Lesson Plan

Income – Business

Time Required: 20 minutes

Introduction	Objectives	Topics
This lesson will help you prepare an accurate return for taxpayers who have business income, including self-employment income. Form 1040 is used to report income from a business or profession operated as a sole proprietor or independent contractor.	Determine: • How to report business income • What business expenses are within the scope of the VITA/TCE program • How to complete Schedule C • Identify "red flags" when preparing a Schedule C tax return with EIC • What records to maintain	 Business Income or Loss Information Reporting Business Income Schedule C in Scope for VITA/TCE Clarifying Taxpayers' Business Income and Expenses Business Expenses Completing Schedule C Recordkeeping

Key Terms

Actual Expense Method: One of two methods for calculating business automobile expenses. For the actual expense method, the taxpayer determines the business portion of expenses for fuel, auto maintenance, parking fees and tolls, and auto loan interest. (The other method is the standard mileage method.) The actual expense method is out of scope for the VITA/TCE program.

Business Expenses: Business expenses are amounts that are ordinary and necessary to carry on the business.

Business Income: Business income is income received from the sale of products or services. For example, fees received by a professional person are considered business income. Rents received by a person in the real estate business are business income. Payments received in the form of property or services must be included in income at their fair market value.

Cash Method of Accounting: Accounting method that reports income when constructively received (not earned) and expenses when paid (not incurred), as opposed to the accrual method.

Depreciation: The cost of items that are expected to last more than a year should be spread over a period of years rather than deducted in the year of purchase. In-scope for Military certification only (rental property).

Earned Income: Any income received for work, such as wages or business income.

Election to expense business assets: An election is available to immediately expense qualifying business assets. Taxpayers who wish to expense business assets should be referred to a professional tax preparer.

Employee: Under common-law rules, anyone who performs services for you is your employee if you can control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed.

Gig Economy: The gig economy – also called sharing economy or access economy – is activity where people earn income providing on-demand work, services or goods. Often, it's through a digital platform like an app or website.

Independent Contractor: People who are in an independent trade, business, or profession in which they offer their services to the general public are generally independent contractors. The general rule is

that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done. The earnings of a person who is working as an independent contractor are subject to self-employment tax.

Inventory: The items the taxpayer buys or makes for resale to others. Taxpayers having inventory should be referred to a professional tax preparer.

Qualified Business Income Deductions (QBID): QBID has been made permanent. Beginning in 2026, if a taxpayer has a minimum of $1,000 in total qualified business income from an active trade or business, taxpayer may be able to claim a minimum QBID of $400. The phase-in range for taxpayers who are married filing jointly will increase to $150,000 and to $75,000 for all other filing statuses.

Qualified Medicaid waiver payments: Payments by a state, a political subdivision of a state, or a certified Medicaid provider under a Medicaid waiver program to an individual care provider for nonmedical support services provided under a plan of care to an individual (whether related or unrelated) living in the individual care provider's home.

Regular Method: Most common method for computing self-employment tax. Under the regular method, the net self-employment income entered on Schedule SE is the sum of net self-employment earnings from the taxpayer's Schedules C and F. (Taxpayers should consult a professional tax preparer or a military legal assistance officer if they use a different method or require Schedule F.)

Ride Share Services: (See Gig Economy.)

Self-employment Income: Earned income from a trade, business, farming, or profession that is not paid by an employer. For example, seamstresses and lawn care workers who work for themselves (and not for someone else) are considered self-employed.

Sole Proprietor: (See Independent Contractor.)

Standard Mileage Method: One of two methods for calculating business automobile expenses. For the standard mileage method, the taxpayer multiplies the business miles by the mileage rate for that tax year. (The other method is the actual expense method.)

Statutory employee: If workers are independent contractors, such workers may nevertheless be treated as employees by statute (a statutory employee) for certain employment tax purposes.

Teacher Tips

Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	**Review** the online demo of TaxSlayer on reporting business and self-employment income.	**TaxSlayer® Demo:** From the Practice Lab, select: • TaxSlayer IRS training • Click the appropriate demo
Provide details and engage the students	**Discuss** all tips and cautions in detail. **Ask** students to read and/or role-play examples. **Review** answers to each exercise; ask students how they arrived at their answers.	**Internet:** Link & Learn Taxes (L&LT) Income – Business

Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	**Review** lesson objectives. **Review** list of references. **State** the presentation time. **Review** Key Terms for the lesson. **Review** the Tax Topics found on www.irs.gov. **Review** what lines on Form 13614-C impact business income. **Remind** students that preparation of tax returns with Schedule C are in scope for VITA/TCE when the return meets specific limits. **Ask** students to explain if they know the difference between an independent contractor and an employee (see Pub 15-A).	**Visuals:** Form 1040 Form 13614-C, Page 2 Schedule C Schedule SE Pub 15 Pub 15-A **Internet:** Tax Topics: Business Income Tax Topics: Small Business/Self-Employed Tax Topics: Independent Contractor vs. Employee
Business income or loss information	**Review** L&LT topic Business Income or Loss Information. **Prompt** students to share what they know about business income using the questions from the topic. **Ask** students what type of follow-up questions they should ask taxpayers to determine if the taxpayer or spouse had business income. **Ask:** What are sources of business income information? **Answer:** Form 1099-MISC (Nonemployee compensation), Form W-2 (Statutory Employee), Form 1099-K (gig work), and taxpayer records. **Point out** that cash payments received by self-employed taxpayers must be included in their business income on Schedule C. This is true even if the income is not reported on Form 1099-MISC or Form 1099-K. **Caution** students that some employers misclassify workers as independent contractors and report their earnings on Form 1099-MISC.	**Visuals:** Form 13614-C, Page 2 Form 1099-MISC Form 1099-NEC Form W-2, box 13 Form 1099-K **Internet:** L&LT Business Income, Business Income or Loss Information FAQs: Form 1099-MISC & Independent Contractors Bulletin: Notice 2014-7

Reporting business income	**Review** L&LT topic Reporting Business Income. **Ask:** What does TaxSlayer do with the income and expenses entered into Schedule C? **Answer:** TaxSlayer calculates and applies the net profit to the correct line on Schedule SE and computes the self-employment tax. Amounts are then transferred to the correct lines of Form 1040. **Present** TaxSlayer training tutorial on Business Income up through entering Form 1099-MISC income into Schedule C.	**Visuals:** Schedule C **Internet:** L&LT Business Income, Reporting Business Income **TaxSlayer Demo:** From Form 1040, click Schedule C Click applicable line from Form 1040 view or click Income from Federal Section>Form 1099-MISC.
Schedule C in scope for VITA/TCE	**Review** L&LT topic Schedule C in scope for VITA/TCE. **Ask:** What are the conditions for Schedule C to be within scope for VITA/TCE? **Emphasize** that before starting to prepare the return, the volunteer must determine if the business qualifies to be reported on Schedule C. This means estimating business income and expenses. **Remind** students self-employment taxes are computed on Schedule SE for net earnings of more than $400. **State** that self-employment tax is automatically calculated in TaxSlayer. **Inform** students that Schedule SE is covered in the Other Taxes lesson.	**Visuals:** Schedule C Form 13614-C Form 1040, Schedule SE **Internet:** L&LT Business Income, Reporting Business Income Tax Topics, Self-Employment Tax
Clarifying Taxpayers' Business Income and Expenses	**Review** L&LT topic Clarifying Taxpayers' Business Income and Expenses. **Ask:** What are situations that raise a "red flag" for a volunteer preparing a tax return with Schedule C and EIC? **Emphasize** that a taxpayer must be prepared to provide receipts and other documentation to support their claimed business income and expenses. **Ask** students to read aloud the sample interview and discuss why the information Dana provides is inconsistent and incomplete.	**Visuals:** Form 1040, Schedule C **Internet:** L&LT Business Income, Clarifying Taxpayers' Business Income and Expenses

Business expenses	**Review** L&LT topic Business Expenses in Scope for VITA/TCE. **Present** continuation of previous TaxSlayer training tutorial on Schedule C. **Emphasize** that a self-employed taxpayer must report all ordinary and necessary expenses and claim all allowable deductions. **State** TaxSlayer calculates and displays the business income (or loss) on Form 1040.	**Visuals:** Schedule C Instructions, Examples of business expenses Pub 4012, Tab D, Income, Schedule C **TaxSlayer Demo:** Advanced Tax Topics, Part 1
Completing Schedule C	**Review** L&LT topic Completing Schedule C. **Remind** students that if the taxpayer's Form W-2 has the "Statutory employee" box checked, follow TaxSlayer guidance for the applicable line of Schedule C. **Point out** that the standard mileage rate includes all vehicle expenses except parking or tolls. **Review** what is out of scope for Schedule C.	**Visuals:** Pub 4012, Tab D, Income, Schedule C Form 1040, Schedule C Schedule C Instructions, Principal Business Codes Pub 463 **TaxSlayer Demo:** Show both pages of TaxSlayer Schedule C.
Recordkeeping	**Review** L&LT topic Recordkeeping. **Discuss** the tools a taxpayer can use to reconstruct records for verifying income and expenses. **Emphasize** that a volunteer can assist with simple record reconstruction, but extensive reconstruction must be left to the taxpayer or a paid tax preparer. **Read** aloud the sample interview for taxpayer Dana.	**Visuals:** Pub 4012, Tab D, Income Pub 583
Skills Workout	**Review** the lesson exercises with the class.	**Internet:** L&LT Business Income: Click Certification Warm Up icon to review the exercises

References	
Form 1040	Form 1040
Form 13614-C	Form 13614-C, Intake/Interview & Quality Review Sheet, Page 2, Part III
Form 1099-MISC	Form 1099-MISC, Box 7, Nonemployee Compensation
Form W-2	Form W-2, Box 13, Statutory Employee box
Schedule C	Profit or Loss from Business
Schedule C Instructions	Instructions for Schedule C
Schedule SE	Self-Employment Income
Pub 4012	Pub 4012, Volunteer Resource Guide, Tab D, Income How/Where to Enter Income Schedule C - Business Income, Page 1 Schedule C - Business Income, Page 2
Pub 15-A	Pub 15-A, Employer's Supplemental Tax Guide
Pub 17	Pub 17, Part Two, Income
Pub 463	Pub 463, Travel, Entertainment, Gift, and Car Expenses
Optional	
Form 1099-K	Form 1099-K, Payment Card and Third Party Network Transactions
Form 1099-K Instructions	Form 1099-K Instructions
Pub 535	Pub 535, Business Expenses
Pub 583	Pub 583, Starting a Business and Keeping Records
Notice 2014-7	Notice 2014-7, Qualified Medicaid Waivers Notice (Foster Care Payment)
Gig Economy	Gig Economy Tax Center

Recommended Classroom Activities



Skills Workout: Link & Learn Taxes Income – Business

Click Skills Workout to access Link & Learn Taxes Business Income.

Certification Warm Up – Summary and Exercises

Click Certification Warm Up to access the exercises in Link & Learn Taxes Business Income.

Media: Video & Audio for Lesson

There is no media associated with this lesson.

TaxSlayer Tips and Resources for Lesson

TaxSlayer Training Video	Advanced Tax Topics, Part 1
Practice Lab Tutorial	From the Practice Lab: 1. Enter the universal password (if you do not have the password, you can request it from your site coordinator or SPEC relationship manager). 2. Sign in to Practice Lab or create an account. 3. Select the appropriate tutorial.

Practice Lab

Practice Lab	https://vita.taxslayerpro.com/IRSTraining/en/Account/Access



Job Aids

ITA and FAQs for Lesson

FAQs	Small Business/Self-Employed/Other Business https://www.irs.gov/tax-professionals/small-business-self-employed Form 1099-MISC & Independent Contractors https://www.irs.gov/faqs/small-business-self-employed-other-business/form-1099-misc-independent-contractors
Tax Topics	Business Income https://www.irs.gov/taxtopics/tc407.html Small Business/Self-Employed https://www.irs.gov/taxtopics/tc103.html Independent Contractor vs. Employee https://www.irs.gov/taxtopics/tc762.html Self-Employment Tax https://www.irs.gov/taxtopics/tc554.html