examples of typical losses that may produce an NOL include, but are not limited to, losses incurred from the following.

- Your trade or business.

Activities Not Engaged in for Profit

If you don't carry on your business to make a profit, there is a limit on the deductions you can take. You generally can't use a loss from the activity to offset other income. Activities you do as a hobby, or mainly for sport or recreation, come under this limit.

For details about not-for-profit activities, see [IRS.gov/newsroom/Hobby-or-business-here's-what-to-know-about-that-side-hustle](https://www.irs.gov/newsroom/Hobby-or-business-here's-what-to-know-about-that-side-hustle).

10.

Self-Employment (SE) Tax

 *The SE tax rules apply no matter how old you are and even if you are already receiving social security and Medicare benefits.*

Who Must Pay SE Tax?

Generally, you must pay SE tax and file Schedule SE (Form 1040) if your net earnings from self-employment were \$400 or more. Use Schedule SE (Form 1040) to figure net earnings from self-employment.

Sole proprietor or independent contractor. If you are self-employed as a sole proprietor or independent contractor, you generally use Schedule C (Form 1040) to figure your earnings subject to SE tax.

SE tax rate. The 2025 SE tax rate on net earnings is 15.3% (12.4% social security tax plus 2.9% Medicare tax).

Maximum earnings subject to SE tax. Only the first \$176,100 of your combined wages, tips, and net earnings in 2025 is subject to any combination of the 12.4% social security part of SE tax, social security tax, or the Tier 1 part of railroad retirement tax.

All of your combined wages, tips, and net earnings in 2025 are subject to any combination of the 2.9% Medicare

part of SE tax, Medicare tax, or the Medicare part of railroad retirement tax.

If your wages and tips are subject to either social security tax or the Tier 1 part of railroad retirement tax, or both, and total at least \$176,100, don't pay the 12.4% social security part of the SE tax on any of your net earnings. However, you must pay the 2.9% Medicare part of SE tax on all your net earnings.

Additional Medicare Tax. A 0.9% Additional Medicare Tax may apply to you if your net earnings from self-employment exceed a threshold amount (based on your filing status). For more information, see [Self-Employment \(SE\) Tax](#) in chapter 1, and Form 8959 and its instructions.

Special Rules and Exceptions

Aliens. Generally, resident aliens must pay SE tax under the same rules that apply to U.S. citizens. Nonresident aliens are not subject to SE tax unless an international social security agreement (also known as a totalization agreement) in effect determines that they are covered under the U.S. social security system. However, residents of the U.S. Virgin Islands, Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, or American Samoa are subject to SE tax, as they are considered U.S. residents for SE tax purposes. For more information on aliens, see Pub. 519, U.S. Tax Guide for Aliens.

Child employed by parent. You are not subject to SE tax if you are under age 18 and you are working for your father or mother.

Church employee. If you work for a church or a qualified church-controlled organization (other than as a minister, member of a religious order, or Christian Science practitioner) that elected an exemption from social security and Medicare taxes, you are subject to SE tax if you receive \$108.28 or more in wages from the church or organization. For more information, see Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers.

Fishing crew member. If you are a member of the crew on a boat that catches fish or other aquatic life, your earnings are subject to SE tax if all the following conditions apply.

1. You don't get any pay for the work except your share of the catch or a share of the proceeds from the sale of the catch, unless the pay meets all the following conditions.
 - a. The pay is not more than \$100 per trip.
 - b. The pay is received only if there is a minimum catch.
 - c. The pay is solely for additional duties (such as mate, engineer, or cook) for which additional cash pay is traditional in the fishing industry.
2. You get a share of the catch or a share of the proceeds from the sale of the catch.

3. Your share depends on the amount of the catch.
4. The boat's operating crew normally numbers fewer than 10 individuals. (An operating crew is considered as normally made up of fewer than 10 if the average size of the crew on trips made during the last 4 calendar quarters is fewer than 10.)

Notary public. Fees you receive for services you perform as a notary public are reported on Schedule C (Form 1040) but are not subject to SE tax (see the Instructions for Schedule SE (Form 1040)).

State or local government employee. You are subject to SE tax if you are an employee of a state or local government, are paid solely on a fee basis, and your services are not covered under a federal-state social security agreement.

Foreign government or international organization employee. You are subject to SE tax if both the following conditions are true.

1. You are a U.S. citizen employed in the United States, Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or the U.S. Virgin Islands by:
 - a. A foreign government,
 - b. A wholly owned agency of a foreign government, or
 - c. An international organization.
2. Your employer is not required to withhold social security and Medicare taxes from your wages.

U.S. citizen or resident alien residing abroad. If you are a self-employed U.S. citizen or resident alien living outside the United States, in most cases you must pay SE tax. Foreign earnings from self-employment can't be reduced by your foreign earned income exclusion when computing self-employment tax.

Exception. The United States has social security agreements with many countries to eliminate double taxation under two social security systems. Under these agreements, you must generally only pay social security and Medicare taxes to the country in which you live. The country to which you must pay the tax will issue a certificate that serves as proof of exemption from social security tax in the other country.

For more information, see the Instructions for Schedule SE (Form 1040).

More Than One Business

If you have earnings subject to SE tax from more than one trade, business, or profession, you must combine the net profit (or loss) from each to determine your total earnings subject to SE tax. A loss from one business generally reduces your profit from another business.

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Community Property Income

If any of the income from a trade or business, other than a partnership, is community property income under state law, it is included in the earnings subject to SE tax of the spouse carrying on the trade or business.

Gain or Loss

Don't include in earnings subject to SE tax a gain or loss from the disposition of property that is neither stock in trade nor held primarily for sale to customers. It doesn't matter whether the disposition is a sale, an exchange, or an involuntary conversion.

Lost Income Payments

If you are self-employed and reduce or stop your business activities, any payment you receive from insurance or other sources for the lost business income is included in earnings subject to SE tax. If you are not working when you receive the payment, it still relates to your business and is included in earnings subject to SE tax, even though your business is temporarily inactive.

Figuring Earnings Subject to SE Tax Methods for Figuring Net Earnings

There are three ways to figure net earnings from self-employment.

1. The regular method.
2. The nonfarm optional method.
3. The farm optional method.

You must use the regular method to the extent you don't use one or both of the optional methods.

Why use an optional method? You may want to use the optional methods (discussed later) when you have a loss or a small net profit and any one of the following applies.

- You want to receive credit for social security benefit coverage.
- You incurred child or dependent care expenses for which you could claim a credit. (An optional method may increase your earned income, which could increase your credit.)
- You are entitled to the earned income credit. (An optional method may increase your earned income, which could increase your credit.)
- You are entitled to the additional child tax credit. (An optional method may increase your earned income, which could increase your credit.)

Effects of using an optional method. Using an optional method could increase your SE tax. Paying more SE tax could result in your getting higher benefits when you retire.

Using the optional methods may also decrease your AGI due to the deduction for one-half of SE tax on Form

1040 or 1040-SR, which may affect your eligibility for credits, deductions, or other items that are subject to an AGI limit. Figure your AGI with and without using the optional methods to see if the optional methods will benefit you.

If you use either or both optional methods, you must figure and pay the SE tax due under these methods even if you would have had a smaller tax or no tax using the regular method.

The optional methods may be used only to figure your SE tax. To figure your income tax, include your actual earnings in gross income, regardless of which method you use to determine SE tax.

Regular Method

To figure net earnings using the regular method, multiply your self-employment earnings by 92.35% (0.9235). For your net earnings figured using the regular method, see line 4a of your Schedule SE (Form 1040).

Net earnings figured using the regular method are also called actual net earnings.

Nonfarm Optional Method

Use the nonfarm optional method only for earnings that don't come from farming. You may use this method if you meet all the following tests.

1. You are self-employed on a regular basis. This means that your actual net earnings from self-employment were \$400 or more in at least 2 of the 3 tax years before the one for which you use this method. For this purpose, the prior-year net earnings can be from either farm or nonfarm earnings or both.
2. You have used this method less than 5 years. (There is a 5-year lifetime limit.) The years don't have to be one after another.
3. Your net nonfarm profits were:
 - a. Less than \$7,840, and
 - b. Less than 72.189% of your gross nonfarm income.

Net nonfarm profit. Net nonfarm profit is generally the total of the amounts from:

- Line 31 of Schedule C (Form 1040); and
- Box 14, code A, of Schedule K-1 (Form 1065) (from nonfarm partnerships).

However, you may need to adjust the amount reported on Schedule K-1 (Form 1065) if you are a general partner or if it is a loss.

Gross nonfarm income. Your gross nonfarm income is generally the total of the amounts from:

- Line 7 of Schedule C (Form 1040); and
- Box 14, code C, of Schedule K-1 (Form 1065) (from nonfarm partnerships).

Figuring Nonfarm Net Earnings

If you meet the three tests explained earlier, use the following table to figure your nonfarm net earnings from self-employment under the nonfarm optional method.

Table 10-1. Figuring Nonfarm Net Earnings

IF your gross nonfarm income is...	THEN your net earnings are equal to...
\$10,860 or less	two-thirds of your gross nonfarm income.
more than \$10,860	\$7,840.

Optional net earnings less than actual net earnings.

You can't use this method to report an amount less than your actual nonfarm net earnings from self-employment. Your actual nonfarm net earnings are your nonfarm net earnings figured using the regular method, explained earlier.

Gross nonfarm income of \$10,860 or less. The following examples illustrate how to figure net earnings when gross nonfarm income is \$10,860 or less.

Example 1. Net nonfarm profit less than \$7,840 and less than 72.189% of gross nonfarm income. You run a craft business. Your actual net earnings from self-employment were \$800 in 2023 and \$900 in 2024. You meet the test for being self-employed on a regular basis. You have used the nonfarm optional method less than 5 years. Your gross income and net profit in 2025 are as follows.

Gross nonfarm income	\$5,400
Net nonfarm profit	\$1,200

Your actual net earnings for 2025 are \$1,108 ($\$1,200 \times 0.9235$). Because your net profit is less than \$7,840 and less than 72.189% of your gross income, you can use the nonfarm optional method to figure net earnings of \$3,600 ($\frac{2}{3} \times \$5,400$). Because these net earnings are higher than your actual net earnings, you can report net earnings of \$3,600 for 2025.

Example 2. Net nonfarm profit less than \$7,840 but not less than 72.189% of gross nonfarm income. Assume that in *Example 1* your gross income is \$1,200 and your net profit is \$900. You must use the regular method to figure your net earnings. You can't use the nonfarm optional method because your net profit is not less than 72.189% of your gross income.

Example 3. Net loss from a nonfarm business. Assume that in *Example 1* you have a net loss of \$700. You can use the nonfarm optional method and report \$3,600 ($\frac{2}{3} \times \$5,400$) as your net earnings.

Example 4. Nonfarm net earnings less than \$400. Assume that in *Example 1* you have gross income of \$525

and a net profit of \$175. In this situation, you would not pay any SE tax under either the regular method or the nonfarm optional method because your net earnings under both methods are less than \$400.

Gross nonfarm income of more than \$10,860. The following examples illustrate how to figure net earnings when gross nonfarm income is more than \$10,860.

Example 1. Net nonfarm profit less than \$7,840 and less than 72.189% of gross nonfarm income. You run an appliance repair shop. Your actual net earnings from self-employment were \$10,500 in 2023 and \$9,500 in 2024. You meet the test for being self-employed on a regular basis. You have used the nonfarm optional method less than 5 years. Your gross income and net profit in 2025 are as follows.

Gross nonfarm income	\$12,000
Net nonfarm profit	\$1,200

Your actual net earnings for 2025 are \$1,108 ($\$1,200 \times 0.9235$). Because your net profit is less than \$7,840 and less than 72.189% of your gross income, you can use the nonfarm optional method to figure net earnings of \$7,240. Because these net earnings are higher than your actual net earnings, you can report net earnings of \$7,240 for 2025.

Example 2. Net nonfarm profit not less than \$7,840. Assume that in *Example 1* your net profit is \$8,900. You must use the regular method. You can't use the nonfarm optional method because your net nonfarm profit is not less than \$7,840.

Example 3. Net loss from a nonfarm business. Assume that in *Example 1* you have a net loss of \$700. You can use the nonfarm optional method and report \$7,240 as your net earnings from self-employment.

Farm Optional Method

Use the farm optional method only for earnings from a farming business. See Pub. 225 for information about this method.

Using Both Optional Methods

If you have both farm and nonfarm earnings, you may be able to use both optional methods to determine your net earnings from self-employment.

To figure your net earnings using both optional methods, you must do the following.

- Figure your farm and nonfarm net earnings separately under each method. Don't combine farm earnings with nonfarm earnings to figure your net earnings under either method.
- Add the net earnings figured under each method to arrive at your total net earnings from self-employment.

You can report less than your total actual farm and nonfarm net earnings but not less than actual nonfarm net

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earnings. If you use both optional methods, you can report no more than \$7,240 as your combined net earnings from self-employment.

Example. You are a self-employed farmer. You also operate a retail grocery store. Your gross income, actual net earnings from self-employment, and optional farm and optional nonfarm net earnings from self-employment are shown in Table 10-2.

Table 10-2. **Example—Farm and Nonfarm Earnings**

Income and earnings	Farm	Nonfarm
Gross income	\$4,500	\$6,000
Actual net earnings	\$900	\$500
Optional net earnings (2/3 of gross income)	\$3,000	\$4,000

Table 10-3 shows four methods or combinations of methods you can use to figure net earnings from self-employment using the farm and nonfarm gross income and actual net earnings shown in Table 10-2.

- Method 1. Using the regular method for both farm and nonfarm income.
- Method 2. Using the optional method for farm income and the regular method for nonfarm income.
- Method 3. Using the regular method for farm income and the optional method for nonfarm income.
- Method 4. Using the optional method for both farm and nonfarm income.

Note: Actual net earnings are the same as net earnings figured using the regular method.

Table 10-3. **Example—Net Earnings**

Net earnings	1	2	3	4
Actual farm	\$900		\$900	
Optional farm		\$3,000		\$3,000
Actual nonfarm	\$500	\$500		
Optional nonfarm			\$4,000	\$4,000
Amount you can report:	\$1,400	\$3,500	\$4,900	\$7,240*

* Limited to \$7,240 because you used both optional methods.

Fiscal-Year Filer

If you use a tax year other than the calendar year, you must use the tax rate and maximum earnings limit in effect at the beginning of your tax year. Even if the tax rate or maximum earnings limit changes during your tax year, continue to use the same rate and limit throughout your tax year.

Reporting SE Tax

Use Schedule SE (Form 1040) to figure and report your SE tax. If you file Form 1040 or 1040-SR, enter the SE tax on line 4 of Schedule 2 and attach Schedule SE (Form 1040) to your form. If you file Form 1040-SS, enter the SE tax on line 3 and attach Schedule SE (Form 1040) to your form.



If you need to pay SE tax, you must file Form 1040, 1040-SR, or 1040-SS, as applicable (with Schedule SE (Form 1040) attached) even if you don't otherwise have to file a federal income tax return.

Joint return. Even if you file a joint return, you can't file a joint Schedule SE (Form 1040). This is true whether one spouse or both spouses have earnings subject to SE tax. If both of you have earnings subject to SE tax, each of you must complete a separate Schedule SE (Form 1040). Attach both schedules to the joint return.

More than one business. If you have more than one trade or business, you must combine the net profit (or loss) from each business to figure your SE tax. A loss from one business will generally reduce your profit from another business. File one Schedule SE (Form 1040) showing the earnings from self-employment, but file a separate Schedule C or F (Form 1040) for each business.

Example. You are the sole proprietor of two separate businesses. You operate a restaurant that made a net profit of \$25,000. You also have a cabinetmaking business that had a net loss of \$500. You must file a Schedule C (Form 1040) for the restaurant showing your net profit of \$25,000 and another Schedule C (Form 1040) for the cabinetmaking business showing your net loss of \$500. You file one Schedule SE (Form 1040) showing total earnings subject to SE tax of \$24,500.

11.

Your Rights as a Taxpayer

This chapter explains the examination, appeal, collection, and refund processes.

Examinations, Appeals, Collections, and Refunds

Examinations (audits). We accept most taxpayers' returns as filed. If we inquire about your return or select it for examination, it doesn't suggest that you are dishonest. The inquiry or examination may or may not result in more tax. We may close your case without change or you may receive a refund.

The process of selecting a return for examination usually begins in one of two ways. One way is to use computer programs to identify returns that may have incorrect amounts. These programs may be based on information returns, such as Forms 1099 and W-2; on studies of past examinations; or on certain issues identified by other special projects. Another way is to use information from compliance projects that indicates that a return may have incorrect amounts. These sources may include newspapers, public records, and individuals. If we determine that the information is accurate and reliable, we may use it to select a return for examination.

Pub. 556, Examination of Returns, Appeal Rights, and Claims for Refund, explains the rules and procedures that we follow in examinations. The following sections give an overview of how we conduct examinations.

By mail. We handle many examinations and inquiries by mail. We will send you a letter with either a request for more information or a reason why we believe a change to your return may be needed. You can respond by mail or you can request a personal interview with an examiner. If you mail us the requested information or provide an explanation, we may or may not agree with you, and we will explain the reasons for any changes. Don't hesitate to write to us about anything you don't understand.

By interview. If we notify you that we will conduct your examination through a personal interview, or you request such an interview, you have the right to ask that the examination take place at a reasonable time and place that is convenient for both you and the IRS. If our examiner proposes any changes to your return, the examiner will explain the reasons for the changes. If you don't agree with these changes, you can meet with the examiner's supervisor.

Repeat examinations. If we examined your return for the same items in either of the 2 previous years and proposed no change to your tax liability, contact us as soon

as possible so we can see if we should discontinue the examination.

Appeals. If you don't agree with the examiner's proposed changes, you can appeal to the IRS Independent Office of Appeals. Most differences can be settled without expensive and time-consuming court trials. Your appeal rights are explained in detail in both Pub. 5, Your Appeal Rights and How to Prepare a Protest if You Disagree, and Pub. 556.

If you do not wish to use the Appeals Office or disagree with its findings, you may be able to take your case to the U.S. Tax Court, U.S. Court of Federal Claims, or the U.S. District Court where you live. If you take your case to court, the IRS will have the burden of proving certain facts if you kept adequate records to show your tax liability, cooperated with the IRS, and meet certain other conditions. If the court agrees with you on most issues in your case and finds that our position was largely unjustified, you may be able to recover some of your administrative and litigation costs. You will not be eligible to recover these costs unless you tried to resolve your case administratively, including going through the appeals system, and you gave us the information necessary to resolve the case.

Collections. Pub. 594, The IRS Collection Process, explains your rights and responsibilities regarding payment of federal taxes. It describes the following.

- What to do when you owe taxes. It describes what to do if you get a tax bill and what to do if you think your bill is wrong. It also covers making installment payments, delaying collection action, and submitting an offer in compromise.
- IRS collection actions. It covers liens, releasing a lien, levies, releasing a levy, seizures and sales, and release of property.
- IRS certification to the State Department of a seriously delinquent tax debt, which will generally result in denial of a passport application and may lead to revocation of a passport.

Your collection appeal rights are explained in detail in Pub. 1660, Collection Appeal Rights.

Innocent spouse relief. Generally, both you and your spouse are responsible, jointly and individually, for paying the full amount of any tax, interest, or penalties due on your joint return. To seek relief from any liability related to your spouse (or former spouse), you must file a claim on Form 8857, Request for Innocent Spouse Relief. In some cases, Form 8857 may need to be filed within 2 years of the date on which the IRS first attempted to collect the tax from you. Don't file Form 8857 with your Form 1040 or 1040-SR. For more information, see Pub. 971, Innocent Spouse Relief, and Form 8857, or you can call the Innocent Spouse office toll free at 855-851-2009.

Potential third-party contacts. Generally, the IRS will deal directly with you or your duly authorized representative. However, we may talk with other persons if we need information that you have been unable to provide or to

verify information we have received. We will provide you with advance notice before contacting other persons. If we do contact other persons, such as a neighbor, bank, employer, or employees, we will generally need to tell them limited information, such as your name. The law prohibits us from disclosing any more information than is necessary to obtain or verify the information we are seeking. Our need to contact other persons may continue as long as there is activity in your case. If we do contact other persons, you generally have a right to request a list of those contacted. Your request can be made by telephone, in writing, or during a personal interview.

Refunds. You can file a claim for refund if you think you paid too much tax. You must generally file the claim within 3 years from the date you filed your original return or 2 years from the date you paid the tax, whichever is later.

If you were due a refund but you didn't file a return, you must file a refund claim within 2 years from the time the tax was paid to get that refund. The law generally provides for interest on your refund if it is not paid within 45 days of the date you filed your return or claim for refund. Pub. 556 has more information on refunds.

12.

How To Get More Information

This section describes the help the IRS and other federal agencies offer to taxpayers who operate their own businesses.

How To Get Tax Help

If you have questions about a tax issue; need help preparing your tax return; or want to download free publications, forms, or instructions, go to [IRS.gov](https://www.irs.gov) to find resources that can help you right away.

Tax reform. Tax reform legislation impacting federal taxes, credits, and deductions was enacted in P.L. 119-21, commonly known as the One Big Beautiful Bill Act, on July 4, 2025. Go to [IRS.gov/OBBB](https://www.irs.gov/OBBB) for more information and updates on how this legislation affects your taxes.

Preparing and filing your tax return. After receiving all your wage and earnings statements (Forms W-2, W-2G, 1099-R, 1099-MISC, 1099-NEC, etc.); unemployment compensation statements (by mail or in a digital format) or other government payment statements (Form 1099-G); and interest, dividend, and retirement statements from banks and investment firms (Forms 1099), you have several options to choose from to prepare and file your tax return. You can prepare the tax return yourself, see if you

qualify for free tax preparation, or hire a tax professional to prepare your return.

Free options for tax preparation. Your options for preparing and filing your return online or in your local community, if you qualify, include the following.

- **Free File.** This program lets you prepare and file your federal individual income tax return for free using software or Free File Fillable Forms. However, state tax preparation may not be available through Free File. Go to [IRS.gov/FreeFile](https://www.irs.gov/FreeFile) to see if you qualify for free online federal tax preparation, e-filing, and direct deposit or payment options.
- **VITA.** The Volunteer Income Tax Assistance (VITA) program offers free tax help to people with low-to-moderate incomes, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. Go to [IRS.gov/VITA](https://www.irs.gov/VITA), download the free IRS2Go app, or call 800-906-9887 for information on free tax return preparation.
- **TCE.** The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors. Go to [IRS.gov/TCE](https://www.irs.gov/TCE) or download the free IRS2Go app for information on free tax return preparation.
- **MilTax.** Members of the U.S. Armed Forces and qualified veterans may use MilTax, a free tax service offered by the Department of Defense through Military OneSource. For more information, go to [MilitaryOneSource \(MilitaryOneSource.mil/MilTax\)](https://www.militaryonesource.com/MilTax).

Also, the IRS offers Free Fillable Forms, which can be completed online and then e-filed regardless of income.

Using online tools to help prepare your return. Go to [IRS.gov/Tools](https://www.irs.gov/Tools) for the following.

- The [Earned Income Tax Credit Assistant \(IRS.gov/EITCAssistant\)](https://www.irs.gov/EITCAssistant) determines if you're eligible for the earned income credit (EIC).
- The [Online EIN Application \(IRS.gov/EIN\)](https://www.irs.gov/EIN) helps you get an employer identification number (EIN) at no cost.
- The [Tax Withholding Estimator \(IRS.gov/W4App\)](https://www.irs.gov/W4App) makes it easier for you to estimate the federal income tax you want your employer to withhold from your paycheck. This is tax withholding. See how your withholding affects your refund, take-home pay, or tax due.
- The [Sales Tax Deduction Calculator \(IRS.gov/SalesTax\)](https://www.irs.gov/SalesTax) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040).



Getting answers to your tax questions. On [IRS.gov](https://www.irs.gov), you can get up-to-date information on current events and changes in tax law.

- [IRS.gov/Help](https://www.irs.gov/Help): A variety of tools to help you get answers to some of the most common tax questions.

- [IRS.gov/ITA](https://www.irs.gov/ITA): The Interactive Tax Assistant, a tool that will ask you questions and, based on your input, provide answers on a number of tax topics.
- [IRS.gov/Forms](https://www.irs.gov/Forms): Find forms, instructions, and publications. You will find details on the most recent tax changes and interactive links to help you find answers to your questions.
- You may also be able to access tax information in your e-filing software.

Need someone to prepare your tax return? There are various types of tax return preparers, including enrolled agents, certified public accountants (CPAs), accountants, and many others who don't have professional credentials. If you choose to have someone prepare your tax return, choose that preparer wisely. A paid tax preparer is:

- Primarily responsible for the overall substantive accuracy of your return,
- Required to sign the return, and
- Required to include their preparer tax identification number (PTIN).



Although the tax preparer always signs the return, you're ultimately responsible for providing all the information required for the preparer to accurately prepare your return and for the accuracy of every item reported on the return. Anyone paid to prepare tax returns for others should have a thorough understanding of tax matters. For more information on how to choose a tax preparer, go to [Tips for Choosing a Tax Preparer](https://www.irs.gov/irs/choose-tax-preparer) on IRS.gov.

Employers can register to use Business Services Online. The Social Security Administration (SSA) offers online service at [SSA.gov/employer](https://www.ssa.gov/employer) for fast, free, and secure W-2 filing options to CPAs, accountants, enrolled agents, and individuals who process Form W-2, Wage and Tax Statement; and Form W-2c, Corrected Wage and Tax Statement.

Business tax account. If you are a sole proprietor, a partnership, an S corporation, a C corporation, or a single-member limited liability company (LLC), you can view your tax information on record with the IRS and do more with a business tax account. Go to [IRS.gov/BusinessAccount](https://www.irs.gov/BusinessAccount) for more information.

IRS social media. Go to [IRS.gov/SocialMedia](https://www.irs.gov/SocialMedia) to see the various social media tools the IRS uses to share the latest information on tax changes, scam alerts, initiatives, products, and services. At the IRS, privacy and security are our highest priority. We use these tools to share public information with you. **Don't** post your social security number (SSN) or other confidential information on social media sites. Always protect your identity when using any social networking site.

The following IRS YouTube channels provide short, informative videos on various tax-related topics in English and ASL.

- [Youtube.com/irsvideos](https://www.youtube.com/irsvideos).

- [Youtube.com/irsvideosASL](https://www.youtube.com/irsvideosASL).

Over-the-Phone Interpreter (OPI) Service. The IRS offers the OPI Service to taxpayers needing language interpretation. The OPI Service is available at Taxpayer Assistance Centers (TACs), most IRS offices, and every VITA/TCE tax return site. This service is available in Spanish, Mandarin, Cantonese, Korean, Vietnamese, Russian, and Haitian Creole.

Accessibility Helpline available for taxpayers with disabilities. Taxpayers who need information about accessibility services can call 833-690-0598. The Accessibility Helpline can answer questions related to current and future accessibility products and services available in alternative media formats (for example, braille-ready, large print, audio, etc.). The Accessibility Helpline does not have access to your IRS account. For help with tax law, refunds, or account-related issues, go to [IRS.gov/LetUsHelp](https://www.irs.gov/LetUsHelp).

Alternative media preference. Form 9000, Alternative Media Preference, or Form 9000(SP) allows you to elect to receive certain types of written correspondence in the following formats.

- Standard Print.
- Large Print.
- Braille.
- Audio (MP3).
- Plain Text File (TXT).
- Braille-Ready File (BRF).

Disasters. Go to [IRS.gov/DisasterRelief](https://www.irs.gov/DisasterRelief) to review the available disaster tax relief.

Getting tax forms and publications. Go to [IRS.gov/Forms](https://www.irs.gov/Forms) to view, download, or print all the forms, instructions, and publications you may need. Or you can go to [IRS.gov/OrderForms](https://www.irs.gov/OrderForms) to place an order.

Mobile-friendly forms. You'll need an IRS Online Account (OLA) to complete mobile-friendly forms that require signatures. You'll have the option to submit your form(s) online or download a copy for mailing. You'll need scans of your documents to support your submission. Go to [IRS.gov/MobileFriendlyForms](https://www.irs.gov/MobileFriendlyForms) for more information.

Getting tax publications and instructions in eBook format. Download and view most tax publications and instructions (including the Instructions for Form 1040) on mobile devices as eBooks at [IRS.gov/eBooks](https://www.irs.gov/eBooks).

IRS eBooks have been tested using Apple's iBooks for iPad. Our eBooks haven't been tested on other dedicated eBook readers, and eBook functionality may not operate as intended.

Access your online account (individual taxpayers only). Go to [IRS.gov/Account](https://www.irs.gov/Account) to securely access information about your federal tax account.

- View the amount you owe and a breakdown by tax year.
- See payment plan details or apply for a new payment plan.
- Make a payment or view 5 years of payment history and any pending or scheduled payments.
- Access your tax records, including key data from your most recent tax return, and transcripts.
- View digital copies of select notices from the IRS.
- Approve or reject authorization requests from tax professionals.

Get a transcript of your return. With an online account, you can access a variety of information to help you during the filing season. You can get a transcript, review your most recently filed tax return, and get your adjusted gross income. Create or access your online account at [IRS.gov/Account](https://www.irs.gov/Account).

Tax Pro Account. This tool lets your tax professional submit an authorization request to access your individual taxpayer IRS OLA. For more information, go to [IRS.gov/TaxProAccount](https://www.irs.gov/TaxProAccount).

Using direct deposit. The safest and easiest way to receive a tax refund is to *e-file* and choose direct deposit, which securely and electronically transfers your refund directly into your financial account. Direct deposit also avoids the possibility that your check could be lost, stolen, destroyed, or returned undeliverable to the IRS. Eight in 10 taxpayers use direct deposit to receive their refunds. If you don't have a bank account, go to [IRS.gov/DirectDeposit](https://www.irs.gov/DirectDeposit) for more information on where to find a bank or credit union that can open an account online.

Reporting and resolving your tax-related identity theft issues.

- Tax-related identity theft happens when someone steals your personal information to commit tax fraud. Your taxes can be affected if your SSN is used to file a fraudulent return or to claim a refund or credit.
- The IRS doesn't initiate contact with taxpayers by email, text messages (including shortened links), telephone calls, or social media channels to request or verify personal or financial information. This includes requests for personal identification numbers (PINs), passwords, or similar information for credit cards, banks, or other financial accounts.
- Go to [IRS.gov/IdentityTheft](https://www.irs.gov/IdentityTheft), the IRS Identity Theft Central webpage, for information on identity theft and data security protection for taxpayers, tax professionals, and businesses. If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, you can learn what steps you should take.

- Get an Identity Protection PIN (IP PIN). IP PINs are six-digit numbers assigned to taxpayers to help prevent the misuse of their SSNs on fraudulent federal income tax returns. When you have an IP PIN, it prevents someone else from filing a tax return with your SSN. To learn more, go to [IRS.gov/IPPIN](https://www.irs.gov/IPPIN).

Ways to check on the status of your refund.

- Go to [IRS.gov/Refunds](https://www.irs.gov/Refunds).
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.



The IRS can't issue refunds before mid-February for returns that claimed the EITC or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.

Making a tax payment. The IRS recommends paying electronically whenever possible. Options to pay electronically are included in the list below. Payments of U.S. tax must be remitted to the IRS in U.S. dollars. *Digital assets* are **not** accepted. Go to [IRS.gov/Payments](https://www.irs.gov/Payments) for information on how to make a payment using any of the following options.

- **IRS Direct Pay:** Pay taxes from your bank account. It's free and secure, and no sign-in is required. You can change or cancel within 2 days of scheduled payment.
- **Debit Card, Credit Card, or Digital Wallet:** Choose an approved payment processor to pay online or by phone.
- **Electronic Funds Withdrawal:** Schedule a payment when filing your federal taxes using tax return preparation software or through a tax professional.
- **Electronic Federal Tax Payment System:** This is the best option for businesses. Enrollment is required.
- **Check or Money Order:** Mail your payment to the address listed on the notice or instructions.
- **Cash:** You may be able to pay your taxes with cash at a participating retail store.
- **Same-Day Wire:** You may be able to do same-day wire from your financial institution. Contact your financial institution for availability, cost, and time frames.

Note: The IRS uses the latest encryption technology to ensure that the electronic payments you make online, by phone, or from a mobile device using the IRS2Go app are safe and secure. Paying electronically is quick and easy.

What if I can't pay now? Go to [IRS.gov/Payments](https://www.irs.gov/Payments) for more information about your options.

- Apply for an **online payment agreement** ([IRS.gov/OPA](https://www.irs.gov/OPA)) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.

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- Use the [Offer in Compromise Pre-Qualifier](#) to see if you can settle your tax debt for less than the full amount you owe. For more information on the Offer in Compromise program, go to [IRS.gov/OIC](#).

Filing an amended return. Go to [IRS.gov/1040X](#) for information and updates.

Checking the status of your amended return. Go to [IRS.gov/WMAR](#) to track the status of Form 1040-X amended returns.



It can take up to 3 weeks from the date you filed your amended return for it to show up in our system, and processing it can take up to 16 weeks.

Understanding an IRS notice or letter you've received. Go to [IRS.gov/Notices](#) to find additional information about responding to an IRS notice or letter.

IRS Document Upload Tool. You may be able to use the Document Upload Tool to respond digitally to eligible IRS notices and letters by securely uploading required documents online through IRS.gov. For more information, go to [IRS.gov/DUT](#).

Schedule LEP. You can use Schedule LEP (Form 1040), Request for Change in Language Preference, to state a preference to receive notices, letters, or other written communications from the IRS in an alternative language. You may not immediately receive written communications in the requested language. The IRS's commitment to LEP taxpayers is part of a multi-year timeline that began providing translations in 2023. You will continue to receive communications, including notices and letters, in English until they are translated to your preferred language.

Contacting your local TAC. Keep in mind, many questions can be answered on IRS.gov without visiting a TAC. Go to [IRS.gov/LetUsHelp](#) for the topics people ask about most. If you still need help, TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment, so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to [IRS.gov/TAC](#) to find the nearest TAC and to check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on "Local Offices."

Below is a message to you from the Taxpayer Advocate Service, an independent organization established by Congress.

The Taxpayer Advocate Service (TAS) Is Here To Help You

What Is the Taxpayer Advocate Service?

The Taxpayer Advocate Service (TAS) is an **independent** organization within the Internal Revenue Service (IRS). TAS helps taxpayers resolve problems with the IRS,

makes administrative and legislative recommendations to prevent or correct the problems, and protects taxpayer rights. We work to ensure that every taxpayer is treated fairly and that you know and understand your rights under the Taxpayer Bill of Rights. We are Your Voice at the IRS.

How Can TAS Help Me?

TAS can help you resolve problems that you haven't been able to resolve with the IRS on your own. Always try to resolve your problem with the IRS first, but if you can't, then come to TAS. **Our services are free.**

- TAS helps all taxpayers (and their representatives), including individuals, businesses, and exempt organizations. You may be eligible for TAS help if your IRS problem is causing financial difficulty, if you've tried and been unable to resolve your issue with the IRS, or if you believe an IRS system, process, or procedure just isn't working as it should.
- To get help any time with general tax topics, visit [www.TaxpayerAdvocate.IRS.gov](#). The site can help you with common tax issues and situations, such as what to do if you make a mistake on your return or if you get a notice from the IRS.
- TAS works to resolve large-scale (systemic) problems that affect many taxpayers. You can report systemic issues at [www.IRS.gov/SAMS](#). (Be sure not to include any personal identifiable information.)

How Do I Contact TAS?

TAS has offices in every state, the District of Columbia, and Puerto Rico. To find your local advocate's number:

- Go to [www.TaxpayerAdvocate.IRS.gov/Contact-Us](#),
- Check your local directory, or
- Call TAS toll free at 877-777-4778.

What Are My Rights as a Taxpayer?

The Taxpayer Bill of Rights describes ten basic rights that all taxpayers have when dealing with the IRS. Go to [www.TaxpayerAdvocate.IRS.gov/Taxpayer-Rights](#) for more information about the rights, what they mean to you, and how they apply to specific situations you may encounter with the IRS. TAS strives to protect taxpayer rights and ensure the IRS is administering the tax law in a fair and equitable way.

Small Business Administration

The Small Business Administration (SBA) offers training and educational programs, counseling services, financial programs, and contract assistance for small business owners. The SBA also has publications and videos on a variety of business topics. The following briefly describes assistance provided by the SBA.

Small Business Development Centers (SBDCs). SBDCs provide counseling, training, and technical services to current and prospective small business owners who cannot afford the services of a private consultant. Help is available when beginning, improving, or expanding a small business.

Service Corps of Retired Executives (SCORE). SCORE provides small business counseling and training to current and prospective small business owners. SCORE is made up of current and former business people who offer their expertise and knowledge to help people start, manage, and expand a small business. SCORE also offers a variety of small business workshops.

Internet. You can visit the SBA website at [SBA.gov](https://www.sba.gov). While visiting the SBA website, you can find a variety of information of interest to small business owners.

Phone. Call the SBA Answer Desk at 800-U-ASK-SBA (800-827-5722) for general information about programs available to assist small business owners.

Walk-in. You can walk in to an SBDC to request assistance with your small business. To find the location near-

est you, visit the SBA website or call the SBA Answer Desk.

Other Federal Agencies

Other federal agencies also publish publications and pamphlets to assist small businesses. Most of these are available from the Superintendent of Documents at the U.S. Government Publishing Office. You can get information and order these publications and pamphlets in several ways.

Internet. You can visit the GPO website at [Catalog.GPO.gov](https://www.gpo.gov/catalog).

Mail. Write to the GPO at the following address.

Superintendent of Documents
U.S. Government Publishing Office
P.O. Box 979050
St. Louis, MO 63197-9000

Phone. Call the GPO toll free at 866-512-1800 or at 202-512-1800 from the Washington, DC, area.

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To help us develop a more useful index, please let us know if you have ideas for index entries. See “Comments and Suggestions” in the “Introduction” for the ways you can reach us.

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