

# SELF EMPLOYMENT TAX ORGANIZER CHEAT SHEET TAX YEAR 2022

PREPARE  
PROSPER +

## About the SETO and SETO Cheat Sheet

This cheat sheet is a useful guide to help you fill out your Self-Employment Tax Organizer (SETO). Use it alongside the SETO to make sure you are tracking all the right information to report your self-employment income and expenses.

The Self-Employment Tax Organizer (SETO) is modeled after Schedule C Profit/Loss from a Business. Schedule C is an attachment to the IRS Form 1040, which is the main income tax form that most people fill out. On the SETO you report the income and expenses related to your self-employed business or service. Your tax preparer will use this information to ask additional questions and enter your Schedule C details for your tax return.

## Eligibility for Prepare + Prosper's Self Employment Program

At Prepare + Prosper we prepare tax returns for sole proprietors, independent contractors, or single member LLCs with total annual household income of \$55,000 or less. We **do not** prepare returns for: tax drivers, day traders, members of the clergy, taxpayers with employees or partners, taxpayers with rental property, or taxpayers reporting crypto currency transactions.

## Common Questions

### How do I know if I'm self-employed?

Being paid as an independent contractor, working as a freelancer, or you are paid cash from customers usually means you are self-employed rather than being an employee. You should think of your service or position as a business. If you were expecting to receive Form W-2 as an employee rather than being considered an independent contractor, contact us to learn about other options for filing your tax return.

### What is special about my tax return when I'm self-employed?

When you are self-employed, you must include Schedule C and Schedule SE with your tax return. Schedule C tracks your business income and expenses. Schedule SE calculates self-employment tax, which is based on your business income. The SE tax covers the Social Security and Medicare tax withholding that employees have taken out of their pay checks throughout the year.

### What if I have more than one source of self-employment income?

If your income or positions are related, then you will fill out one SETO and your tax return will have one Schedule C (for example, if you are a freelance writer and a copy editor). If your income comes from unrelated businesses or services, then fill out two SETOs and your tax return will have two Schedule Cs (for example, you have income as a musician and you are also a house painter).

### What should I bring to my self-employment tax preparation appointment?

- Completed Self-Employment Tax Organizer (SETO)
- Previous year's tax return - it may have details needed for this year's return
- Social Security card (or ITIN letter)
- Photo ID
- All tax forms received (ex: 1099-NEC, W-2, 1098-T).

Detailed records about your business operations, income, and expenses are generally not needed because it will be summarized on your completed SETO.

## Tips for SETO sections

Use the tips in the sections below to help you follow along with the Self-Employment Tax Organizer (SETO). General tips:

- Enter information that is relevant to your business. Skip sections that do not apply to you.
- Do not include income W-2s, unemployment, or other non-self-employment sources.
- If you have questions that are not answered on this cheat sheet, contact us at 651-262-2169.

### BASIC INFORMATION

This section collects basic details about your business. Don't enter a separate name or address for the business if you do not have one.

In the business or profession section, enter the type of work you do. For example, handyman, musician, or painter.

The start date for the business is the very first day you went into this business.

### INCOME FROM SELF-EMPLOYMENT

Track your income information for all payments received for doing self-employed work in this section. This could include:

- Form 1099-NEC reporting Non-Employee Compensation
- Form 1099-K reporting compensation from third party vendors like Venmo or PayPal
- Cash, check, or credit card payments
- Payments received for products or services via an app or online platform like Venmo, Zelle, PayPal, or CashApp (even if you don't receive Form 1099-K reporting the amount)
- Business grants or awards (local, state, or federal)

**Do not** enter income earned through a W-2 job, unemployment, or other sources in this section.

### ESTIMATED TAX PAYMENTS

If you made estimated taxes, enter the amount you paid to the IRS and to the state of Minnesota. Estimated taxes are payments made in the same year as the tax year. For example, payments made in 2022 for tax year 2022. Do not include payments you made for owing money for a previous tax year.

If possible, bring records or canceled checks showing the amount paid and when you paid it.

## EXPENSES

In this section, you'll track your business expenses. Use actual amounts; don't round off.

Below are some examples of different expenses you may be able to claim for your business in each expense category. This is not a full list of expenses you can claim!

Advertising	Examples: business cards, mailers, brochures, digital ads
Contract labor	Payments made to someone else (not an employee) to do work for your business.
Commissions & fees	Payments you make to obtain a job or project or in the course of your work.
Health insurance premiums	Premiums paid in your name or the name of your business.
Business liability insurance	Insurance costs that cover your business or service.
Interest - business loan or credit card	Interest you paid on a business credit card ( <i>not a personal card</i> ) or a loan taken out for your business.
Legal & professional services	Payments to a lawyer, accountant, business coach, or other professional service for your business.
Office supplies	Examples: pens, paper, toner, and other supplies for the business
Rent or lease of equipment	Examples: a commercial paint sprayer or audio/visual equipment
Rent of property/workspace	Examples: chair at a hair salon, co-working space subscription, storage unit
Repairs & maintenance on equipment	Costs to keep your business equipment running.
Other supplies	Miscellaneous supply costs not listed elsewhere; enter a description of the expenses.
Business licenses	Cost of a license purchased from the state, for example, as a barber, real estate agent, or midwife.
Sales tax paid to the state	Payments made to the state on taxable sales or services, for example, cleaning services, massage, or pet grooming services that you operate.
Business travel	Travel as part of your business, like attending a conference or meeting out of town. Examples: hotel cost, airfare, taxi rides
Business meals with customers or while traveling	Meals you paid for when doing business with customers or for your own meals during overnight business travel.

## UTILITY EXPENSES

Utilities you pay for your business can be claimed as expenses. For example, you may deduct electricity costs paid at a business location or the cost of a second home-phone line added for business. *Do not include utilities for your home office - these are listed in the "Office in the Home" section.*

Some utilities can be partially deducted, like cell phone or internet. The deduction is based on the amount of time you use the utility for business purposes. You calculate the expense amount based on the total expense multiplied by the percentage you used it for business.

For example, if your annual cell phone bill is \$500 and you use it for business 50% of the time, you can deduct \$250 as a business expense. ( $\$500 \times .5 = \$250$ )

## OTHER EXPENSES

This section collects information about other common business expenses, and you'll find some examples below. If you have business expenses that are not specifically listed on the SETO, enter a description and the expense amount in the areas listing "Other".

Professional education	Examples: marketing course, technology class, required continuing education, CPR certification
Safety equipment and specialized clothing	Examples: safety goggles, steel-toed boots, rubber gloves, uniforms. As a general rule, if you can wear the clothing off the job, it's probably not deductible.
Parking & tolls	Payments while driving for business for parking and tolls.
Postage & freight	Shipping and mailing costs for your business.
Dues or publications for professional organizations	Costs to belong to a professional organization or subscribe to professional journals. Examples: interpreter roster fee, union dues
Other: _____	Enter expenses you had for your business that are not listed elsewhere.

## VEHICLE INFORMATION

At Prepare + Prosper, we only use the business mileage deduction. It is a standardized rate to cover maintenance, repairs, and wear and tear on your vehicle. Using this method, you track your mileage instead of tracking your actual gas purchases and vehicle repair costs.

When using the business mileage deduction, you can also deduct parking and toll costs. Enter those in the Other Expenses section on the SETO.

### Documentation

You must have documentation of your mileage and it must be written/typed or saved in a mileage app. For example, you can use a notebook in your glovebox, the MileIQ app, or the tracker built into Uber or Lyft driver accounts. You can recreate a mileage log before doing your taxes using Google Maps or mileage tracking apps.

### Types of Mileage to Track

- Business mileage: travel from one work site to another work site. This mileage is deductible.
- Commuting mileage: travel from home to a work site or from a work site to home.
- Personal mileage: travel that is not related to work.

### Business Mileage Examples

If you travel from a regular job (W-2 situation) to a self-employment work site, or vice versa, this is considered business mileage. Here are some other examples of business mileage.

1. A self-employed taxpayer without a home office leaves home to go to a job site then returns back home. Both trips are commuting miles and not deductible.
  
2. A self-employed taxpayer without a home office leaves home for a work site then visits a second work site before returning home. The trip between work sites is deductible business mileage. The trips between home and work sites are commuting mileage and are not deductible. If you stop at a store to pick up job supplies before traveling to a work site, the trip from the store to the job site is considered business mileage.
  
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 business mileage because the home office is considered a work site.

## MAJOR PURCHASES

This section tracks investments in costly major equipment you purchase for your business. For example: computers, office furniture, power tools, or ladders.

If you claimed a deduction for major purchases in prior years, **you must bring your prior year tax return**. We need information from the prior year tax return to correctly figure your deductions for this year.

## OFFICE IN THE HOME

To claim a deduction for a home office, your space must be used **REGULARLY AND EXCLUSIVELY** to meet with clients, perform administrative tasks, or conduct other business activity. *In-home daycares are an exception to this exclusive use rule.*

Your home office does not need to be an entire room, but the business space cannot be used for personal activities. For example, you could qualify for a home office deduction for a basement art studio even if one corner of the basement has a washer and dryer. The square footage used for laundry cannot be included as business space, but the area used exclusively as a studio will qualify.

The home office deduction can be figured based on actual expenses or using a simplified method. If you qualify for the deduction, enter all the information you have in the Office in the Home section so that a volunteer can help you get the best deduction.

## PRODUCTS SOLD BY DIRECT SELLER - COST OF GOODS SOLD

Fill in this section only if you have inventory. Inventory is when you buy products in bulk to resell to different customers. Common examples that are NOT inventory:

- You help customers place an order with a company that ships product to the customer directly (like Avon or Herbal Life). This is drop shipping, not inventory.
- You have extra supplies on hand to do a repair job or for customers to test before buying. This is considered supplies, not inventory.

For tax purposes, the inventory you *sell* rather than the inventory you *buy* is deductible. To track the deductible portion of your inventory, you'll need to identify and enter the following amounts on the SETO:

- The value of inventory you roll over from the past year. For tax year 2022, this is the value of anything that was unsold at the end of 2021.
- The value of inventory purchased in the tax year. (You subtract the value of any product used for personal use.)
- The costs of labor (paid to others) or supplies that you add to the product after purchasing it. This includes amounts paid for assembly or painting of a product or packaging or decoration added to a product before it's sold.
- The value of inventory you held on December 31, 2022.