

COGS or supplies?

COGS = Cost of Goods Sold. It recovers the cost of products sold or materials that become part of those products. Supplies generally support the service or daily operation. Neither is a separate tax credit. [1,2]

Start with three questions:

- 1. What does the client sell or do?
- 2. What exactly did they buy, and how was it used?
- 3. Was it personal, used for customers, still on hand, or lasting equipment?

Client purchase	General treatment
Food ingredients	Meat, vegetables, cooking oil, spices and other ingredients in food sold: product costs/COGS.
Food packaging	Takeout boxes and containers furnished with meals: generally product costs/COGS.
Cleaning products	Chemicals, gloves, trash bags and similar items used on cleaning jobs: generally supplies, Schedule C line 22.
Products resold	Clothes, bottled cleaners or other merchandise purchased for resale: product costs/COGS.
Lasting equipment	Stove, refrigerator, vacuum, carpet machine: review capitalization, depreciation or an eligible expensing election. Do not automatically call everything supplies.
Personal purchases	Family groceries, home cleaning products and other personal costs: exclude the personal portion.

Never count the same cost twice. A purchase belongs in one appropriate place, not both COGS and supplies. [1,2]

Line references apply to the posted 2025/2026 Schedule C layouts. Use the return year’s instructions. Examples are fictional.

1 | A client who sells food

Ask for: sales records for cash, apps and cards; ingredient and packaging purchases; beginning/ending goods on hand; personal withdrawals; and the accounting method used last year. [1,2]

Under a traditional inventory method:

Beginning inventory + purchases and other includible product costs - ending inventory = COGS.

Illustration	Amount
Ingredients on hand at beginning of year	\$0
Business ingredient purchases during year	\$6,000
Less ingredients still on hand at year-end	(\$500)
Cost of goods sold in this simplified example	\$5,500

If sales were \$20,000, subtracting \$5,500 COGS leaves **\$14,500 gross profit**, before advertising, rent, utilities and other allowed expenses.

Where it goes: Schedule C Part III calculates COGS; line 42 carries to line 4. Other operating costs go to their own expense lines. Product costs cannot also be deducted on line 22. [1,2]

Separate these:

- Ingredients and qualifying packaging: product costs.
- Cleaner used to sanitize the kitchen: generally operating supplies.
- Family groceries: personal.
- A lasting commercial oven: asset/expensing review.
- Helpers: review worker classification and whether costs belong in production labor or operating labor; no duplicate deduction.

Important small-business option: Eligible small businesses may use an allowed alternative to traditional inventory accounting. This does not mean “put everything in supplies and deduct it immediately.” If using the nonincidental-materials-and-supplies inventory method, goods are generally used/consumed when provided to customers, subject to payment/incurrence rules. Document and follow the actual method consistently; a method change may require Form 3115 review. [1,2]

Interview question: “Of the food you bought, what was sold, what was still left, what went to your family, and what spoiled or was discarded?” Document waste/spoilage and apply the method correctly; do not deduct it twice.

2 | A client who cleans homes

Ask for: job/payment records; supply receipts or a supported summary; equipment purchases; helper payments; travel/mileage support; and the business share of mixed purchases.

Purchase	General Schedule C category
Products used on customer jobs	Line 22: cleaning chemicals, gloves, trash bags and other operating supplies.
Advertising	Line 8: business ads, flyers and promotions.
Business insurance	Line 15: qualifying business coverage.
Customer-job transportation	Line 9: eligible vehicle costs; commuting excluded. Do not combine mileage with the same vehicle's gas/repair deduction.
Independent helpers / employees	Line 11 / line 26 as applicable, after classification and reporting review.
Vacuum or carpet machine	Review equipment treatment and eligible expensing.
Bottles purchased to resell	Separate product costs/COGS; do not combine with products used while cleaning.

Simple example: \$18,000 cleaning receipts - \$1,200 supplies bought and used on jobs - \$300 advertising = **\$16,500 profit before other allowed expenses**. Supplies ordinarily reduce profit; they do not create a special credit.

If the \$1,200 includes \$200 of products for the client's own home, remove that \$200. If significant supplies remain unused, review deduction timing rather than assuming all spending is currently deductible. [1,3]

Five checks before filing:

- ☐ Include all sales once, including cash.
- ☐ Separate personal purchases.
- ☐ Identify goods still on hand and the accounting method.
- ☐ Review equipment separately.
- ☐ Keep the calculation and records relied on; resolve unclear totals.

IRS references

[1] Schedule C instructions: [irs.gov/instructions/i1040sc](https://www.irs.gov/instructions/i1040sc)

[2] Publication 334: [irs.gov/publications/p334](https://www.irs.gov/publications/p334)

[3] Tangible property rules:

[irs.gov/businesses/small-businesses-self-employed/tangible-property-final-regulations](https://www.irs.gov/businesses/small-businesses-self-employed/tangible-property-final-regulations)