

# 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.



*“The hardest thing in the world to understand is the income tax.”*

-Albert Einstein

**DISCLAIMER:** This is not specific legal advice. The attached spreadsheets are for organizational purposes and designed to assist a tax professional in preparing a self-employed taxpayers tax return.

## 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 self-employed 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 Download Links

#### **Form 1040**

<https://www.irs.gov/pub/irs-pdf/f1040.pdf>

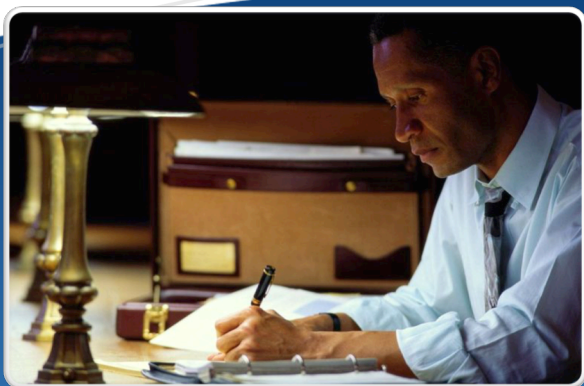
#### **Schedule C**

<https://www.irs.gov/pub/irs-pdf/f1040sc.pdf>

#### **Form 4562**

<https://www.irs.gov/pub/irs-pdf/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 **deductible** 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 work-related 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.



# Mileage Log

## Gas Log

Month: \_\_\_\_\_

Year: \_\_\_\_\_

			<u>Week of:</u> _____				
Customer	Monday Miles	Tuesday Miles	Wednesday Miles	Thursday Miles	Friday Miles	Saturday Miles	Sunday Miles
			<u>Week of:</u> _____				
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](http://www.irs.gov).
2. Miles for personal use cannot be used, only mileage for the purpose of your trade or business.



## Supplies Per-Job

Client/Job: _____		Date Range: _____		
Item	Item Name	Total Cost	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>	<u>Total Montly Payment/Cost</u>	<u>Date(s) of Payment</u>
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		



