

# Instructions for Schedule C, Profit or Loss From Business

Use Schedule C to report income or loss from a business you operated or a profession you practiced as a sole proprietor. Also, use Schedule C to report wages and expenses you had as a statutory employee. An activity qualifies as a business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity with continuity and regularity. For example, a sporadic activity or a hobby does not qualify as a business. To report income from a non-business activity, see the Instructions for Form 1040, line 21.

Small businesses and statutory employees with expenses of \$2,500 or less may be able to file **Schedule C-EZ** instead of Schedule C. See Schedule C-EZ to find out if you qualify to file it.

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

## General Instructions

### Other Schedules and Forms You May Have To File

**Schedule A** to deduct interest, taxes, and casualty losses not related to your business.

**Schedule E** to report rental real estate and royalty income or (loss) that is **not** subject to self-employment tax.

**Schedule F** to report profit or (loss) from farming.

**Schedule SE** to pay self-employment tax on income from any trade or business.

**Form 4562** to claim depreciation on assets placed in service in 1997, to claim amortization that began in 1997, or to report information on listed property.

**Form 4684** to report a casualty or theft gain or loss involving property used in your trade or business or income-producing property.

**Form 4797** to report sales, exchanges, and involuntary conversions (not from a casualty or theft) of trade or business property.

**Form 8271** if you are claiming or you are reporting on Schedule C or C-EZ any income, deduction, loss, credit, or other tax benefit from a tax shelter.

**Form 8594** to report certain purchases or sales of groups of assets that constitute a trade or business.

**Form 8824** to report like-kind exchanges.

**Form 8829** to claim expenses for business use of your home.

### Heavy Vehicle Use Tax

If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway motor vehicle use tax. See **Form 2290** to find out if you owe this tax.

### Information Returns

You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other similar basis for resale. For more information, see the **Instructions for Forms 1099, 1098, 5498, and W-2G**.

If you received cash of more than \$10,000 in one or more related transactions in your trade or business, you may have to file **Form 8300**. For details, see **Pub. 1544**.

### Additional Information

See **Pub. 334** for more information for small businesses.

## Specific Instructions

### Filers of Form 1041

**Do not** complete the block labeled "Social security number." Instead, enter your employer identification number (EIN) on line D.

#### Line A

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

#### Line D

You need an employer identification number (EIN) only if you had a Keogh plan or were required to file an employment, excise, estate, trust, or alcohol, tobacco, and firearms tax return. If you need an EIN, file **Form SS-4**. If you do not have an EIN, leave line D blank. **Do not** enter your SSN.

#### Line E

Enter your business address. Show a street address instead of a box number. Include the suite or room number, if any. If you conducted the business from your home located at the address shown on Form 1040, page 1, you do not have to complete this line.

#### Line F

You must use the cash method on your return unless you kept account books. If you kept such books, you can use the cash

method or the accrual method. However, if inventories are required, you must use the accrual method for sales and purchases. Special rules apply to long-term contracts. See Internal Revenue Code section 460 for details. The method used must clearly reflect your income.

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

If you use the **accrual method**, report income when you earn it and deduct expenses when you incur them even if you do not pay them during the tax year.

Accrual-basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. See **Pub. 538**.

To change your accounting method (including treatment of inventories), you must usually get permission from the IRS. In general, file **Form 3115** within the first 180 days of the tax year in which you want to make the change.

#### Line G

Participation, for purposes of the following seven material participation tests, generally includes any work you did in connection with an activity if you owned an interest in the activity at the time you did the work. The capacity in which you did the work does not matter. However, work is not treated as participation if it is work that an owner would not customarily do in the same type of activity and one of your main reasons for doing the work was to avoid the disallowance of losses or credits from the activity under the passive activity rules.

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

1. Studying and reviewing financial statements or reports on operations of the activity.
2. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use.

3. Monitoring the finances or operations of the activity in a nonmanagerial capacity.

**Participation by your spouse** during the tax year in an activity you own can be counted as your participation in the activity. This applies even if your spouse did not own an interest in the activity and whether or not you and your spouse file a joint return for the tax year.

**Material Participation.** For purposes of the passive activity rules, you materially participated in the operation of this trade or business activity during 1997 if you meet any of the following seven tests:

1. You participated in the activity for more than 500 hours during the tax year.

2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals (including individuals who did not own any interest in the activity) for the tax year.

3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other person for the tax year. This includes individuals who did not own any interest in the activity.

4. The activity is a significant participation activity for the tax year, and you participated in all significant participation activities for more than 500 hours during the year. An activity is a "significant participation activity" if it involves the conduct of a trade or business, you participated in the activity for more than 100 hours during the tax year, and you did not materially participate under any of the material participation tests (other than this test 4).

5. You materially participated in the activity for any 5 of the prior 10 tax years.

6. The activity is a personal service activity in which you materially participated for any 3 prior tax years. A personal service activity is an activity that involves performing personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year. But you do not meet this test if you participated in the activity for 100 hours or less during the tax year. Your participation in managing the activity does not count in determining if you meet this test if any person (except you) —

a. Received compensation for performing management services in connection with the activity, or

b. Spent more hours during the tax year than you spent performing management services in connection with the activity (regardless of whether the person was compensated for the services).

If you meet any of the above tests, check the "Yes" box.

If you **do not** meet any of the above tests, check the "No" box. This business is a **passive activity**. If you have a loss from this business, see **Limit on Losses** below. If you have a profit from this business activity but have current year losses from other passive activities or you have prior year unallowed

passive activity losses, see the instructions for **Form 8582**.

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

**Limit on Losses.** If you checked the "No" box and you have a loss from this business, you may have to use Form 8582 to figure your allowable loss, if any, to enter on Schedule C, line 31. Generally, you can deduct losses from passive activities only to the extent of income from passive activities.

For more details, see **Pub. 925**.

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## Line H

If you started or acquired this business in 1997, check the box on line H. Also, check the box if you are reopening or restarting this business after temporarily closing it, and you did not file a 1996 Schedule C or C-EZ for this business.

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## Part I. Income

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### Line 1

Enter gross receipts from your trade or business. Include amounts you received in your trade or business that were properly shown on **Forms 1099-MISC**. If the total amounts that were reported in box 7 of Forms 1099-MISC are more than the total you are reporting on line 1, attach a statement explaining the difference.

**Statutory Employees.** If you received a Form W-2 and the "Statutory employee" box in box 15 of that form was checked, report your income and expenses related to that income on Schedule C or C-EZ. Enter your statutory employee income from box 1 of Form W-2 on line 1 of Schedule C or C-EZ, and **check the box** on that line. Social security and Medicare tax should have been withheld from your earnings; therefore, you do not owe self-employment tax on these earnings.

Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons, and certain homeworkers.

If you had both self-employment income and statutory employee income, **do not** combine these amounts on a single Schedule C or C-EZ. In this case, you must file two Schedules C. You cannot use Schedule C-EZ.

**Installment Sales.** Generally, the installment method may not be used to report income from the sale of (a) personal property regularly sold under the installment method or (b) real property held for resale to customers. But the installment method may be used to report income from sales of certain residential lots and timeshares if you elect to pay interest on the tax due on that income after the year of sale. See Internal Revenue Code section 453(l)(2)(B) for details. If you make this election, include the interest on Form 1040, line 53. Also, write "453(l)(3)" and the

amount of the interest on the dotted line to the left of line 53.

If you use the installment method, attach a schedule to your return. Show separately for 1997 and the 3 preceding years: gross sales, cost of goods sold, gross profit, percentage of gross profit to gross sales, amounts collected, and gross profit on amounts collected.

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## Line 2

Enter such items as returned sales, rebates, and allowances from the sales price.

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## Line 6

Report on line 6 amounts from finance reserve income, scrap sales, bad debts you recovered, interest (such as on notes and accounts receivable), state gasoline or fuel tax refunds you got in 1997, credit for Federal tax paid on gasoline or other fuels claimed on your 1996 Form 1040, prizes and awards related to your trade or business, and other kinds of miscellaneous business income. Include amounts you received in your trade or business as shown on **Form 1099-PATR**. Also, include any recapture of the deduction for clean-fuel vehicles used in your business and clean-fuel vehicle refueling property. For more details, see **Pub. 535**.

If the business use percentage of any listed property (defined in the instructions for line 13) decreased to 50% or less in 1997, report on this line any recapture of excess depreciation, including any section 179 expense deduction. Use **Form 4797** to figure the recapture. Also, if the business use percentage drops to 50% or less on leased listed property (other than a vehicle), include on this line any inclusion amount. See **Pub. 946** to figure the amount.

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## Part II. Expenses

**Capitalizing Costs of Property.** If you produced real or tangible personal property or acquired property for resale, certain expenses attributable to the property must be included in inventory costs or capitalized. In addition to direct costs, producers of inventory property must also include part of certain indirect costs in their inventory. Purchasers of personal property acquired for resale must include part of certain indirect costs in inventory only if the average annual gross receipts for the 3 prior tax years exceed \$10 million. Also, you must capitalize part of the indirect costs that benefit real or tangible personal property constructed for use in a trade or business, or noninventory property produced for sale to customers. Reduce the amounts on lines 8–26 and Part V by amounts capitalized. For more details, see **Pub. 538**.

**Exception for Creative Property.** If you are an artist, author, or photographer, you may be exempt from the capitalization rules. However, your personal efforts must have created (or reasonably be expected to create) the property. This exception does not apply to any expense related to printing, photographic plates, motion picture films, video tapes, or similar items. These expenses are subject to the capitalization rules. For more details, see **Pub. 538**.

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## Line 9

Include debts and partial debts from sales or services that were included in income and are definitely known to be worthless. If you later collect a debt that you deducted as a bad debt, include it as income in the year collected. For more details, see Pub. 535.

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## Line 10

You can deduct the actual expenses of running your car or truck, or take the **standard mileage rate**. You **must** use actual expenses if you did not own the vehicle or if you used more than one vehicle simultaneously in your business (such as in fleet operations).

If you deduct actual expenses, include on line 10 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc. Show depreciation on line 13 and rent or lease payments on line 20a.

If you choose to take the standard mileage rate, you **cannot** deduct depreciation or your actual operating expenses. To take the standard mileage rate, multiply the number of business miles by 31.5 cents a mile. Add to this amount your parking fees and tolls, and enter the total.

For more details, see **Pub. 463**.

**Information on Your Vehicle.** If you claim any car and truck expenses, you must provide certain information on the use of your vehicle by completing:

- Part IV of Schedule C or Part III of Schedule C-EZ if (a) you are claiming the standard mileage rate, you lease your vehicle, or your vehicle is fully depreciated and (b) you are **not** required to file **Form 4562** for any other reason. If you used more than one vehicle during the year, attach your own schedule with the information requested in Part IV of Schedule C, or Part III of Schedule C-EZ, for each additional vehicle.

- Part V of Form 4562 if you are claiming depreciation on your vehicle or you are required to file Form 4562 for any other reason (see the instructions for line 13 below).

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## Line 12

Enter your deduction for depletion on this line. If you have timber depletion, attach **Form T**. See Pub. 535 for details.

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## Line 13

**Depreciation and Section 179 Expense Deduction.** Depreciation is the annual deduction allowed to recover the cost or other basis of business or investment property with a useful life of more than 1 year. You can also depreciate improvements made to leased business property. However, stock in trade, inventories, and land are not depreciable.

Depreciation starts when you first use the property in your business or for the production of income. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business or for the production of income.

For property placed in service after 1980, see the Instructions for Form 4562 to figure

the amount of depreciation to enter on line 13. For property placed in service before 1981, figure depreciation from your own books and records.

You may also choose under Internal Revenue Code section 179 to expense part of the cost of certain property you bought in 1997 for use in your business. See the Instructions for Form 4562 for more details.

**When To Attach Form 4562.** You must complete and attach Form 4562 **only** if:

- You are claiming depreciation on property placed in service during 1997, or
- You are claiming depreciation on listed property (defined below), regardless of the date it was placed in service, or
- You are claiming a section 179 expense deduction.

If you acquired depreciable property for the first time in 1997, see Pub. 946.

**Listed property** generally includes, but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less.
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pickup trucks, etc.
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment).
- Cellular telephones or other similar telecommunications equipment.
- Computers or peripheral equipment.

**Exceptions.** Listed property does not include photographic, phonographic, communication, or video equipment used exclusively in your trade or business or at your regular business establishment. It also does not include any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment. For purposes of these exceptions, a portion of your home is treated as a regular business establishment only if that portion meets the requirements under Internal Revenue Code section 280A(c)(1) for deducting expenses for the business use of your home.

If the business use percentage of any listed property decreased to 50% or less in 1997, see the instructions for line 6 on page C-2.

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## Line 14

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 19. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs.

Do not include on line 14 any contributions you made on your behalf as a self-employed person to an accident and health plan or for group-term life insurance. You may be able to deduct on Form 1040, line 27, part of the amount you paid for health insurance on behalf of yourself, your spouse, and dependents, even if you do not itemize your deductions. See the Form 1040 instructions on page 17 for more details.

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## Line 15

Deduct premiums paid for business insurance on line 15. Deduct on line 14 amounts paid for employee accident and health insurance. Do not deduct amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability. For more details, see Pub. 535.

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## Lines 16a and 16b

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

Generally, you allocate interest expense by tracing how the proceeds of the loan were used. See Pub. 535 for details.

If you paid interest in 1997 that applies to future years, deduct only the part that applies to 1997. If you paid interest on a debt secured by your main home and any of the proceeds from that debt were used in connection with your trade or business, see Pub. 535 to figure the amount that is deductible on Schedule C or C-EZ.

If you have a mortgage on real property used in your business (other than your main home), enter on line 16a the interest you paid for 1997 to banks or other financial institutions for which you received a **Form 1098**. If you did not receive a Form 1098, enter the interest on line 16b.

If you paid more mortgage interest than is shown on Form 1098 or similar statement, see Pub. 535 to find out if you can deduct the additional interest. If you can, enter the amount on line 16a. Attach a statement to your return explaining the difference. Write "See attached" in the left margin next to line 16a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, report your share of the interest on line 16b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the left margin next to line 16b, write "See attached."

Do not deduct interest you paid or accrued on debts allocable to investment property. This interest is generally deducted on **Schedule A** (Form 1040). For details, see **Pub. 550**.

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## Line 17

Include on this line fees for tax advice related to your business and for preparation of the tax forms related to your business.

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## Line 19

Enter your deduction for contributions to a pension, profit-sharing, or annuity plan, or plans for the benefit of your employees. If the plan includes you as a self-employed

person, enter contributions made as an employer on your behalf on Form 1040, line 28, not on Schedule C.

Generally, you must file one of the following forms if you maintain a pension, profit-sharing, or other funded-deferred compensation plan. The filing requirement is not affected by whether or not the plan qualified under the Internal Revenue Code, or whether or not you claim a deduction for the current tax year.

**Form 5500.** Complete this form for each plan with 100 or more participants.

**Form 5500-C/R or 5500-EZ.** Complete the applicable form for each plan with fewer than 100 participants.

There is a penalty for failure to timely file these forms.

For more information, see **Pub. 560**.

## Lines 20a and 20b

If you rented or leased vehicles, machinery, or equipment, enter on line 20a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction by an amount called the **inclusion amount**.

**You may have to do this if—**

The lease term began:	And the vehicle's fair market value on the first day of the lease exceeded:
During 1997 . . . . .	\$15,800
During 1995 or 1996 . . . . .	15,500
During 1994 . . . . .	14,600
During 1993 . . . . .	14,300
During 1992 . . . . .	13,700

If the lease term began before 1992, see Pub. 463 to find out if you have an inclusion amount.

Also see Pub. 463 to figure your inclusion amount.

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

## Line 21

Deduct the cost of repairs and maintenance. Include labor, supplies, and other items that do not add to the value or increase the life of the property. Do not deduct the value of your own labor. Do not deduct amounts spent to restore or replace property; they must be capitalized.

## Line 23

You can deduct the following taxes on this line:

- State and local sales taxes imposed on you as the seller of goods or services. If you collected this tax from the buyer, you must also include the amount collected in gross receipts or sales on line 1.
- Real estate and personal property taxes on business assets.
- Social security and Medicare taxes paid to match required withholding from your employees' wages. Also, Federal unemployment tax paid. Reduce your deduction by the

amount of the current year credit shown on line 4 of **Form 8846**.

- Federal highway use tax.

**Do not** deduct on this line:

- Federal income taxes, including your self-employment tax. However, you may deduct one-half of your self-employment tax on Form 1040, line 26.
- Estate and gift taxes.
- Taxes assessed to pay for improvements, such as paving and sewers.
- Taxes on your home or personal use property.
- State and local sales taxes on property purchased for use in your business. Instead, treat these taxes as part of the cost of the property.
- State and local sales taxes imposed on the buyer that you were required to collect and pay over to the state or local governments. These taxes are not included in gross receipts or sales nor are they a deductible expense. However, if the state or local government allowed you to retain any part of the sales tax you collected, you must include that amount as income on line 6.
- Other taxes not related to your business.

## Line 24a

Enter your expenses for lodging and transportation connected with overnight travel for business while away from your tax home. Generally, your tax home is your main place of business regardless of where you maintain your family home. You cannot deduct expenses paid or incurred in connection with employment away from home if that period of employment exceeds 1 year. Also, you cannot deduct travel expenses for your spouse, your dependent, or any other individual unless that person is your employee, the travel is for a bona fide business purpose, and the expenses would otherwise be deductible by that person.

Do not include expenses for meals and entertainment on this line. Instead, see the instructions for lines 24b and 24c below.

You cannot deduct expenses for attending a foreign convention unless it is directly related to your trade or business and it is as reasonable for the meeting to be held outside the North American area as within it. These rules apply to both employers and employees. Other rules apply to luxury water travel.

For more details, see Pub. 463.

## Lines 24b and 24c

On line 24b, enter your total business meal and entertainment expenses. Include meals while traveling away from home for business. Instead of the actual cost of your meals while traveling away from home, you may use the standard meal allowance. For more details, see Pub. 463.

Business meal expenses are deductible only if they are (a) directly related to or associated with the active conduct of your trade or business, (b) not lavish or extravagant, and (c) incurred while you or your employee is present at the meal.

You cannot deduct any expense paid or incurred for a facility (such as a yacht or

hunting lodge) used for any activity usually considered entertainment, amusement, or recreation.

Also, you cannot deduct amounts paid or incurred for membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion. But it does not include civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards, unless a principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests.

There are exceptions to these rules as well as other rules that apply to sky-box rentals and tickets to entertainment events. See Pub. 463.

Generally, you may deduct **only** 50% of your business meal and entertainment expenses, including meals incurred while traveling away from home on business. However, you may fully deduct meals and entertainment furnished or reimbursed to an employee if you properly treat the expense as wages subject to withholding. You may also fully deduct meals and entertainment provided to a nonemployee to the extent the expenses are includible in the gross income of that person and reported on Form 1099-MISC.

Figure how much of the amount on line 24b is subject to the 50% limit. Then, enter one-half of that amount on line 24c.

## Line 25

Deduct only utility expenses paid or incurred for your trade or business.

**Local Telephone Service.** If you used your home phone for business, do not deduct the base rate (including taxes) of the first phone line into your residence. But you can deduct expenses for any additional costs you incurred for business that are more than the cost of the base rate for the first phone line. For example, if you had a second line, you can deduct the business percentage of the charges for that line, including the base rate charges.

## Line 26

Enter the total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deducted elsewhere on your return or amounts paid to yourself. Reduce your deduction by the current year credits claimed on:

- **Form 5884**, Work Opportunity Credit.
- **Form 8844**, Empowerment Zone Employment Credit.
- **Form 8845**, Indian Employment Credit.

**Caution:** If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount applicable to depreciation and other expenses claimed elsewhere.

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## Line 30

**Business Use of Your Home.** You may be able to deduct certain expenses for business use of your home, subject to limitations. Generally, any amount not allowed as a deduction for 1997 because of the limitations can be carried over to 1998. You must attach **Form 8829** if you claim this deduction.

For details, see the Instructions for Form 8829 and **Pub. 587**.

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## Line 31

If you have a loss, the amount of loss you can deduct this year may be limited. Go on to line 32 before entering your loss on line 31. If you answered "No" to Question G on Schedule C, also see the Instructions for Form 8582. Enter the net profit or **deductible** loss here. Combine this amount with any profit or loss from other businesses, and enter the total on Form 1040, line 12, and Schedule SE, line 2. Estates and trusts should enter the total on Form 1041, line 3.

If you have a net profit on line 31, this amount is earned income and may qualify you for the earned income credit. See the Instructions for Form 1040, lines 56a and 56b, on page 21 for more details.

**Statutory Employees.** If you are filing Schedule C to report income and expenses as a statutory employee, include your net profit or deductible loss from line 31 with other Schedule C amounts on Form 1040, line 12. However, **do not** report this amount on Schedule SE, line 2. If you are required to file Schedule SE because of other self-employment income, see the Instructions for Schedule SE.

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## Line 32

**At-Risk Rules.** Generally, if you have (a) a business loss and (b) amounts in the business for which you are **not at risk**, you will have to complete **Form 6198** to figure your allowable loss.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the business.

Check **box 32b** if you have amounts for which you are not at risk in this business, such as the following.

- Nonrecourse loans used to finance the business, to acquire property used in the business, or to acquire the business that are not secured by your own property (other than property used in the business). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property.

- Cash, property, or borrowed amounts used in the business (or contributed to the business, or used to acquire the business) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the business from a person who has an interest in the business, other than as a creditor, or who is related under Internal Revenue Code section 465(b)(3) to a person (other than you) having such an interest.

If all amounts are at risk in this business, check **box 32a** and enter your loss on line 31. But if you answered "No" to Question G, you may need to complete Form 8582 to figure your allowable loss to enter on line 31. See the Instructions for Form 8582 for more details.

If you checked **box 32b**, get Form 6198 to determine the amount of your deductible loss and enter that amount on line 31. But if you answered "No" to Question G, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter zero on line 31. Be sure to attach Form 6198 to your return. If you checked box 32b and you do not attach Form 6198, the processing of your tax return may be delayed.

**Statutory Employees.** Include your deductible loss with other Schedule C amounts on Form 1040, line 12. **Do not** include this amount on Schedule SE, line 2.

Any loss from this business not allowed for 1997 because of the at-risk rules is treated as a deduction allocable to the business in 1998. For more details, see the Instructions for Form 6198 and Pub. 925.

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## Part III. Cost of Goods Sold

If you engaged in a trade or business in which the production, purchase, or sale of merchandise was an income-producing factor, merchandise inventories must be taken into account at the beginning and end of your tax year.

**Note:** *Certain direct and indirect expenses must be capitalized or included in inventory. See the instructions for Part II.*

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## Line 33

Your inventories can be valued at cost; cost or market value, whichever is lower; or any other method approved by the IRS.

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## Part V. Other Expenses

Include all ordinary and necessary business expenses not deducted elsewhere on Schedule C. List the type and amount of each expense separately in the space provided. Enter the total on lines 48 and 27. Do not include the cost of business equipment or furniture, replacements or permanent improvements to property, or personal, living, and family expenses. Do not include charitable contributions. Also, you may not deduct fines or penalties paid to a government for violating any law. For more details on business expenses, see Pub. 535.

**Amortization.** Include amortization in this part. For amortization that begins in 1997, you must complete and attach Form 4562.

You may amortize:

- The cost of pollution-control facilities.
- Amounts paid for research and experimentation.
- Certain business startup costs.
- Qualified forestation and reforestation costs.

- Amounts paid to acquire, protect, expand, register, or defend trademarks or trade names.

- Goodwill and certain other intangibles.

In general, you **may not** amortize real property construction period interest and taxes. Special rules apply for allocating interest to real or personal property produced in your trade or business.

**At-Risk Loss Deduction.** Any loss from this activity that was not allowed as a deduction last year because of the at-risk rules is treated as a deduction allocable to this activity in 1997.

**Capital Construction Fund.** **Do not** claim on Schedule C or C-EZ the deduction for amounts contributed to a capital construction fund set up under the Merchant Marine Act of 1936. To take the deduction, reduce the amount that would otherwise be entered as taxable income on Form 1040, line 38, by the amount of the deduction. In the margin to the left of line 38, write "CCF" and the amount of the deduction. For more information, see **Pub. 595**.

**Deduction for Clean-Fuel Vehicles and Clean-Fuel Vehicle Refueling Property.** You may deduct part of the cost of qualified clean-fuel vehicle property used in your business and qualified clean-fuel vehicle refueling property. See Pub. 535 for more details.

**Disabled Access Credit and the Deduction for Removing Barriers to Individuals With Disabilities and the Elderly.** You may be able to claim a tax credit of up to \$5,000 for eligible expenditures paid or incurred in 1997 to provide access to your business for individuals with disabilities. See **Form 8826** for more details. You can also deduct up to \$15,000 of costs paid or incurred in 1997 to remove architectural or transportation barriers to individuals with disabilities and the elderly. However, you cannot take both the credit and the deduction on the same expenditures.

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**Principal Business or Professional Activity Codes**

Locate the major category that best describes your activity. Within the major category, select the activity code that most closely identifies the business or profession that is the principal source of your sales or

receipts. **Enter this 4-digit code on line B of Schedule C or C-EZ.** For example, real estate agent is under the major category of **"Real Estate,"** and the code is "5520."

**Note:** *If your principal source of income is from farming activities, you should file Schedule F (Form 1040), Profit or Loss From Farming.*

<p><b>Agricultural Services, Forestry, Fishing</b> <b>Code</b> 1990 Animal services, other than breeding 1933 Crop services 2113 Farm labor &amp; management services 2246 Fishing, commercial 2238 Forestry, except logging 2212 Horticulture, gardening, &amp; landscaping 2469 Hunting &amp; trapping 1974 Livestock breeding 0836 Logging 1958 Veterinary services, including pets</p>	<p><b>Real Estate</b> 5538 Operators &amp; lessors of buildings, including residential 5553 Operators &amp; lessors of other real property 5520 Real estate agents &amp; brokers 5579 Real estate property managers 5710 Subdividers &amp; developers, except cemeteries 6155 Title abstract offices</p>	<p><b>Hotels &amp; Other Lodging Places</b> 7237 Camps &amp; camping parks 7096 Hotels, motels, &amp; tourist homes 7211 Rooming &amp; boarding houses <b>Laundry &amp; Cleaning Services</b> 7450 Carpet &amp; upholstery cleaning 7419 Coin-operated laundries &amp; dry cleaning 7435 Full-service laundry, dry cleaning, &amp; garment service 7476 Janitorial &amp; related services (building, house, &amp; window cleaning)</p>	<p>3081 Eating places, fast food 3079 Full service restaurants 3210 Grocery stores (general line) 3251 Liquor stores 3236 Specialized food stores (meat, produce, candy, health food, etc.)</p>
<p><b>Construction</b> 0018 Operative builders (for own account) <b>Building Trades, Including Repairs</b> 0414 Carpentering &amp; flooring 0455 Concrete work 0273 Electrical work 0299 Masonry, dry wall, stone, &amp; tile 0257 Painting &amp; paper hanging 0232 Plumbing, heating, &amp; air conditioning 0430 Roofing, siding, &amp; sheet metal 0885 Other building trade contractors (excavation, glazing, etc.)</p>	<p><b>Services: Personal, Professional, &amp; Business Services</b> <b>Amusement &amp; Recreational Services</b> 9670 Bowling centers 9688 Motion picture &amp; tape distribution &amp; allied services 9597 Motion picture &amp; video production 9639 Motion picture theaters 8557 Physical fitness facilities 9696 Professional sports &amp; racing, including promoters &amp; managers 9811 Theatrical performers, musicians, agents, producers, &amp; related services 9613 Video tape rental 9837 Other amusement &amp; recreational services</p>	<p><b>Medical &amp; Health Services</b> 9274 Chiropractors 9233 Dentist's office or clinic 9217 Doctor's (M.D.) office or clinic 9456 Medical &amp; dental laboratories 9472 Nursing &amp; personal care facilities 9290 Optometrists 9258 Osteopathic physicians &amp; surgeons 9241 Podiatrists 9415 Registered &amp; practical nurses 9431 Offices &amp; clinics of other health practitioners (dietitians, midwives, speech pathologists, etc.) 9886 Other health services <b>Miscellaneous Repair, Except Computers</b> 9019 Audio equipment &amp; TV repair 9035 Electrical &amp; electronic equipment repair, except audio &amp; TV 9050 Furniture repair &amp; reupholstery 2881 Other equipment repair</p>	<p><b>Furniture &amp; General Merchandise</b> 3988 Computer &amp; software stores 3970 Furniture stores 4317 Home furnishings stores (china, floor coverings, drapes) 4119 Household appliance stores 4333 Music &amp; record stores 3996 TV, audio &amp; electronic stores 3715 Variety stores 3731 Other general merchandise stores</p>
<p><b>General Contractors</b> 0075 Highway &amp; street construction 0059 Nonresidential building 0034 Residential building 3889 Other heavy construction (pipe laying, bridge construction, etc.)</p>	<p><b>Automotive Services</b> 8813 Automotive rental or leasing, without driver 8953 Automotive repairs, general &amp; specialized 8839 Parking, except valet 8896 Other automotive services (wash, towing, etc.)</p>	<p><b>Trade, Retail—Selling Goods to Individuals &amp; Households</b> 3038 Catalog or mail order 3046 Flea markets or shows 3012 Selling door to door, by telephone or party plan, or from mobile unit 3053 Vending machine selling</p>	<p><b>Miscellaneous Retail Stores</b> 4812 Boat dealers 5017 Book stores, excluding newsstands 4853 Camera &amp; photo supply stores 3277 Drug stores 5058 Fabric &amp; needlework stores 4655 Florists 5090 Fuel dealers (except gasoline) 4630 Gift, novelty, &amp; souvenir shops 4838 Hobby, toy, &amp; game shops 4671 Jewelry stores 4895 Luggage &amp; leather goods stores 5074 Mobile home dealers 4879 Optical goods stores 4697 Sporting goods &amp; bicycle shops 5033 Stationery stores 4614 Used merchandise &amp; antique stores (except motor vehicle parts) 5884 Other retail stores</p>
<p><b>Finance, Insurance, &amp; Related Services</b> 6064 Brokers &amp; dealers of securities 6080 Commodity contracts brokers &amp; dealers; security &amp; commodity exchanges 6148 Credit institutions &amp; mortgage bankers 5702 Insurance agents or brokers 5744 Insurance services (appraisal, consulting, inspection, etc.) 6130 Investment advisors &amp; services 5777 Other financial services</p>	<p><b>Business &amp; Personal Services</b> 7658 Accounting &amp; bookkeeping 7716 Advertising, except direct mail 7682 Architectural services 6883 Authors &amp; artists 8318 Barber shop (or barber) 8110 Beauty shop (or beautician) 8714 Child day care 7872 Computer programming, processing, data preparation, &amp; related services 7922 Computer repair, maintenance, &amp; leasing 7286 Consulting services 7799 Consumer credit reporting &amp; collection services 8755 Counseling (except health practitioners) 7732 Employment agencies &amp; personnel supply 7518 Engineering services 7773 Equipment rental &amp; leasing (except computer or automotive) 8532 Funeral services &amp; crematories 7633 Income tax preparation 7914 Investigative &amp; protective services 7617 Legal services (or lawyer) 7856 Mailing, reproduction, commercial art, photography, &amp; stenographic services 7245 Management services 8771 Ministers &amp; chaplains 8334 Photographic studios 7260 Public relations 8733 Research services 7708 Surveying services 8730 Teaching or tutoring 7880 Other business services 6882 Other personal services</p>	<p><b>Selling From Showroom, Store, or Other Fixed Location</b> <b>Apparel &amp; Accessories</b> 3921 Accessory &amp; specialty stores &amp; furriers for women 3939 Clothing, family 3772 Clothing, men's &amp; boys' 3913 Clothing, women's 3756 Shoe stores 3954 Other apparel &amp; accessory stores <b>Automotive &amp; Service Stations</b> 3558 Gasoline service stations 3319 New car dealers (franchised) 3533 Tires, accessories, &amp; parts 3335 Used car dealers 3517 Other automotive dealers (motorcycles, recreational vehicles, etc.) <b>Building, Hardware, &amp; Garden Supply</b> 4416 Building materials dealers 4457 Hardware stores 4473 Nurseries &amp; garden supply stores 4432 Paint, glass, &amp; wallpaper stores <b>Food &amp; Beverages</b> 0612 Bakeries selling at retail 3086 Catering services 3095 Drinking places (bars, taverns, pubs, saloons, etc.)</p>	<p><b>Trade, Wholesale—Selling Goods to Other Businesses, etc.</b> <b>Durable Goods, Including Machinery Equipment, Wood, Metals, etc.</b> 2634 Agent or broker for other firms—more than 50% of gross sales on commission 2618 Selling for your own account <b>Nonurable Goods, Including Food, Fiber, Chemicals, etc.</b> 2675 Agent or broker for other firms—more than 50% of gross sales on commission 2659 Selling for your own account</p>
<p><b>Manufacturing, Including Printing &amp; Publishing</b> 0679 Apparel &amp; other textile products 1115 Electric &amp; electronic equipment 1073 Fabricated metal products 0638 Food products &amp; beverages 0810 Furniture &amp; fixtures 0695 Leather footwear, handbags, etc. 0836 Lumber &amp; other wood products 1099 Machinery &amp; machine shops 0877 Paper &amp; allied products 1057 Primary metal industries 0851 Printing &amp; publishing 1032 Stone, clay, &amp; glass products 0653 Textile mill products 1883 Other manufacturing industries</p>	<p><b>Transportation, Communications, Public Utilities, &amp; Related Services</b> 6619 Air transportation 6312 Bus &amp; limousine transportation 6676 Communication services 6395 Courier or package delivery 6361 Highway passenger transportation (except chartered service) 6536 Public warehousing 6114 Taxicabs 6510 Trash collection without own dump 6635 Travel agents &amp; tour operators 6338 Trucking (except trash collection) 6692 Utilities (dumps, snow plowing, road cleaning, etc.) 6551 Water transportation 6650 Other transportation services</p>	<p><b>8888 Unable to classify</b></p>	<p><b>8888 Unable to classify</b></p>