Who is eligible for self-employment services?

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 (Self-Employment Tax Organizer)?

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. On the SETO (just like Schedule C), you report your income and expenses from your business or service.

How do I fill out the SETO?

Complete the sections that apply to your business or service - not all sections will apply. If you have an expense not listed on the Worksheet enter the amount in the “Other” expense box. If you did not save receipts for all of your expenses, do what you can to track down the cost of the expense to make an accurate entry. **The challenge with not having receipts is that in a review or audit, your lack of documentation may disallow the expense.** Don’t round off numbers. In the case of mileage, use MapQuest or Google maps to recreate your mileage log.

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

That depends whether the type of income or positions are related. For example, if you have self-employment income as a musician and a house painter then you will complete two SETOs and subsequently two Schedules Cs. If the fields are related, such as a free-lance writer and a publication editor, you can list the income and expenses on one SETO and then one Schedule C.

What if I don’t consider myself as having a business, but was paid as an independent contractor receiving Form 1099-MISC or cash from customers?

On Form 1099-MISC the amount listed in box 7 is nonemployee compensation. Translation: you’re not an employee, you are self-employed. You need to think of your service or position as a business. If you receive cash for services provided, the process will be the same. If you were expecting a W-2 or considered yourself an employee and not an independent contractor, contact us to learn about other options for filing your tax return.

Do I include income and expenses from a regular job (W-2) with my self-employment income and expenses?

No. List only your self-employment income and expenses on the SETO.

What do I bring to my tax appointment?

Bring essential documents: your tax forms, photo ID, birthdates and documentation verifying the Social Security numbers of everyone to be listed on the tax return. Your previous year’s tax return can be very important as it has information about your business that may be needed for this year’s return AND can be used as verification of names and Social Security numbers.
# BASIC INFORMATION

<table>
<thead>
<tr>
<th>Field</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business name</td>
<td>Leave blank if no separate business name</td>
</tr>
<tr>
<td>Business address, city, state, zip</td>
<td>Leave blank if no separate business address</td>
</tr>
<tr>
<td>Business or profession</td>
<td>What do you do? Handyperson, musician, painter.</td>
</tr>
<tr>
<td>Business telephone</td>
<td>Cell phone or land line</td>
</tr>
<tr>
<td>Business start date</td>
<td>The very 1st day you went into this business</td>
</tr>
</tbody>
</table>

## INCOME (only from self-employment)

<table>
<thead>
<tr>
<th>Item</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form(s) 1099-MISC</td>
<td>Amounts listed on all 1099-MISC</td>
</tr>
<tr>
<td>Form 1099-K</td>
<td>Form received from PayPal, Venmo, Master Card, etc.</td>
</tr>
<tr>
<td>Total cash, checks, and credit card payments (to you)</td>
<td>Cash refers to actual cash, checks, or credit card payments</td>
</tr>
<tr>
<td>Other income – prizes, incentives or awards</td>
<td>Tips, bonus pay, not included above</td>
</tr>
<tr>
<td><strong>Total Gross Income</strong></td>
<td>Total of all the above amounts</td>
</tr>
</tbody>
</table>

## ESTIMATED TAX PAYMENTS

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes or no</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did you pay estimated tax payments to the IRS or Minnesota Department of Revenue this past year?</td>
<td>Amounts paid for IRS: $</td>
</tr>
<tr>
<td>Bring records or canceled checks showing when and amount paid to the IRS or State of Minnesota for payments made in 2019 for tax year 2019.</td>
<td>MN Dept. of Revenue: $</td>
</tr>
</tbody>
</table>

## EXPENSES (Use actual amounts; don’t round off.)

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>$</td>
<td>Business cards, advertising</td>
</tr>
<tr>
<td>Contract Labor</td>
<td>$</td>
<td>Payments made to someone else (not an employee) to do work for your business.</td>
</tr>
<tr>
<td>Commissions and fees</td>
<td>$</td>
<td>Commission or fee payments to obtain a job or project.</td>
</tr>
<tr>
<td>Health insurance premiums</td>
<td>$</td>
<td>Premiums paid in your name or your business’ name.</td>
</tr>
<tr>
<td>Business liability insurance</td>
<td>$</td>
<td>Insurance costs that cover your business or service.</td>
</tr>
<tr>
<td>Business licenses</td>
<td>$</td>
<td>Licenses such as barber, real estate agent, massage therapist, etc.</td>
</tr>
<tr>
<td>Sales tax paid to state</td>
<td>$</td>
<td>Sales tax paid to the state on taxable sales or services.</td>
</tr>
<tr>
<td>Business meals</td>
<td>$</td>
<td>Meals you paid when doing business with customers.</td>
</tr>
<tr>
<td>Legal &amp; professional fees</td>
<td>$</td>
<td>Payments to attorney or accountant for your business.</td>
</tr>
<tr>
<td>Office supplies (toner, paper, etc.)</td>
<td>$</td>
<td>Pens, paper, toner, and other supplies for your business.</td>
</tr>
<tr>
<td>Rent of space or equipment</td>
<td>$</td>
<td>Rental for a paint sprayer, scaffolding, space at a hair salon.</td>
</tr>
<tr>
<td>Repairs &amp; maintenance of equipment</td>
<td>$</td>
<td>Costs to keep your equipment running.</td>
</tr>
<tr>
<td>Other supplies</td>
<td>$</td>
<td>Miscellaneous supply costs not listed elsewhere. Identify them.</td>
</tr>
<tr>
<td>Other interest – business loan or credit card</td>
<td>$</td>
<td>Interest paid for a business loan or credit card.</td>
</tr>
<tr>
<td>Business travel</td>
<td>$</td>
<td>Example: hotels, airfare, taxi. List travel meal costs in Business Meals.</td>
</tr>
<tr>
<td>Utilities (not household)</td>
<td>$</td>
<td>Electricity and other utilities paid at your business location. Do not include utility costs for your home office.</td>
</tr>
</tbody>
</table>
## OTHER EXPENSES

(Use actual amounts; don’t round off.)

<table>
<thead>
<tr>
<th>Item</th>
<th>$</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional education</td>
<td></td>
<td>Business classes for marketing, technology, CPR, Excel, new techniques, refresher courses.</td>
</tr>
<tr>
<td>Safety equipment or specialized clothing</td>
<td></td>
<td>Safety goggles, steel-toed boots, rubber gloves, and uniforms. Rule: if you can wear the clothing off the job, it’s probably <strong>not</strong> deductible.</td>
</tr>
<tr>
<td>Dues or publications for professional organizations</td>
<td></td>
<td>Costs to belong to a professional organization or to subscribe to professional journals.</td>
</tr>
<tr>
<td>Parking and tolls</td>
<td></td>
<td>Parking costs or toll fees when driving for business.</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>List here those items that don’t have a line on the organizer.</td>
</tr>
<tr>
<td>Bank charges</td>
<td></td>
<td>Bank charges for your business accounts like maintenance fees</td>
</tr>
<tr>
<td>Freight &amp; postage</td>
<td></td>
<td>Shipping and mailing costs.</td>
</tr>
<tr>
<td>Telephone - 2nd line into home only</td>
<td></td>
<td>Cannot be the main line into your home.</td>
</tr>
<tr>
<td>Cell phone annual charges</td>
<td></td>
<td>List the annual cost of your cell phone used for business.</td>
</tr>
<tr>
<td>Cell phone use percentage</td>
<td></td>
<td>Did you use your cell phone 50, 60, 90% of the time for business?</td>
</tr>
<tr>
<td>Cell phone amount for Sch. C</td>
<td></td>
<td>Using the above figures, what is the deductible amount?</td>
</tr>
</tbody>
</table>

## VEHICLE INFORMATION

(See page 5 before completing this section.)

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month/day/year vehicle first used for business:</td>
<td>The very first day and year you used the vehicle for business.</td>
</tr>
<tr>
<td>Mileage last year:</td>
<td>Enter miles you drove during the year for business, commuting, and personal use of your vehicle.</td>
</tr>
<tr>
<td>Interest paid on car loan:</td>
<td>Enter total amount of interest you paid for the year on your vehicle loan. Final amount will be based on the % of business miles.</td>
</tr>
<tr>
<td>Was your vehicle available for personal use during off-duty hours?</td>
<td>Yes or no</td>
</tr>
<tr>
<td>Do you (or your spouse) have another vehicle available for personal use?</td>
<td>Yes or no</td>
</tr>
<tr>
<td>Do you have evidence to support your deduction?</td>
<td>Yes or no</td>
</tr>
<tr>
<td>If yes, is the evidence in writing?</td>
<td>Yes or no</td>
</tr>
<tr>
<td>If you don’t have a written mileage log, recreate a log by using Map Quest or Google maps.</td>
<td>Yes or no</td>
</tr>
</tbody>
</table>

## MAJOR PURCHASES

**TIP:** If you claimed a deduction for major purchases in prior years and P + P did not prepare your return, bring that return to your appointment.

<table>
<thead>
<tr>
<th>Item</th>
<th>Month/day/year</th>
<th>Cost</th>
<th>Business use percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costly major equipment purchases for your business like computers, office furniture, power sprayer, ladder, or table saw.</td>
<td>Date of purchase</td>
<td>Cost of purchase</td>
<td>Enter the % used for business</td>
</tr>
</tbody>
</table>
**EXPENSES: OFFICE IN THE HOME**

To qualify for office in the home deduction, your space (need not be an entire room) must be **USED REGULARLY AND EXCLUSIVELY** to meet with clients, perform administrative tasks or other business activity. For instance, if you cut hair in your kitchen, it’s not exclusive because you use this space for personal activities too. An exception to this exclusivity rule is an in-home day care business.

There is also a simplified **method for an office in the home**. Based on the business percentage use of the home, with a maximum of 300 square feet with a deduction of $5 per square foot. If you use the simplified method, you cannot deduct other home office expenses, such as rent or utilities. This is a good alternative for those with a small office.

<table>
<thead>
<tr>
<th>Area used for business or storage</th>
<th>Enter the square footage of the space used for business.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total area of house or apartment</td>
<td>Enter total square footage of your home or apartment. The deduction will be based on the percentage of space used for business. E.g., if 10% of the home is used for business, 10% of the following expenses will be deductible.</td>
</tr>
<tr>
<td>Mortgage interest (homeowners)</td>
<td>List mortgage interest and <strong>not</strong> the principal of the loan.</td>
</tr>
<tr>
<td>Real estate taxes (homeowners)</td>
<td>Shown on your property tax statement or mortgage interest statement. Some counties may provide information online.</td>
</tr>
<tr>
<td>Renter or homeowner insurance premiums</td>
<td>Premiums you pay as a renter or homeowner.</td>
</tr>
<tr>
<td>Rent</td>
<td>List total rent you paid for the year.</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td><strong>Mainly</strong> for homeowners.</td>
</tr>
<tr>
<td>Utilities – gas and electric</td>
<td><strong>Homeowners</strong> or <strong>renters</strong>.</td>
</tr>
<tr>
<td>Utilities - water, sewer, garbage</td>
<td>Usually homeowners but some renters may pay water, sewer, etc.</td>
</tr>
</tbody>
</table>
| Homeowners only                   | **A)** $ original cost or fair market value  
|                                  | **B)** / / the date the house was first used for business. |

**PRODUCTS SOLD BY DIRECT SELLER – COST OF GOODS SOLD**

First, let’s differentiate between supplies and inventory. Supplies are what you have on hand to get the job done. For example, if a plumber has an extra faucet on hand to repair a leaking sink. That faucet is not inventory, but extra supplies. Even if you’re involved in direct sales where the product company (Herbal Life, Avon, etc.) ships the order directly to the customer then that’s not considered inventory either. It’s drop shipping.

However, if you buy product in bulk to resell to 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.

<table>
<thead>
<tr>
<th>1. Inventory at the beginning of the year</th>
<th>What you have on Jan. 1 of the tax year.</th>
</tr>
</thead>
</table>
| 2. Product purchased during the year (less cost of products taken for personal use)  
  a. List amount here of product taken for personal use $ | Product purchased during the year. Enter amount used for personal use in 2a. |
| 3. Costs – materials and supplies | Packaging, ribbons, anything added to the original product before selling it. |
| 4. Cost of labor (not paid to self) | Costs to package, assemble or paint the product. |
5. Add lines 1 through 4

6. Inventory at the end of the year

7. (For volunteer use) Cost of goods sold - subtract line 6 from line 5

**Total lines 1 to 4**

**What you have on Dec. 31** the tax year.

**Totals from above will determine the inventory sold in the tax year.**

---

### BUSINESS MILEAGE METHODS

Prepare + Prosper uses business mileage, not actual vehicle costs, for self-employment returns claiming deductions for transportation expenses. The business mileage deduction covers maintenance, repairs, and wear and tear within its deduction rate. Using this method you track your mileage not your gas purchases or vehicle expenses. When using the business mileage method, you can also deduct parking and toll costs.

There are three types of types of mileage:
- **Commuting** mileage is travel from home to a work site or returning from a work site to the home.
- **Business** mileage is from one **work site** to another **work site** and is the only mileage that is deductible.
- **Personal** mileage is any mileage not related to work.

**TIP:** If you travel from a regular job (W-2 situation) to a self-employment work site to perform tasks, or vice versa, this is considered business mileage.

What type of mileage should you track? This will depend on whether you qualify for a home office deduction. Let's look at three scenarios with and without a qualifying home office.

1. This first scenario depicts business mileage for a self-employed taxpayer **without** a home office. The taxpayer leaves home to go to a job site then returns back home. All are commuting miles and **not** deductible.

   ![Diagram 1](https://via.placeholder.com/150)

2. The second scenario is a work day for the same self-employed taxpayer with another stop on the way. This example shows deductible business mileage; the trip from the first work site to the second work site. In addition, if you stop at a store to pick up job supplies then travel to a job site, the trip from the store to the job site is business mileage.

   ![Diagram 2](https://via.placeholder.com/150)

3. The third scenario shows business mileage for a self-employed taxpayer **with** a qualifying home office. The taxpayer leaves home to go to a job site then returns back home. All trips are deductible as business mileage because of the qualifying business use of home. If you deduct costs for business use of the home, you do not have commuting miles if your home is a work location.

   ![Diagram 3](https://via.placeholder.com/150)