

SELF EMPLOYMENT TAX ORGANIZER GUIDE SHEET

TAX YEAR 2024

PREPARE
PROSPER⁺

About the SETO Guide Sheet and the SETO

The SETO Guide Sheet explains how to fill out the Self-Employment Tax Organizer (SETO). These tools help you report self-employment income and expenses correctly on your tax return. Your tax preparer uses your SETO to ask questions and make entries so that TaxSlayer software creates Schedule C for your tax return.

The SETO is modeled after Schedule C, Profit or Loss from Business. Schedule C is an attachment to IRS Form 1040, the individual income tax return that most people file.

Eligibility for Prepare + Prosper's Self Employment Program

Prepare + Prosper prepares tax returns for sole proprietors, independent contractors, or single member LLCs. We **do not** prepare returns for taxi drivers, day traders, clergy members, taxpayers with employees or partners, taxpayers with income from 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 being paid in cash by customers usually means you are self-employed, rather than working as an employee. Think of your service or position as your own business. If you expected to receive Form W-2 as an employee but received Form 1099-NEC as an independent contractor, contact us to discuss options for filing your tax return.

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

- Completed Self-Employment Tax Organizer (2-page mini or 4-page full)
- 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 (1099-NEC, 1099-K, W-2, 1098-T, 1099-R/DIV/B/INT/C)

Detailed records about your business operations are generally not needed because all income and expenses are supposed to be categorized and totaled on your completed SETO.

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

Self-employment income is **earned** income. Unlike dividends, bank interest, gambling winnings, or capital gains, earned income is income from work. In addition to state and federal income tax, earned income is subject to Social Security and Medicare tax, collectively known as **self-employment tax**. Earned income qualifies the worker for beneficial, refundable tax credits such as the Earned Income Tax Credit.

As a self-employed worker,

1. You must attach Schedule C to your tax return to report your business profit (or loss)
2. You must attach Schedule SE to your tax return to report the self-employment tax due
3. You must pay the normal employee share of Social Security tax and Medicare tax, which employees usually pay through paycheck withholding: $6.2\% + 1.45\% = 7.65\%$
4. You must pay the required employer match to Social Security and Medicare taxes, which employees often don't realize that employers are paying, another 7.65%.

As the employer, you take another 7.65% deduction from your Schedule C net profit to account for the expense of employer match. The self-employment tax equals 15.3% of 92.35% of net profit.

Example: Net profit is \$10,000 → SE tax = $0.153 \times 0.9235 \times \$10,000 = \$1,412.96$.

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

If your income or positions are related (for example, you are a freelance writer and a copy editor), fill out one SETO so that your tax return has one Schedule C. If you operate unrelated businesses or services (for example, you have income as a musician and as a rideshare driver), fill out separate SETOs to create separate Schedule Cs, each with related income and necessary expenses.

Tips for SETO sections

Follow the tips in the sections below to complete your SETO. General tips:

- Complete your accounting for the tax year by recording all income and expenses in your business accounting software, spreadsheet, or notebook through December 31, 2024.
- Enter information that is relevant to your business. Skip sections that do not apply to you.
- Do not include income from 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.
- Plan for adequate time to complete the SETO.

BASIC INFORMATION

This section collects basic details about your business. Enter a separate name or address for the business only if you have one. Enter your EIN (employer identification number) if you have one and want to use it on your Schedule C.

In the business or profession, enter the type of work you do, such as courier (Uber or DoorDash driver), musician, or writer. Enter the NAICS (North American Industry Classification System) code if you have it from a prior year Schedule C. Your tax preparer can also search for an appropriate NAICS code.

The start date for the business is the first day you began business operations.

Married couples who file jointly and run a business together can check the Qualified Joint Venture box to divide the earned income and work credits 50/50 between the spouses. Checking the Injured Spouse box will advise the tax preparer to complete Form 8379 and allocate Schedule C income appropriately.

INCOME FROM SELF-EMPLOYMENT

Track all payments from self-employment work in this section. This could include:

- Form 1099-NEC reporting Nonemployee Compensation in Box 1
- Form 1099-K reporting credit card payments from third party vendors like Venmo, Square, 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 governments, or private foundations)

Do not enter income from a W-2 job, unemployment benefits, or other sources in this section.

ESTIMATED TAX PAYMENTS

If you made estimated tax payments, enter the amount you paid to the IRS and/or to the state of Minnesota. Estimated taxes are payments made **for** the current tax year (2024). Estimated payments include quarterly payments made through January 2025 for tax year 2024 and any payment made through April 15, 2025 when filing for an extension. Do not include payments you made for owing money for 2023 or any other previous tax year.

If possible, bring confirmations from the IRS or MN Department of Revenue e-Services, cancelled checks, or bank statements to document the amount and date of payments.

EXPENSES

Track your business expenses by categories that map closely to Schedule C. Use the total of actual amounts. The expenses you report as “ordinary and necessary” depend on the nature of your business.

Expenses reduce net, taxable income. Examples of different expenses you may be able to claim and deduct include:

Advertising	Business cards, mailers, brochures, digital ads
Contract labor	Payments made to non-employees who work for your business; document with 1099-NEC issued to anyone you paid \$600 or more in 2024
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	Premiums for liability insurance to protect 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 to operate your business
Legal & professional services	Payments to a lawyer, accountant, business coach, website designer or other professional service for your business
Office supplies	Pens, paper, toner, file folders, and other supplies for the business
Postage & freight	Shipping and mailing costs for your 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 required state license, for example, as a barber, real estate agent, or midwife, or the cost of annual single-member LLC registration
Sales tax paid to the state	Payments you made to the state on taxable sales or services if not collected from the customer . See our Sales Tax Basics handout for more information.
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.
Utilities	Utilities you pay for your business can be claimed as expenses. <i>Do not include utilities for your home office - these are reported in the “Office in the Home” section.</i>

CELL PHONE AND INTERNET EXPENSES

Cell phone and internet charges are often partially deductible as many self-employed workers just use their personal plan to operate their business. Multiply the total expense by the percentage used for business to calculate the allowable expense.

Example: Your annual cell phone bill is \$50/month or \$600/year. You use your cell phone for business 50% of the time. You can deduct \$300 as a business expense. ($\$600 \times 0.5 = \300)

If you have a separate cell phone or internet plan for your business, list 100% of the cost as a business expense.

OTHER EXPENSES

Use this section to list expenses without a SETO category. Enter a description and the expense amount.

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. In general, clothing that can be worn off the job is probably not deductible.
Parking & tolls	Payments for parking and tolls while driving for business
Dues or publications for professional organizations	Costs for professional organization membership or subscriptions to professional journals. Examples: interpreter roster fee, union dues
Software subscriptions	Monthly charges for cloud-based accounting, design, word processing, payroll processing, or editing software.
Other: _____	Enter expenses you had for your business that are not listed elsewhere.

SELF-EMPLOYED RETIREMENT ACCOUNT CONTRIBUTIONS

Contributing to a retirement savings account may allow you to reduce your taxable income and/or claim a retirement saver's tax credit. In general, workers can contribute to accounts such as

- Individual Retirement Account - traditional or Roth
- Employer-sponsored plans - 401(k), 403(b)

As a self-employed business owner, you are also allowed to create retirement plans such as a SEP-IRA, SIMPLE IRA, or solo 401(k). It is your responsibility to know the plan limits on contributions. For example, a SEP-IRA permits a total contribution of 25% of net self-employment income.

VEHICLE INFORMATION

At Prepare + Prosper, we only use the standard business mileage deduction. It is an IRS-issued rate to cover gasoline, maintenance, repairs, and wear and tear (depreciation) on your vehicle. Using this method, you track your mileage instead of tracking your actual gas purchases and vehicle repair costs. Because the standard mileage deduction covers the cost of ownership, you are not allowed to deduct lease payments or vehicle depreciation in addition to the deduction of \$0.67 per business mile for 2024.

When using the business mileage deduction, deduct parking and toll costs separately. 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, an app, or the tracker built into a gig driver account. We recommend using a tracker in addition to your gig driver account as it often underestimates your deductible mileage. You can recreate a mileage log before doing your taxes using your calendar and Google Maps or mileage tracking apps.

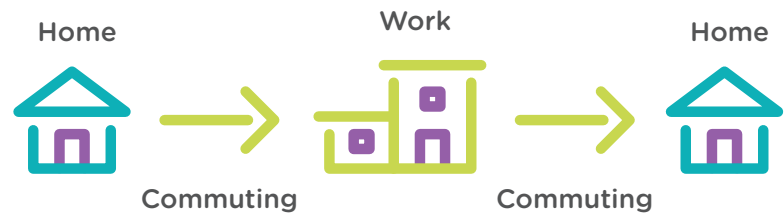
Types of Mileage to Track

- 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 is not deductible.
- 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.

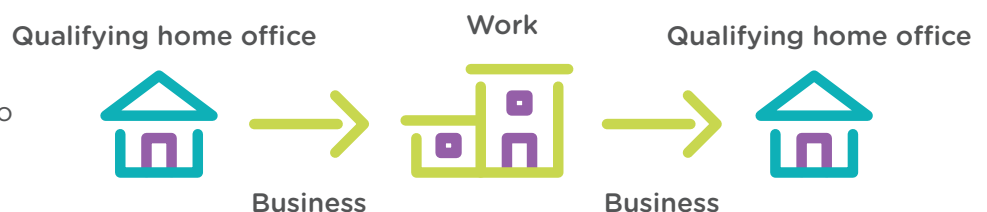
1. A self-employed taxpayer **without** a home office leaves home to go to a job site and then returns home. Both trips are commuting miles and **not** deductible.



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 home. All trips are business mileage because the home office is considered a work site.



MAJOR PURCHASES - “personal” property (other than real estate)

This section tracks investments in business equipment other than real estate that has more than one year of useful life and costs more than \$2,500. The nature of the purchase determines its useful life and most advantageous method of cost recovery. Depreciation (or cost recovery) methods include straight-line and declining balance. You can choose to write off the entire cost of personal property in one year under the Section 179 expense rule. Different rules apply to real estate such as bare land or residential rental property.

The IRS safe harbor rule allows you to deduct investments of less than \$2,500 in the year of purchase without bothering to depreciate over multiple years. If you claimed deductions for major purchases in prior years, **you must bring a 2023 tax return that provides a fixed asset schedule with accumulated depreciation for us to** correctly calculate the current year depreciation deduction. If P+P prepared your 2023 return, we will rely on carryforward to provide this information.

OFFICE IN THE HOME

To claim a home office deduction, your space must be used **regularly and exclusively** to meet with clients, perform administrative tasks, or conduct 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 and percentage of total square footage or by using the simplified method of \$5 per square foot, up to a limit of \$1,500 per tax year. If you qualify for the deduction, enter all available information in the Office in the Home section so that a volunteer can help you claim the best deduction.

PRODUCTS SOLD BY DIRECT SELLER - COST OF GOODS SOLD

Fill in this section only if you have inventory. You have Inventory when you buy or manufacture products to resell to different customers.

You do NOT have inventory when:

- You help customers place an order with a company that ships product to the customer directly. This is drop shipping, not inventory.
- You have extra supplies on hand to do a repair job or for customers to test before buying. Deduct these as supplies expense, not inventory or cost of goods sold.

For tax purposes, inventory is deductible only after you **sell** it, not when you *buy* it. To calculate the deductible inventory expense, i.e. your **cost of goods sold**, your SETO must provide these dollar amounts:

- The value of inventory rolled over from the prior year. For tax year 2024, this is the value of anything unsold on December 31, 2023.
- The value of inventory purchased in 2024.
- The value of any product taken 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, packaging, or decoration added to a product before final sale.
- The value of inventory you held on December 31, 2024.