How to Fill Out the Schedule C

For those that enjoy the benefits of running their own business are also responsible for their own taxes. Unlike employees, who have taxes withheld out of every paycheck, independent contractors may need to withhold taxes on their own income or use their own funds to make quarterly payments to the IRS. The Schedule C form is used to report taxes annually for their yearly income.

Here's the rundown on the Schedule C:

Schedule C Form

The Schedule C form helps anyone who is self-employed calculate the profit (or loss) of the business for annual taxes, which are due on April 15. A Schedule C form has two general parts: earnings and expenses. Under the earnings category, you will see "Gross receipts or sales," which refer to all the money flowing into the business. "Gross income" refers to revenue minus direct costs such as wholesale purchases.

The expenses section of the Schedule C includes common costs like advertising, utilities, rent, car expenses, and insurance. Make sure to track these expenses regularly, always saving and organizing receipts. Even though Schedule C only has to be filed with annual taxes, it's good practice to fill one out for quarterly taxes too. Remember, it's important to make accounting a regular business habit to build a financially viable business.

How to Fill Out the Schedule C

Let's go through the steps to take in filling out the Schedule C:

Determine How Many Schedule Cs You Need

What is the Schedule C-EZ and could you use it?

Similar to the 1040-EZ, which is the simplified version of the 1040 form, the Schedule C-EZ is the simplified version of the Schedule C. Self-employed workers and contractors should fill out the Schedule C-EZ if they:

- Earned a profit
- Have expenses are not greater than $5,000,
- Have no employees,
- Have no inventory, and
- Are not using depreciation or deducting the cost of their home

Read IRS Guidelines on the Schedule C-EZ

How many Schedule C's do I need to fill out?

Depending on the sources of 1099 income, contractors may need to fill out multiple Schedule Cs. Why? Because the IRS requires contractors to fill one out for each business type or professional activity they engage in. However, the IRS isn't incredibly straightforward on what constitutes a separate business type. Any contractor who provides different services or goods for different industries, may need to fill out a Schedule C for each business type or industry. Say, for example, a freelance graphic designer also drives for Lyft. In this case, the designer may need to fill out two Schedule Cs: one for Lyft income and another for design income.

Input General and Earnings Information on the Schedule C

General Information

Let's walk through the first part of the Schedule C where basic information is entered.

A. Principal Business or Profession

In this line, describe the type of work, like "driving services" or "design services."

B. Code

The code referred to in this line corresponds with the "Principal Business or Professional Activity Code" that the IRS uses to keep track of industries' growth. Find the code for the type of business. Here's a list of principal activity codes.

C, D, E. Business Name, EIN and Address

Only registered incorporated businesses (e.g. LLC) need to fill out business name and employer identification number. This should be left blank if the business is not registered. The address should be the contractor's up-to-date personal address or office space address.

F. Accounting Method

In this section, input the kind of accounting method used — either a cash or accrual basis. Many independent contractors (who are unincorporated) use the cash method in which earnings and expenses are counted as they happen. You should talk with your tax accountant if you have questions about which method to use.

G, H, I, J. Additional Questions

These questions are pretty self-explanatory. If a business hired any contractors or freelancers (or hired legal services), the business likely needs to send out 1099s and note that they've filed them with the IRS.

Part I: Income

In this part, input the contractors income. Here are the key components:

Gross Receipts or Sales: Include total gross earnings.

Returns and Cost of Goods Sold: Contractors may only need to fill this out if they sell a material or product. Returns applies to any time a customer returned a product. Cost of goods sold applies to amounts spent creating the products sold.

Other Income: Input an amount here of "other income" earned as defined by the IRS such as interest on loans or renting office space.

Gross Income: Tally all earnings after costs. This box generally equals the amount of gross receipts unless an amount was included for "Returns and Costs of goods sold".

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . ▶ ☐	1	
2	Returns and allowances . . .	2	
3	Subtract line 2 from line 1 . . .	3	
4	Cost of goods sold (from line 42) . . .	4	
5	**Gross profit.** Subtract line 4 from line 3 . . .	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . .	6	
7	**Gross income.** Add lines 5 and 6 . . . ▶	7	

Part II: Expenses

In this part, input all of the business-related expenses incurred throughout the year (or quarter). Here's a full list of what the IRS allows for [business expenses.]

Boxes 8-27: Input the amount spent for each expense in these boxes. The IRS [Schedule C form instructions] provide a box-by-box definition of the expense portion.

Box 28: Add all of the expenses from the above boxes 8-27. Home office and vehicle expenses are entered below.

Part II **Expenses.** Enter expenses for business use of your home **only** on line 30.

8	Advertising . . .	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions) . . .	9		19	Pension and profit-sharing plans .	19	
10	Commissions and fees .	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion . . .	12		b	Other business property . . .	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions) . . .	13		21	Repairs and maintenance . . .	21	
				22	Supplies (not included in Part III) .	22	
				23	Taxes and licenses . . .	23	
				24	Travel, meals, and entertainment:		
14	Employee benefit programs (other than on line 19) . .	14		a	Travel . . .	24a	
15	Insurance (other than health)	15		b	Deductible meals and entertainment (see instructions) .	24b	
16	Interest:			25	Utilities . . .	25	
a	Mortgage (paid to banks, etc.)	16a		26	Wages (less employment credits) .	26	
b	Other . . .	16b		27a	Other expenses (from line 48) . .	27a	
17	Legal and professional services	17		b	**Reserved for future use** . . .	27b	

Part III: Cost of Goods Sold

This part is typically for contractors who make physical products and input the amount of inventory and goods you've sold.

Part III	**Cost of Goods Sold** (see instructions)		
33	Method(s) used to value closing inventory: **a** ☐ Cost **b** ☐ Lower of cost or market **c** ☐ Other (attach explanation)		
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation . . . ☐ **Yes** ☐ **No**		
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation . . .	35	
36	Purchases less cost of items withdrawn for personal use . . .	36	
37	Cost of labor. Do not include any amounts paid to yourself . . .	37	
38	Materials and supplies . . .	38	
39	Other costs . . .	39	
40	Add lines 35 through 39 . . .	40	
41	Inventory at end of year . . .	41	
42	**Cost of goods sold.** Subtract line 41 from line 40. Enter the result here and on line 4 . . .	42	

Part IV: Information on Your Vehicle

This is where information regarding the vehicle expenses related to a business are included. There are two different methods the IRS allows for counting these expenses: the standard mileage rate or the actual expense method. For the standard mileage rate, the deduction is based on the number of business miles traveled (contractors can deduct $0.54 per mile) and accounts for gas, insurance, and depreciation. The actual expense method requires that itemize gas, insurance, etc be itemized to add costs together.

Part IV **Information on Your Vehicle.** Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ / /

44 Of the total number of miles you drove your vehicle during 2017, enter the number of miles you used your vehicle for:

a Business ________ **b** Commuting (see instructions) ________ **c** Other ________

45 Was your vehicle available for personal use during off-duty hours? . . . ☐ **Yes** ☐ **No**

46 Do you (or your spouse) have another vehicle available for personal use?. . . ☐ **Yes** ☐ **No**

47a Do you have evidence to support your deduction? . . . ☐ **Yes** ☐ **No**

b If "Yes," is the evidence written? . . . ☐ **Yes** ☐ **No**

Part V: Other Expenses

Record what the IRS counts as "other expenses" that are less common. Here's an explanation of what expenses the IRS includes as "other".