



National Association of Tax Professionals

Schedule C Issues

Presented By:

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National Association of Tax Professionals

Schedule C Issues

- Hobby or business?
- Schedule C filer or partnership or other entity?
- Current deduction or depreciable asset?
- Reasonable and necessary expenses?
- Proper handling of pension contributions?

Schedule C Issues

- Nine Factors
 - Note that not one individual factor is deemed to be more important than another factor
- Governing Provisions
 - §183 – activities not engaged in for profit
 - §§162 & 212
 - §174 research & developmental expenditures
 - Presumption

Schedule C Issues

- 9 Relevant Factors
 1. Manner of carrying on the activity
 - Books & records
 - Business plan
 - Operating methods
 2. Expertise of the taxpayer or advisors
 3. Time & effort expended in the activity
 4. Expectation that assets appreciate
 5. Success in carrying on other activities

Schedule C Issues

- 9 Relevant Factors – continued
 6. History of income or losses
 7. Amount of occasional profits
 8. Financial status of the taxpayer
 9. Elements of personal pleasure or recreation

Reporting Income & Expenses

- Individual
- Partnership
- S Corporation
- C Corporation
- Trust or estate
- Resources to help
 - www.irs.gov/smallbiz
 - www.score.org

Schedule C Issues

- Current Deduction or Depreciable Asset
 - Repairs or improvement?
 - \$\$ Amount or Useful Life?
 - Capitalized expenditures
 - Section 179 expense election
 - Organizational and start up expenses
 - Election to expense up to \$5,000

Schedule C Issues

- Reasonable and Necessary Expenses
 - Mileage
 - Meals and entertainment
 - Office in home
 - Where do the taxpayers live?
 - Applying a ‘smell’ test
 - The Cohen Rule
 - Save it for Appeals or Tax Court

Schedule C Issues

- Pension Plans
 - Not a Schedule C deduction for the owner—think W-2.
 - Funding due dates
 - Calculation for:
 - SEP: Net – $\frac{1}{2}$ SE x 20%
 - SIMPLE: 100% of net limited to \$11,500 or \$14,000 + 3% of net
 - Profit Sharing/KEOGH= see SEP
 - Owners wear two hats

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Visit the NATP Booth in the Expo Hall for a handout on some of the more interesting Court Cases involving Schedule C Issues



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Thank You!