

## Tips for filling out the Self-Employment Tax Organizer (SETO)

### Who is eligible for self-employment services at Prepare and Prosper?

We serve sole proprietors, independent contractors, or single member LLC's with total annual household income of \$55,000 or less. We do **not** prepare returns for taxi drivers, day traders, members of the clergy, taxpayers with employees or partners, or with income from rental property.

### What is the SETO? How do you fill it out? What goes where?

The SETO was modeled after the Schedule C Profit/Loss from a business. Schedule C is an attachment to the IRS Form 1040 – the main tax form that most people fill out. Self-employed individuals attach Schedule C to the 1040 reporting their income and expenses from self-employment. On the SETO (just like Schedule C), you report your income and expenses from your business or service. Transferring data from the SETO to our tax preparation software is easier for our tax preparers than using our customers' worksheets or spreadsheets.

### How do you fill out the SETO? What goes where? What do you do if you have expenses where there's no line for them on the form?

Not all sections of the SETO will apply to your business or service; fill out the sections that do apply. If you have an expense and you don't see a line for it just list it in the "other" expense box, write it down somewhere on the form or add another sheet of paper. If you had expenses and you didn't save the receipts for them, make the best estimates you can. Don't round off numbers. Do what you can to track down the amount of the cost and in the case of mileage go to a site like MapQuest or Google maps and recreate your mileage log. The challenge with not having receipts is that in a review or audit your lack of documentation may disallow the expense.

### What if you have self-employed income from two different sources?

That will depend if the positions are related or not. For example, if you have self-employment income from being a musician and a house painter then you will need to do two Schedules C's (and two SETO's) to list the income and expenses from those two fields. You can't deduct guitar picks on your Schedule C for house painting and you can't deduct paint for your music business. If the fields are related then you can list the income and expenses on the same SETO. For example, you have income from being a free-lance writer and you also are an editor for another publication. Those are related fields and, therefore, you will need to fill out only one SETO (and one Sch. C).

### What if you don't consider yourself as having a business but you get paid as an independent contractor receiving a 1099-MISC or by receiving cash from customers?

On the 1099-MISC the compensation listed in box 7 is **nonemployee compensation**. Translation: you're not an employee. You need to think of your service or position as a business with income and expenses. If you receive cash for services provided, the process will be the same. You need to fill out the SETO and you will attach Schedule C to your 1040. If you were expecting a W-2 or considered yourself an employee, not an independent contractor, contact us.

### Do you include income and expenses from a regular job (a "W-2" job) with your self-employment income and expenses?

No. On the SETO, list only income and expenses from self-employment.

**What to bring to your tax appointment?** There is a complete list of what to bring on page 1 of the SETO. Essentials documents include: your tax forms, photo ID, Social Security numbers and birthdates of everyone to be listed on the tax return (bring the Social Security cards), and your previous year's tax return.

The previous years' tax return can be very important as it has information about your business that may be needed for this year's return **AND** if you don't have all your Social Security cards, we can use the information off the previous year's return to verify Social Security numbers and the names attached.

### Here are the sections of the SETO and tips for filling them out.

MAIN INFORMATION	
Profession or business	What do you do? E.g. Handyman, real estate agent, day care operator, performing artist, massage therapist
Business name, address, etc.	You may not have a separate business address. In that case leave this section blank.
Business telephone	Could be your cell phone
Business start date	The very first day you went into business

INCOME	
Form 1099(s) including 1099K & 1099-MISC	All compensation from any 1099-MISC or 1099K
Total cash & checks received	Cash refers to actual cash, checks, or credit cards payments made to you
Sales tax collected	Sales tax paid by your clients included in your bill to them
<b>TOTAL GROSS INCOME</b>	Include all of the above

HEALTH INSURANCE PREMIUMS		
Did you pay health insurance premiums in 2015?	Yes	No If yes, how much?
These premiums, in the name of the business or self-employed taxpayer, may be 100% deductible. If you received health insurance through the Marketplace (MNSure), bring in Form 1095-A.		

ESTIMATED TAX PARENTS		
Did you pay 2015 estimated tax payments to the IRS or the MN Department of Revenue?	IRS:	Yes No
	MN:	Yes No
Bring your records or canceled checks showing when and how much you paid to the IRS or State of Minnesota.		

## BUSINESS EXPENSES

Advertising	Business cards, internet advertising, other promotional activities
Commissions and fees	Fees or commissions paid to someone else to sell your product
Business liability insurance	Insurance policy costs to cover your business (not your home or car)
Interest, business loans or business credit cards	Interest paid for a business bank account or business credit card
Legal & professional fees	Did you pay an attorney or accountant for business services in 2015?
Office supplies	Pens, paper, toner, envelopes, and other supplies for the office
Rent or lease of equipment & property (renting space)	Did you rent equipment to get a job done? Paint sprayer, scaffolding, or other equipment? Did you rent or lease space like a chair at a hair salon?
Repairs and maintenance of equipment	Repair and maintenance costs to keep your equipment running
Other supplies	Miscellaneous supply costs
Business licenses	License to be a: barber, daycare operator, real estate agent, other
Sales tax paid to state	Sales tax <u>paid by you</u> to the state for the products you sold or service you provided. Could be included above in the income section or calculated based on your gross income if you didn't collect it from your customers.
Business meals	Meals paid for by you for your customers when conducting business
Utilities	Electricity, other utilities you paid at your business location (not your home)
Professional education	Classes for your business: marketing, technology, CPR, Excel, new techniques, refresher courses
Bank charges	Charges from your bank on your business accounts: maintenance fees, overdrafts, etc.
Safety equipment and specialized clothing	Safety goggles, steel-toed boots, rubber gloves, and uniforms. Rule: if you can wear it off the job it's probably <b>not</b> deductible
Freight and postage	Shipping and mailing costs
Dues and publications	Cost of belonging to professional organizations (CPA Society) or subscribing to professional journals
Telephone and long distance costs	<u>Cannot</u> be main line into your home. Could be internet or fax service attached to that line. For cell phones see below.
Cell phone	List annual cost
Cell phone & business use	Did you use your cell phone 50, 60, or 90% of the time for business? Maximum allowable 95%.
Other	List here those items that don't have a line on the organizer

### Office in the home deduction

To qualify for the office in the home deduction, your space must be used regularly and **EXCLUSIVELY** to meet with clients, perform administrative tasks or other business activity. It need not be an entire room but the space must be used **only** for the business. For instance, if your children use the office computer for homework, then it's not exclusive. If you cut hair in your kitchen, it's not exclusive if you also eat there. Day care operations do not need to be exclusive; they are an exception to the exclusivity rule. Beginning in 2013, the IRS initiated a simplified method for an office in the home. It is also based on the business percentage use of the home.

#### EXPENSES: OFFICE IN THE HOME

Area used for business or storage	What is the square footage of the space used for business?
Total area of house or apartment	The total square footage of the apartment or house? The deduction for business use of the home will be based on the percentage of space used for the business. For example, if 10% of the home is used for business – 10% of the following expenses will be deductible.
Yearly rent	Rent of the apartment or house you live in
Mortgage Interest (homeowners)	Mortgage interest, not principal payments, is the deductible expense
Yearly real estate taxes (homeowners)	Check your property tax statement or look it up online at your county's website
Annual renter or homeowner insurance premiums	For renters or homeowners
Repairs and maintenance	Mainly for homeowners
Gas and electric	Homeowners or renters
Water, sewer, garbage	Usually homeowners but some renters may pay water, sewer, etc.
Homeowners only: a) What was the purchase price of home? b) What date was the home purchased? c) What date was it placed into business use?	Check your closing papers for the price and date of purchase. First day of business in home.

### Major purchases

This section is for the **major purchases** you make for your business. Computers, office furniture, equipment and tools like ladders, table saws, trailers and other costly, tangible purchases you need to do business. Depreciation techniques will deduct the costs over a number of years or, in some cases, deduct the cost in a single tax year.

#### EXPENSES: MAJOR PURCHASES PLUS PREVIOUS YEARS DEPRECIATION

Item	Month/day/year of purchase	Cost (exact cost, please)
Laptop, band saw, power sprayer?	Date you purchased the item.	Cost of the item.

### Inventory, cost of goods, supplies.

If sell something or purchase materials for your business then you probably have heard these terms. First, let's differentiate between supplies and inventory. Supplies are what you may have on hand to get the job done. For example, if you're a plumber and after repairing your customer's toilet you have on hand a faucet to repair a leaking sink that's not inventory; they are extra supplies you have on hand. If you're involved in direct sales and after making a sale, the company (Herbal Life, Avon, etc.) ships the order directly to the customer that's not inventory either. However, if you buy product in bulk to later resell (to a number of different customers) then you probably have inventory. For tax purposes, it's the inventory you sell that's deductible not the total purchase price of the materials or products you bought during the year.

PRODUCTS SOLD BY DIRECT SELLER	
1. Inventory at the beginning of the year	What you have on Jan. 1 of the tax year
2. Product purchased during the year (less cost of products taken for personal use)  List amount here of product taken for personal use \$	Product purchased during the year. Keep track of what you took out for personal use (sorry, that's not deductible)
3. Materials and supplies added to product for resale	Packaging, ribbons, anything added to original product before selling it
4. Other costs (miscellaneous)	Costs to package, assemble, paint the product
5. Add lines 1 through 4	Add 1 - 4
6. Inventory at end of year. Note: the inventory that you have on Dec. 31 should be exactly what you have on Jan. 1 (the next day)	All of the inventory you have on Dec. 31 of the tax year
For volunteer tax preparer use Cost of goods sold (subtract line 6 from line 5)	Totals from above will determine the inventory sold in the tax year.

### Transportation expenses

Transportation expenses can be deducted in two ways: **Actual Costs** and **Mileage** deductions. Actual costs are when you deduct the cost of gas, oil changes, repairs, new tires, etc., **but** those deductions are limited to business percentage use of the vehicle. Meaning: if you drive your vehicle 20% of the time for business, then you can only deduct 20% of the cost of new brakes. Mileage deductions are easier to track and are usually as beneficial (frequently more so) than deducting actual costs. P + P's program is restricted to deducting business mileage only. Actual costs are out of scope.

**Business Mileage** is the only deductible mileage on Schedule C. Business miles are defined as travel from one work location to another work location. For some self-employed taxpayers their home is considered a work location if they take the business use of the home deduction. More on that later.

**Commuting miles** are those miles driven from your home to get to a work location. **Personal miles** are those trips to the grocery store, the movies, to visit a friend, etc.

Taxpayers need to track business and personal miles OR business, commuting, and personal miles. Who should track what? It depends on your situation and whether you have an office in the home. Let's take a look at two scenarios with business use of home and without it.

**Scenario 1 – Mileage with business use of the home**

Martin is an independent contractor providing website design services out of an office in his home. He qualifies for the business use of the home deduction because the office used to provide website design services, invoice and contact clients is used **regularly** and **exclusively** for the business. One day, he leaves his home office traveling 10 miles to meet with a client then drives 10 miles to return to his home. Later that evening, he travels 4 miles to get a haircut. The mileage would be tracked this way:

Starting from home → Business location (meeting) → Home

Mileage type: **business** **business**

Martin traveled 20 miles for business (from his home office to the meeting and back) and 4 personal miles for the haircut. Martin has no commuting miles. He will need to track both business and personal miles for his tax return. He must also be deducting on Schedule C, expenses for business use of the home.

**Scenario 2 – Mileage without business use of the home**

Laura is the sole proprietor of Laura's Painting & Wallpapering. She does not have a space at home that she uses regularly and exclusively for the business. One day she leaves home to buy paint then travels to her customer's home to finish a paint job there. She travels 5 miles to the paint store then 15 miles to the customer's home then 20 miles back home. Her mileage that day would be tracked like this:

Starting from home → paint store → customer home → home

Mileage type: **commuting** **business** **commuting**

Laura's mileage for the day would be 15 business miles (from the paint store to the customer home) and 25 commuting miles (the initial trip of 5 miles to the paint store and 20 back home from the work site). Without an office in the home Laura has commuting mileage. She needs to track business, commuting, and personal miles.

VEHICLE INFORMATION		
Month/day/year vehicle was placed into service: The very first day you used the vehicle for business, not the first day of this tax year (usually).		
Total business miles:	Commuting miles:	Personal miles:
Parking and tolls: Parking costs when doing business are deductible! Also, interest on a car loan and the vehicle registration tax may be deductible. More →		The interest that is deductible is the business use percentage. E.g., if you use your vehicle 25% of the time for business, then 25% of loan interest is deductible. The same holds true for the property taxes on motor vehicles – the tabs. If you itemize your deductions, you can include the remainder on Sch. A.
Was your vehicle available for personal use during off-duty hours?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Do you (or spouse) have another vehicle available for personal use?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Do you have evidence to support your deduction?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
If yes, is the evidence in writing? Recreate a mileage log if you don't have one. Marking "no" will get you a response from your friends at the IRS.	<input type="checkbox"/> Yes	<input type="checkbox"/> No
<b>Note:</b> If you are taking the business use of the home deduction list business and personal miles. If you are <b>not</b> taking the business use of the home deduction list business, commuting, and personal miles.		