

TAX TIPSHEET DC AARP TAX-AIDE					Schedule C- General			
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## Purpose

Taxpayers who have non-employment business income will report the income on *Schedule C*. Business income information may come from *1099-NEC*, *Form 1099-MISC*, *Form 1099-K*, *Form W-2s* and the taxpayer’s books and records. Many sites ask self-employed taxpayers to fill out the *Schedule C Worksheet*, which is a helpful time saver in identifying potential scope issues and gathering the right information. This *TipSheet* discusses the available reference guides and a number of specifics associated with business income.

This *TipSheet* may be used in conjunction with the *Medicaid Waiver Payment TipSheet*. In this *TipSheet*, a reference to a state or states is meant to include the District of Columbia.

## Primary Reference Materials

The first place to start in preparing to enter the tax return of a self-employed taxpayer is the *NTTC Guidelines for Schedule C*. The *NTTC Publication 4012* is also a useful guide, particularly to *TaxSlayer* data entry. If this is the first *Schedule C* you are preparing or if it has been some time since you prepared a *Schedule C*, the step-by-step instructions in *NTTC Publication 4491, Lesson 9* can be helpful. Find the latest version of these reference materials along with the *Schedule C Worksheet* at [taxaidedc.org](http://taxaidedc.org).

## Scope

The preliminary task of preparing *Schedule C* is determining if the return is within scope. The *Guidelines for Schedule C* list the scope parameters on p. 1. These are also discussed in *Pub 4491, page 9-2*.

## Schedule C and TaxSlayer

The *NTTC* annotated edition of *Pub 4012* provides an excellent discussion of how to enter information for *Schedule C*. Please consult pages D-21 – D-31. Only a few of these topics are discussed below.

## Business Classification Code

The Business Classification Code used is the *North American Industry Classification System* (NAICS) code. If you do not know the business classification code, first look at the taxpayer’s 2021 tax return to see if a *Schedule C* has the business classification code. *TaxSlayer* provides a drop down of possible codes, but it is difficult to use. If you need to find a code, the US Census Bureau provides a useful tool at <https://www.census.gov/naics/>. Fill in a keyword (for instance, “cleaning” for someone who has been cleaning homes for a living) in the first box on the left,

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labeled “2022 NAICS Search”, and click *Go*. If one term produces too many results, then add a second term (“cleaning services,” for example). Then look down the resulting list to find the closest match to the services the taxpayer describes (in our example, the correct choice is 561720, housekeeping services, which is part of the general code Janitorial Services).

Some of the most frequent codes that we utilize in DC for self-employed taxpayers are:

Code	Services Provided
561720	Janitorial services, such as housekeeping services, window cleaning services, maid services, office cleaning services, restaurant kitchen cleaning services, and building cleaning services
561730	Landscaping services including lawn and garden maintenance, tree services and snow removal
624410	Babysitting services, child day care
624120	Non-medical care of the elderly and disabled
485300	Ride-sharing services (Lyft, Uber, etc)
492210	Food and grocery delivery (Instacart, GrubHub)
812990	Personal services (Task Rabbit)
561720	Cleaning services (Merry Maids)
812910	Pet sitting and walking services (Rover, etc.)

If the taxpayer has received a *1099-NEC* for Medicaid waiver payments, see the *Medicaid Waiver Payment TipSheet*.

If you are unable to determine the correct code, fill in “999999,” the last entry in the drop-down list of business codes. “Unclassified” will automatically be entered as the description.

### Health Insurance Expenses Adjustment

Health insurance expenses are particularly important. Taxpayers *with Schedule C income* are eligible for a special deduction (the self-employed health insurance deduction). This deduction does not affect social security taxes and is not reflected on Schedule C itself. The deduction will appear on line 17 of Form 1040 Schedule 1 as an adjustment to income. The expenses eligible for this adjustment include health insurance costs for the taxpayer, his or her spouse and children

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under age 27 (even if the child is not a dependent). Consult Schedule C Guidelines, p. 5 and the helpful discussion of eligible expenses and limits at Publication 4012, D-29.1

### Car and Truck Expenses

The most common and frequently the largest business expense is business mileage, i.e., the miles driven when a vehicle is used for business purposes. The Schedule C Guidelines discuss business mileage at pp. 3-4. Also helpful is the longer discussion and data entry explanation in Pub 4012 at p. D-30-31. Please note that a taxpayer cannot shift between claiming standard mileage and claiming actual expenses on the same vehicle unless the first year the taxpayer used the car for business the taxpayer used standard mileage. You will need to rely on the taxpayer for this information unless a copy of the return for the first year the car was used for business purposes is available. If the return was prepared at a TaxAide site, you can assume that standard mileage was used.

If 2023 is the first year that the vehicle is being used for business purposes, explain that using actual expenses will make the return out of scope and limit flexibility to claim standard mileage in future years.

### DC Form D-30

Many self-employed taxpayers in DC are required to file the Franchise Tax Form for Unincorporated Businesses, Form D-30. The requirement to file Form D-30 applies to any business carrying on and/or engaging in any trade, business, or commercial activity in DC with income from DC sources unless the business has less than \$12,000 in gross income (profit is irrelevant) or more than 80% of its gross income is derived from personal services rendered by the owner of the business and capital is not a material income-producing factor. Someone who cleans homes or walks dogs for a living, for instance, is not required to file the Franchise Tax Form.

The franchise tax is a minimum of \$250 for businesses with gross receipts less than \$1 million. The tax will only be higher than \$250 if the net income of the business is more than \$9,290.

DC TaxAide does not prepare Form D-30, which is a franchise tax form rather than an income tax form. This filing is not a requirement for many of our *Schedule C* taxpayers, such as housekeepers, home healthcare aides and landscapers. The District takes the position that the requirement applies to other businesses such as ride-sharing services and food delivery services because of the requirement to have a car to do business. The District also takes the position that business operators who live outside the District but operate in the District must file Form D-30 in DC. This rule applies to Maryland and Virginia residents who drive in the District with Uber and Lyft.

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As tax counselors we can advise our *Schedule C* DC resident taxpayers with more than \$12,000 in self-employed business income to seek professional advice or contact OTR to determine their Form D-30 requirements. This will help them avoid penalties and interest in the future for failure to file. Taxpayers who are paying franchise taxes for their businesses will deduct their franchise taxes on their federal *Schedule C* as a business expense. The franchise taxes will then be an addition to income on their DC tax filing, treated similarly to the itemized deduction of DC income taxes on a federal return and their addition to AGI on the DC return.

The same advice should be offered to Maryland taxpayers who are driving for ridesharing services or work as independent contractors drive in DC for other driving services such as limousine and taxis services.