Tax Planning

Tax Record-Keeping for Self-Employed Taxpayers

Do you accurately maintain your records?

Keeping detailed and comprehensive records can provide a self-employed taxpayer with valuable deductions that can, in the aggregate, reduce their taxable income.



Tax Record-Keeping: Assistance and Guidelines for Sole Proprietorships

To effectively run a business, a self-employed taxpayer must maintain business records for tax purposes. This can be extremely daunting. In many instances, the taxpayer does not know where to start. However, the process can be greatly simplified with diligent record keeping.

The purpose of this packet is to provide self-employed taxpayers particularly, sole proprietors with no employees—simple, easy to use spreadsheets designed to help document daily income and expenses. If these documents are correctly and continuously updated throughout the course of a taxable year, the taxpayer will have a better understanding of his taxable income. Additionally, this will provide a tax professional much of the necessary information to ensure that the taxpayer's business receives the full extent of any available deductions. These deductions reduce a taxpayer's adjusted gross income, thereby lowering the taxpayer's overall tax liability for that year.

Spreadsheets

Income & Expenses	Easily document monthly income and expenses per job.
Asset Log	Efficiently document your business assets for purposes of depreciation.
Mileage Log	An easy to use template to record miles traveled for business purposes.
Supply Log	Efficiently document your expenses for supplies relating to jobs.
Miscellaneous Expenses Log	Assists in documenting office and other miscellaneous expenses.

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"The hardest thing in the world to understand is the income tax." -Albert Einstein

Small Business Filing Requirements

If you are still reading this, then you are a sole proprietor with no employees. As a sole proprietor, you must file a **Form 1040** because any profits that the business generates are considered your own personal income. You must file a Form 1040 whether or not your business is incorporated (LLC).

Form 1040 is the standard individual income tax return that most Americans file every year. However, as a sole proprietor, **Line 12** ("Business income (or loss)") is particularly significant. In order to properly calculate business income, the sole proprietor must complete and attach **Schedule C**.

Stated simply, Schedule C accounts for all income and expenses accrued during the course of business activities. The spreadsheets attached to this document are designed to assist the sole proprietor in completing the "Income" and "Expenses" section in Schedule C.

If applicable, in order to properly calculate Schedule C's Line 13 ("Depreciation and Section 179 Expense Deduction"), the sole proprietor must complete Form 4562. If applicable to the selfemployed taxpayer, some of the spreadsheets attached to this document are designed to assist the sole proprietor (or the sole proprietor's accountant/tax professional) in calculating the proper depreciation deduction. The depreciation deduction will lower the sole proprietors tax liability for the year in question.



Form 1040 https://www.irs.gov/pub/irspdf/f1040.pdf

<u>Schedule C</u> https://www.irs.gov/pub/irspdf/f1040sc.pdf

Form 4562 https://www.irs.gov/pub/irspdf/f4562.pdf

*For a PDF version of this document and spreadsheets, please visit: https://law.wlu.edu/clinics/tax-clinic



Due to the complexity of **Form 4562** and depreciation deductions generally, it is highly recommended that the sole proprietor seek professional tax assistance. **Remember**, business expenses for professional tax advice may be <u>deductible</u> as a business expense on Schedule C.

Filing Recap

- A sole proprietor must file a Form 1040.
- To properly complete a Form 1040, the sole proprietor must complete **Schedule C**.
- To properly complete Schedule C, the sole proprietor may need to complete **Form 4562.**

Spreadsheet Summaries

This page briefly describes the spreadsheets and their significance in the overall preparation of a sole proprietor's tax returns.

Income and Expense Log

The income and expense log is designed to assist the sole proprietor in keeping track of income and expenses relating to clients on a per-job basis. This will assist in completing **Schedule C**.

Asset Log

The asset log plays an important role in calculating immediate and future expense deductions. The purpose of the asset log is to assist the user in recording and keeping track of any and all business related assets and equipment, and associated repair and maintenance costs. By tracking old and new business assets, the asset log assists the taxpayer (or tax professional) in accurately completing **Form 4562**.

Additionally, the log records business related "expenses and repairs" of assets. Expenses and repairs may be deductible every tax year. The total yearly expenses and repairs amount is to be inserted in Line 21 of Schedule C.

Importantly, **be sure to retain any and all receipts** associated with purchases and expenses; the IRS requires that business purchases and expenses must be substantiated (proven upon request by the IRS) and a receipt is the easiest way to prove that the expenses you claim are in fact true and accurate. Additionally, any items listed must be acquired for business use through purchase (not a gift).

Mileage Log

The mileage log allows the sole proprietor to take advantage of the "travel" expense on **Schedule C**. The mileage log is designed to assist in obtaining the appropriate deduction for gasoline expenses related



to travel to and from a worksite, or in the course of business. The amount of allowable deduction requires the taxpayer to add all miles traveled for business purposes and multiply them by the then applicable "Standard Mileage Rate." In 2015, the standard mileage rate was \$0.575 per mile (note that these standards change yearly). For example, if a taxpayer drives 1000 business-related miles over the course of the taxable year, she multiplies 1000 x .575, leaving her with an allowable \$575 travel expense. Therefore, \$575 would be inserted in Line 24a of Schedule C labeled "Travel."

Supply Log

The supply log is designed to assist the sole proprietor in keeping a detailed record of workrelated supplies on a per-job basis. Expenses for supplies can be deducted on a yearly basis. This is significant because, for example, if the taxpayer purchases \$1000 worth of masonry for a \$1500 job (and the masonry is the only expense), the net taxable income from the job is \$500 rather than \$1,500.

Miscellaneous Expense Log

The miscellaneous expense log is designed to assist the taxpayer in completing the "Expense" portion of **Schedule C**. There are several expenses considered deductible within the taxable year. Importantly, some of these deductible expenses may include; legal and professional services (including tax preparation), advertising, utilities, rental/lease payments, office expenses, and contract labor, to name a few.

Income and Expenses for Self-Employed Taxpayers

Month: Total Income this Month: Income Expenses Equipment Amount Paid by Customer Customer Job Description Mileage Credit Equipment Costs Taxes and Licenses Maintenance/Supplies

Instructions and Tips

1. Income from all customers count towards your Adjusted Gross Income. Expenses you incur in furtherance of this income may be deducted from your Income figure to determine your Taxable Income. Keeping track of your expenses in an accurate and organized way will help lessen your tax liability and fend off any questioning by the Internal Revenue Service.

2. Use one of these sheets per month. Do not insert information from two differnet months. If there is not enough room for all of your customers, continue on to another page, but do not start a new month on that sheet.

3. Information on this sheet is determined by the use of other sheet, i.e. mileage log and equipment log.

4. Expenses include gas mileage, equipment purchases, equipment losses, equipment maintenance, local taxes, and local permits and licenses. Refer to the Instructions for Form 1040 and supplamentary materials.

5. The most important information to keep track of on this sheet is total income and total expenses, which determine your tax liability.

Mileage Log

	Gas Log	Mon	th:	Ŷ	ear:		
			Week of:				
Customer	Monday Miles	Tuesday Miles	Wednesday Miles	Thursday Miles	Friday Miles	Saturday Miles	Sunday Miles
			Week of:				
Customer	Monday Miles	Tuesday Miles	Wednesday Miles	Thursday Miles	Friday Miles	Saturday Miles	Sunday Miles

Instructions and Tips

1. Mileage can only be calculated for miles traveled for work. For example, miles from your home to job site or to get supplies and miles from job to job are to be included. For additional reference, see www.irs.gov.

2. Miles for personal use cannot be used, only mileage for the purpose of your trade or business.

		. ei						you or for For
		<u>Date of</u> Purchase/Sale						he first time luded in the) purchased mary use is fi nt on keepin om the sale. mower for
		<u>Profit/Loss</u>						any years prior to the any years prior to the constructed be incomposed in the prior and equipment to the second as its prime mount of money spendent if you purch or loss recognized fructed to the same lawnrest or the standard second
	New Assets	Purchase Price/Sale Price						re assets purchased in tem purchased prior t assets (such as mach d include; a pickup tru column, include the ai column, include the ai ice <u>actually paid</u> . For e any amount of gain included). Assume you
		<u>Maintenance/Required</u> Upkeep						INSTRUCTIONS: Generally: Old and new assets are intentionally separated for purposes of depreciation and expense deductions. "Old" assets are assets purchased in any years prior to the first time you fill out this sheet. For example, if you first use this sheet in 2016, any item purchased in 2016 should be included in the "New" column and any item purchased prior to 2016 should be included in the "Old" column. 1. Under the tem column, list the asset and, if applicable, include the serial number. The Item column should include any and all assets (such as machinery and equipment) purchased for use in the business. This should not include supplies purchased for individual jobs. For example, if you own a landscaping company, this list could include; a pickup truck (as long as its primary use is for business), a trailer, lawnmowers, leafblowers, etc. This list should not include the amount of money spent to acquire the item. Use the price <u>actually paid</u> . For example, if you purchase a new lawnmowers for \$1,000 from a friend, but the retail value is \$1,500, write \$1,000 in column 3. 4 . Under the Profit/Loss from Sale column, include any amount of gain or loss recognized from the sale. For example, assume you sell the lawnmower from the previous example for \$800; this is a \$200 loss and should be written as (\$200) (parentheses included). Assume you sell the same lawnmower for the same lawnmower for the same point from the previous example for 5 and the same busines.
		ltem						stion and expense ded d be included in the "N . The Item column sho ou own a landscaping ry, etc. 2. Under the A money spent to acqui der the Profit/Loss fro der the avritten a
		<u>Date of</u> Purchase/Sale						poses of deprecia ed in 2016 should he serial number For example, if y cch, seeds, mason cch, seeds, mason t column 3, 4 , Un s is a \$200 loss an
733613		Profit/Loss from Sale						ally separated for pur 16, any item purchas f applicable, include t ed for individual jobs. ould not include; mul ould not include; mul L,500, write \$1,000 in example for \$800; thi
	Old Assets	Purchase Price/Sale Price						w assets are intention rst use this sheet in 20 nn, list the asset and, i lude supplies purchass lowers, etc. This list sh owers, etc. This list sh ut the retail value is \$ ver from the previous
		Maintenance/Upkeep						INSTRUCTIONS: Generally : Old and new assets are intent fill out this sheet. For example, if you first use this sheet in "Old" column. 1 . Under the Item column, list the asset an use in the business. This should not include supplies purch business), a trailer, lawnmowers, leafblowers, etc. This lis the asset in working order. 3 . Under the Purchase Price / lawnmower for \$1,000 from a friend, but the retail value example, assume you sell the lawnmower from the previc
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Asset Log

Supplies Per-Job											
Clier	t/Job:	Date Range:									
tem Item N		Quantity	Date Purchased								
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											
16											
17											
18											
19											
20											

Miscellaneous Expenses

	Month:		Year:
	<u>Expense</u>	Total Montly Payment/Cost	Date(s) of Payment
1	Tax Preparation/ Legal		
2			
3	Utilities		
4			
5	Commission/Fees		
6			
7	Contract Labor		
8			
9	Insurance Payments (non-health related)		
10			
11	Interest Payments on Loans		
12			
13	Office Expenses		
14			
15	Rent/Lease Payments		
16			
17	Taxes and Licenses		
18			
19	Advertising		

Additional Asset Log

		<u>Date of</u> Purchase/Sale								
		Profit/Loss								
	New Assets	Purchase Price/Sale Price								
Year		Maintenance/Required Upkeep								
		ltem								
		<u>Date of</u> Purchase/Sale								
<u>Assets</u>		Profit/Loss from Sale								
	Old Assets	Purchase Price/Sale Price								
		Maintenance/Upkeep								
		<u>Item</u>								