

01 | Schedule C, made practical

A plain-language desk guide for Cassandra and her EROs. Read beside the tax form and keep the client's actual records nearby.

Year matters: Line references follow the IRS 2026 Schedule C currently posted. Your AOA software was showing TY 2025. For 2025, line 16b is other interest; the posted 2026 form separates vehicle-loan interest (16b) and other interest (16c). Use the actual return year and final instructions before filing. [1,2]

What you are preparing

Schedule C reports a sole proprietor's business results. Many single-member LLCs use it when no corporate tax election applies. An LLC name or a 1099 alone does not determine tax treatment. Use a separate Schedule C for genuinely separate businesses; refer partnerships and corporate returns for the correct entity filing. [2,3]

Sales - customer refunds - cost of goods sold - operating deductions - allowed home-office deduction = net profit or loss.

Net profit usually affects income tax and self-employment tax. It is not the same as money left in the bank: loans, owner transfers, asset purchases and loan repayments affect cash differently. [3,11]

Start the conversation here

[] What do you sell or do? Who pays you, how often, and through which accounts/apps?

[] When did the business actually begin? Any months closed, unpaid work or seasonal changes?

[] Who owns it? Any partners, employees or helpers? Any prior depreciation schedules?

[] Show me how you arrived at income and each expense total. What is missing?

[] Are any purchases personal, inventory, equipment or startup costs rather than current operating expenses?

Meeting order: setup and income → expenses → inventory/vehicles → depreciation → reconstruction → red flags and final review.

Collect first

Business interview; income/expense summary; bank/app/processor exports; 1099s; invoices; inventory details if applicable; asset purchase and financing records; mileage evidence; prior depreciation schedule; payroll/contractor summaries. Keep records relied on and source/date notes. A preparer does not automatically audit every receipt. [4,8,9]

02 | Business setup + income

Line / box	What it means	What to ask / watch for
Name / SSN	Individual owner's identity.	Match the return owner; enter an EIN only in the appropriate business field.
A / B	Describe the actual activity / select its business code.	"House cleaning" is clearer than "services." Choose the code matching the main activity.
C / D / E	Business name, EIN if applicable, and address.	No invented DBA or EIN; check entity ownership and location.
F	Cash: generally report when received/paid. Accrual: generally earned/incurred.	Do not change methods casually; inventory and method changes may need review.
G / H	Material participation / business started or acquired this year.	Ask who performs the work; passive-loss and startup issues need review.
I / J	Payments requiring information returns / filing those forms.	Review payees, payment methods and the year's rules. A W-9 helps collect payee details.
1	Gross customer receipts before operating expenses.	Include cash, checks, app payments and business tips even without a 1099. Reconcile overlaps.
2	Refunds and price allowances given to customers.	Document refunds; do not subtract twice if a summary already nets them.
3	Line 1 minus line 2.	This is sales after returns, before inventory cost.
4 / 5	COGS from line 42 / gross profit after COGS.	Service businesses may have no inventory cost; review the actual activity.
6 / 7	Other business income / gross income total.	Identify the type; owner loans and transfers are not customer revenue.

Example: \$30,000 receipts - \$500 refunds - \$4,500 COGS = \$25,000 gross profit. With \$200 other business income, line 7 is \$25,200. Training example only. [1-3]

03 | Expense lines 8-19

Line / box	What it means	What to ask / watch for
8	Advertising: promotion of the business.	Ads, flyers, website promotion. Separate personal spending and long-lived website development costs needing review.
9	Business car/truck operating deduction.	Use eligible mileage or actual method; exclude commuting. See vehicle page.
10	Commissions and fees.	Processor or sales commissions; reconcile gross sales before deducting fees.
11	Independent contractor labor.	Who did what, when and how paid? Review worker status and 1099 requirements; no owner labor.
12	Depletion of natural resources.	Specialized item; refer oil, gas, timber or mineral issues.
13	Depreciation and section 179.	Enter assets through the depreciation workflow, not again as supplies.
14	Employee benefit programs.	Employee benefits other than retirement. Owner health insurance generally needs separate Form 7206 review.
15	Business insurance other than health.	Liability coverage, for example. Avoid duplicating vehicle insurance under actual auto costs.
16a	Business mortgage interest.	Interest only, not principal; home-office costs belong in the home-office calculation.
16b / 16c	2026: vehicle-loan interest / other business interest.	Allocate business use. 2025 combines other interest on 16b. Trace how borrowed funds were used.
17	Legal and professional fees.	Business accounting/legal work; split personal return preparation. Capital/startup fees may need other treatment.
18	Office operating expenses.	Postage, office consumables and similar items. Durable equipment may belong in assets.
19	Employee pension/profit-sharing contributions.	Owner's own retirement deduction generally goes elsewhere; review plan documents.

For each total ask: **What was purchased? What was its business purpose? How was the amount calculated? What portion is personal?** [2,3,5,12]

04 | Expense lines 20-32 + Part V

Line / box	What it means	What to ask / watch for
20a / 20b	Rent leased vehicles/equipment / other business property.	Business share only. Security deposits usually are not current rent expense.
21	Repairs and maintenance.	Keeps property operating; a betterment, restoration or new use may be an improvement/asset.
22	Operating supplies not in COGS.	Cleaning chemicals used in a service, for example. Exclude personal goods and duplicate inventory costs.
23	Deductible business taxes/licenses.	Business licenses and applicable taxes. No federal income tax or owner SE tax here.
24a	Qualifying business travel away from tax home.	Purpose, dates and overnight/rest requirement. Separate vacation days and personal companions.
24b	Deductible business meals.	Generally 50% when eligible; record who, date, amount and purpose. Ordinary solo workday lunches are personal.
25	Business utilities.	Allocate mixed phone/internet use; no double count of home-office costs. Basic first home phone line is generally personal.
26	Employee wages, adjusted for applicable credits.	Payroll records and worker classification. Owner draws are not wages on a sole proprietor's Schedule C.
27a	Special commercial-building energy deduction.	Form 7205 and technical eligibility; escalate rather than using for ordinary repairs.
27b / 48	Other costs itemized in Part V.	Name each category: software subscriptions, bank charges, etc. No unexplained "miscellaneous" lump sum.
28 / 29	Expense total / result before home office.	Check totals and business allocation; no duplicate COGS or asset cost.
30	Allowed home-office deduction.	Regular/exclusive use generally required; exceptions exist. Actual Form 8829 or simplified method.
31	Net profit/loss after home office.	Flows to other tax calculations; review losses and prior carryovers.
32a / b	At-risk investment check for losses.	Some investment not at risk requires Form 6198; passive and other loss limits can also apply.

Home office: collect measurements, use/purpose, dates and cost sources. Simplified method generally uses \$5 per eligible square foot, up to 300 square feet, subject to limits; actual method allocates eligible expenses and may involve home depreciation. [1-3,5,7,13]

05 | Inventory + every remaining line

Line / box	What it means	What to ask / watch for
33 / 34	Inventory valuation method / changes in method or quantities.	Maintain consistency. Eligible small businesses have alternative accounting rules; do not simply ignore unsold goods.
35	Beginning inventory.	Usually matches last year's ending inventory; explain differences.
36	Purchases for resale, less personal withdrawals.	No household groceries; remove merchandise the owner kept.
37	Production labor included in inventory cost.	No payment for the owner's own work; no duplicate contract-labor deduction.
38	Production materials and supplies.	Ingredients/materials becoming the product; separate operating supplies.
39	Other includible inventory costs.	Such as applicable inbound freight; review allocation.
40 / 41	Goods available / ending inventory.	Add 35-39, then determine goods remaining under the proper method.
42	COGS: line 40 less line 41.	Carries to line 4. Do not deduct it again in operating expenses.
43	Vehicle first used for business date.	Not automatically its purchase date.
44a / b / c	Business / commuting / other miles.	Reconcile to total annual miles; separate categories.
45 / 46	Personal availability / another personal vehicle.	Answer facts, not what gives the best deduction.
47a / b	Evidence supporting vehicle claim / written evidence.	Maintain mileage support; do not mark "yes" without a basis.
48	Total separately listed other expenses.	Carries to 27b; describe the nature of each category.

COGS versus supplies: quick examples

Baker: ingredients in cupcakes sold are product costs; household food is personal. Cleaner: chemicals used while cleaning are generally service supplies. Boutique: resale clothing is merchandise; display racks are equipment. The accounting method affects timing. [1,3]

Illustration using inventory: \$1,000 beginning goods + \$8,000 purchases + \$500 includible freight - \$1,500 ending goods = **\$8,000 COGS**. An empty room at year-end is not proof every purchase was sold.

06 | Depreciation: the decision, not just a box

Depreciation spreads an asset’s business cost over time. An eligible first-year deduction can accelerate recovery. It is a deduction, not a dollar-for-dollar tax refund. [6]

Choice	Plain-language treatment	Main checkpoint
Regular depreciation	Recover basis over its assigned tax life using the proper method/convention.	Classify the asset; software calculates annual amounts.
Section 179	Elect to expense eligible cost now.	Annual dollar/phaseout and business-income limits; generally >50% business use. Unused qualifying amounts may carry forward.
Bonus depreciation	Accelerated allowance on eligible remaining basis.	Qualified property acquired and placed in service after Jan. 19, 2025 generally qualifies for 100% under current law; acquisition rules/exceptions matter. Not subject to the same business-income cap as 179.
De minimis safe harbor	Expense qualifying small-dollar tangible property under an annual election.	Generally \$2,500 per invoice/item without an applicable financial statement; bookkeeping policy and other requirements apply. Not an automatic rule for all purchases.

What goes into the asset screen

Description; purchase/acquisition date; date ready and available for business use; invoice and basis details; business-use percentage and support; new/used status; prior deductions; method/class life; any sale, trade-in or conversion. Save the prior depreciation schedule, not just the prior return total. [6,7,14]

Borrowing does not mean only the down payment is basis. A qualifying purchased asset can have basis including financed cost; loan principal is not a second expense. Land and resale inventory are not depreciated. Personal-to-business conversions need special basis review. [6]

Form 4562 map

Part I: section 179. **Part II:** special allowance/other depreciation. **Part III:** MACRS. **Part IV:** summary. **Part V:** listed property/vehicle details. **Part VI:** amortization of eligible intangible costs. File when required, including new depreciable assets, section 179 and listed-property depreciation. [7]

Order: determine eligible basis → section 179 if elected → bonus if applicable → regular depreciation on what remains. Elections and loss limitations require reviewer attention. [6,7]

07 | Vehicles + depreciation example

Never assume a truck is fully deductible because it is large or used for work. Obtain the vehicle facts before selecting a method.

Two operating-cost methods

Mileage: eligible business miles × the applicable rate for the year/period. Keep dates, destinations, business purpose and distance plus annual total mileage. The rate already includes depreciation and operating costs; do not add gas, insurance, repairs or separate depreciation for those same miles. Eligible business parking/tolls and business loan interest may be separate. [10,15]

Actual: apply supported business use to allowable fuel, insurance, repairs and other vehicle costs, plus permitted depreciation/lease treatment. Ordinary commuting stays personal. Compare available methods before filing; prior elections can restrict switching. [10]

For a 2025 practice return, 10,000 eligible miles × \$0.70 = **\$7,000** before eligible separate items. Do not reuse a 2025 rate for 2026; verify rates by travel date, including any midyear change. [2,15]

Fictional equipment example: isolate the concept

A cleaner purchases and begins using a \$10,000 eligible machine in February 2026, 80% business use. Assume no credits or basis adjustments. Business basis is **\$8,000**.

With \$3,000 of available business taxable income for the section 179 limit and no other complicating facts, section 179 generally cannot currently deduct the full \$8,000; the income limit applies. Eligible 100% bonus could instead deduct \$8,000 and create/increase a business loss, subject to other limits. Regular depreciation spreads recovery; its first-year amount depends on classification and convention. This machine example is not a passenger-vehicle calculation. [6,7]

Vehicle asset file

Invoice; VIN; financing statement; title/ownership; placed-in-service date; annual miles; contemporaneous log or supported reconstruction; business-use calculation; prior method/depreciation; manufacturer GVWR and vehicle configuration where limits matter.

Passenger-auto caps, heavy-SUV section 179 limits, cargo-bed exceptions and >50% qualified business-use rules can change the result. A later sale or business use falling to 50% or less can trigger recapture. Escalate these before promising a full write-off. [6,7]

08 | Reconstructing income without guessing

Reconstruction rebuilds missing records from evidence. It does not choose an income amount that produces a desired refund. [8,9]

1. Establish the real activity

Describe services/products, work dates, rates, customers and weeks worked. Identify closed weeks, cancellations and free work.

2. Gather every payment source

Bank statements, app exports, processor reports, booking calendars, invoices, customer messages, deposit slips and 1099s. Include cash never deposited.

3. Build a monthly ledger

One row per receipt or supported monthly total: date, source, gross amount, payment method, refunds, fees and document reference.

4. Remove overlap, not revenue

A processor payment transferred to a bank is one sale. The 1099-K, app entry and bank deposit can describe the same dollars. Mark duplicates.

5. Explain non-sales deposits

Identify loans, owner contributions, account transfers and personal gifts with their supporting source. Do not exclude a customer payment merely because labeled "friends/family."

6. Support missing periods

Use calendar entries × documented rates, adjusted for actual attendance, discounts, price changes and seasonality. Do not multiply a best week by 52 without facts.

7. Reconcile and review

Tie the ledger to records and explain differences. Keep source copies, calculations, assumptions, missing items and dated client confirmation. Escalate unresolved material gaps.

Worked reconciliation: no double counting

Processor gross sales \$12,000; refunds \$300; fees \$360; bank payout \$11,340. Separately supported direct cash sales \$4,000. The processor's \$12,000 also appears on a 1099-K.

Line 1 = \$16,000 (\$12,000 + \$4,000). **Line 2 = \$300**. **Line 10 = \$360** if classified there. Do not add the 1099-K or payout again. This illustration assumes the listed gross includes neither separately collected sales tax nor other adjustments. [8,16]

Do: document a defensible method. **Do not:** fabricate invoices, omit cash, treat every deposit as sales, or treat a signed client statement as a substitute for resolving contradictions.

09 | Expenses, red flags + filing decision

Rebuild expenses carefully

Request vendor duplicates, online order history, statements and payment records. Identify item, date, business purpose and personal share. A store name or cash withdrawal alone does not show a deductible purchase. Do not use an industry percentage as a made-up expense amount. Certain items, including vehicles/travel, have strict substantiation rules; general estimating is not a substitute. [8,10]

What you notice	Ask next	Office action
All round numbers / no method	How did you calculate each amount? Which records remain?	Reconstruct and document the basis.
No expenses for an activity that normally has costs	Who provided supplies, equipment and transportation?	Resolve completeness; do not add imaginary costs.
Deposits do not match reported sales	Which entries are sales, transfers, loans or processor payouts?	Prepare a reconciliation.
100% vehicle business use	Where are commuting/personal trips? Another personal vehicle?	Review log and annual mileage.
Huge supplies or repairs	Any equipment, improvements or personal purchases included?	Reclassify and review assets.
Profit chosen to maximize EIC	Why did the figures change? Is all income/expense included?	Do not manipulate income or omit allowable expenses.
Repeated losses / unclear customers	What is the profit plan and actual business activity?	Review business-versus-hobby and loss rules.
Workers called contractors automatically	Who controls work, tools, schedule and business risk?	Review classification; refer if uncertain.

A red flag calls for follow-up; it is not proof of fraud. Record questions, answers, source/date and resolution. If material facts remain unsupported or contradictory, hold the affected return and request review; decline if concerns cannot be resolved. Software checkboxes do not replace judgment. [4,9,12]

Before releasing the return

[] All income sources reconciled. [] Expenses have a supported basis. [] No duplicate COGS/assets/vehicle costs. [] Personal items excluded. [] Depreciation and carryovers reviewed. [] Required information-return issues addressed. [] Applicable Form 8867/calculations and relied-on records retained. [] Client reviewed figures; unresolved issues cleared. [4]

10 | Desk references + meeting notes

Forms she will see

Form / schedule	Purpose	When to review
1099-NEC / 1099-K	Reports certain receipts/payments; not the full business books.	Match to ledger without duplicate income.
Schedule SE	Calculates self-employment tax.	Generally net SE earnings of \$400 or more; exceptions apply.
Schedule 1 / Form 1040	Carries business income and certain adjustments.	Check flow, not just Schedule C.
Form 4562 / 4797	Depreciation/amortization / certain asset sales and recapture.	Equipment, vehicles and dispositions.
Form 8829 / 7206	Actual home office / self-employed health insurance.	Separate eligibility and limits.
W-9 / 1099-NEC / W-2	Payee information / contractor reporting / wages.	Apply year-specific filing and classification rules.
Forms 6198 / 8582 / 461	At-risk / passive / excess business-loss limits.	Losses needing review.
Form 8867	Paid-preparer due diligence checklist for covered credits/HOH.	Not required solely because a Schedule C exists.

Practice prompts: Where would a \$900 personal grocery purchase go? What if an app sale appears on the bank statement and 1099-K? What date starts depreciation? Why is a truck payment not automatically an expense? Explain your answer before entering the return.

Questions for Cassandra / follow-up: _____

IRS reference links

[1] **2026 Schedule C**

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

[2] **Schedule C instructions (currently 2025)**

<https://www.irs.gov/instructions/i1040sc>

[3] **Publication 334**

<https://www.irs.gov/publications/p334>

[4] **Preparer due diligence**

<https://www.irs.gov/tax-professionals/eitc-central/due-diligence-requirements-for-tax-preparers>

[5] **Business expense resources**

<https://www.irs.gov/forms-pubs/guide-to-business-expense-resources>

[6] **Publication 946**

<https://www.irs.gov/publications/p946>

[7] **Form 4562 instructions**

<https://www.irs.gov/instructions/i4562>

[8] **Reconstructing records**

<https://www.irs.gov/tax-professionals/eitc-central/recordkeeping>

[9] **Self-employed due diligence**

<https://www.irs.gov/tax-professionals/eitc-central/eitc-due-diligence-and-self-employed-taxpayers>

[10] **Publication 463**

<https://www.irs.gov/publications/p463>

[11] **Self-employment tax**

<https://www.irs.gov/businesses/small-businesses-self-employed/self-employment-tax-social-security-and-medicare-taxes>

[12] **Worker classification**

<https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee>

[13] **Publication 587**

<https://www.irs.gov/publications/p587>

[14] **Tangible property rules**

<https://www.irs.gov/businesses/small-businesses-self-employed/tangible-property-final-regulations>

[15] **Mileage rates**

<https://www.irs.gov/tax-professionals/standard-mileage-rates>

[16] **Form 1099-K**

<https://www.irs.gov/businesses/understanding-your-form-1099-k>

Training guide; use the return year's law and instructions. Specialized items are review triggers, not automatic deductions. Examples are fictional. Keep client-specific determinations in the secure file.