Schedule C Training

Profit or loss from business / 2027 filing season

A practical guide for preparing and reviewing tax year 2026 Schedule C returns at Affluent Tax Solutions.

WHAT YOU WILL PRACTICE

Decide whether Schedule C fits the facts, reconcile receipts to information forms and deposits, classify expenses, and trace net profit or loss through the federal individual return.

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How to use this manual

Start with the worked example. Complete both practice cases independently, compare your results with the answer key, and submit your reconciliation and notes for review. Use fictional records in the approved training environment.

SCOPE AND TAX YEAR

This manual focuses on basic U.S. sole proprietorships. Line references follow the IRS 2026 Schedule C. Check current tax-year instructions and approved software before filing, especially for depreciation, loss limitations, and qualified business income.

When Schedule C applies

Identify who earned the income and how the activity is taxed

01 Start with the activity
Ask what the client sells or does, who owns the business, and how regularly it operates. A Schedule C trade or business generally involves a profit objective and continuity and regularity. Document the facts when the activity is occasional or consistently unprofitable.

02 Verify federal tax classification
An individual sole proprietor generally uses Schedule C. An individually owned single-member LLC generally follows the same route if it is disregarded for federal income tax purposes. Confirm ownership and any corporate election. Escalate multi-owner businesses and possible corporate or partnership returns.

03 Classify each source by the facts
W-2 wages generally flow to Form 1040. If a W-2 is marked statutory employee, review the Schedule C instructions. A Form 1099-NEC or 1099-K prompts a review of the underlying activity. Farms, rentals, and personal sales may need different reporting.

04 Identify distinct businesses
Prepare a separate Schedule C for each distinct business, as applicable. Discuss whether activities belong together and keep the receipts and expenses for each separately. Refer shared ownership and qualified joint venture questions for review.

> **ESCALATE BEFORE PREPARING**
>
> Pause for unclear worker classification, missing books, a hobby-versus-business question, entity elections, or a business with unusual losses. Ask the reviewer to resolve the filing approach before entering the activity.

Interview question

“Who owns the activity, what did you do to earn the money, and did you operate any other businesses this year?”

Client interview

Gather the records needed to support each material entry

Business profile	Business activity, owner, business name and address, EIN if applicable, start date, prior-year Schedule C, and accounting method.
Sales and payment records	Invoices, sales ledger, cash receipts, deposit records, processor statements, Forms 1099-NEC and 1099-K, and refunds or allowances.
Expense support	Itemized expense summary, receipts, statements, business purpose, allocation method for shared costs, and asset purchase and in-service dates.
Special situations	Vehicle log, inventory counts, home-use measurements, contractor payments, estimated federal payments, and prior depreciation or carryovers.

Complete the top of Schedule C

Choose the business activity code from the current instructions. Confirm accounting method, material participation, start or acquisition during the year, and whether business payments triggered information reporting. Document the facts behind those responses.

Build the workpapers

• Identify the source, date, and amount for material items. Keep a reconciliation and a list of unresolved questions.

• For cash-method exercises, use receipts and expenses for the appropriate year under the applicable rules. Flag accounting method or timing changes.

• Check current Form 1099 rules for contractors and payment methods. Keep taxpayer and contractor information in approved ATS systems.

> **FILE STATUS**
>
> Move the file to review once receipts reconcile, expense support is available, and open questions are documented and assigned.

Gross receipts

Reconcile sales before entering Part I

01 Start with a gross sales ledger
Include taxable business receipts such as cash, checks, card sales, and platform payments. Report business income even when no information return was issued. Ask about any income recorded outside the primary ledger.

02 Match information forms to transactions
Trace Forms 1099-NEC and 1099-K to invoices and ledger entries. Count overlapping transactions once. Investigate personal transfers and erroneous forms, request corrections where appropriate, and document the reporting resolution.

03 Bridge gross sales to deposits
Identify processor fees, refunds, transfers, owner contributions, and other reconciling items. A processor deposit may already be net of fees. Record eligible fees once and keep the math showing how you got from gross sales to deposits.

Part I map

Lines 1–3	Gross receipts or sales, less sales returns and allowances, equals net sales.
Lines 4–5	Subtract cost of goods sold from Part III, if applicable, to determine gross profit.
Lines 6–7	Add other business income reportable here to determine gross income.

QUICK CHECK

A processor reports $10,000 of sales and deposits $9,650 after $350 in fees. With no other differences, reconcile $10,000 gross receipts and $350 in eligible fees. The $9,650 deposit is the net cash received.

Business expenses

Classify documented costs and keep personal spending separate

Start with the business purpose. A deductible business expense generally must be ordinary and necessary. Ask what was purchased, how it was used, and whether the amount includes personal use. Document the supported business share.

Advertising | Line 8	Business promotion such as a paid ad campaign or printed flyers.
Commissions and fees | Line 10	Examples may include eligible processing fees. Use a consistent category and record the fee once.
Contract labor | Line 11	Amounts paid for qualifying nonemployee services. Review worker classification and applicable information-reporting duties.
Insurance | Line 15	Business liability coverage. Review self-employed health insurance separately.
Office expense / supplies | 18 / 22	Use the category that fits the cost. Business consumables used to provide a service may be supplies. Items bought for resale require separate review.
Taxes and licenses | Line 23	Eligible business licenses and taxes. Review the instructions for exclusions and special treatment.
Other expenses | Part V to line 27b	Itemize eligible costs without a better dedicated line. Record the description and amount.

Costs to flag

Owner draws and personal expenses do not reduce Schedule C profit. Ask about owner payments, equipment, repairs that improve property, loan principal, mixed-use subscriptions, and any expense posted twice across the ledger and card statement.

> **REVIEW TEST**
>
> For each material item, point to the supporting record, explain the business purpose, and show how the amount was allocated or limited.

Mileage, travel & meals

Use dates, business purpose, and the right method

Vehicle expenses

• Compare standard mileage with actual expenses when eligible. Ask about prior-year methods, ownership or lease, and when the vehicle first went into business use. The method history can limit the choice.

• Separate business travel, personal trips, and ordinary commuting. A useful log shows date, destination, business purpose, and miles. Gather total annual miles and other records needed for the applicable form.

• When using standard mileage, avoid claiming fuel, maintenance, insurance, or depreciation for the same miles. Review qualifying business parking and tolls separately. With the actual method, document the business-use share.

2026 business mileage rates

Jan. 1–June 30, 2026	72.5¢ per eligible business mile
July 1–Dec. 31, 2026	76¢ per eligible business mile

Example: 600 first-half business miles × $0.725 = $435. Add 800 second-half business miles × $0.76 = $608. Total standard mileage deduction is $1,043 before any separately eligible items.

Travel and meals

Business travel generally requires being away from the tax home long enough to need sleep or rest. Verify the facts and separate business and personal costs. For otherwise qualifying business meals, the general deduction limit is 50%, with exceptions. Document the business purpose and who attended where relevant.

> **FORM PLACEMENT**
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> Vehicle expenses generally go on line 9. Complete vehicle information in Part IV when required or review Form 4562 if applicable. Travel and deductible meals are separate entries on lines 24a and 24b.

Inventory, assets & home

Keep cost of goods sold and special deductions distinct

01 Inventory and cost of goods sold
In a basic inventory example, add opening inventory, eligible purchases net of personal withdrawals, and applicable production costs, then subtract ending inventory. Schedule C Part III calculates cost of goods sold, which carries to Part I line 4. Confirm the taxpayer's method and verify opening inventory against prior records. Small-business exceptions may apply.

02 Equipment and other long-lived assets
Collect purchase date, date placed in service, cost, business-use percentage, and prior depreciation. Determine whether the cost is an expense or an asset. Refer depreciation, Section 179, bonus depreciation, listed property, and dispositions to the reviewer when applicable.

03 Business use of home
Check regular and generally exclusive business use and whether the space meets an eligible use test. Compare actual expenses, generally using Form 8829, with the simplified method if eligible. Enter the allowed amount on line 30. Document business area, period of use, and applicable limits.

04 Daycare and storage exceptions
A qualifying daycare or inventory storage activity may meet an exception to exclusive use. For in-home daycare, confirm regular use, licensing or exemption facts, and the time and space allocation. Review IRS Publication 587 before calculating the deduction.

> **KEEP COSTS IN ONE PLACE**
>
> Do not deduct inventory purchases both in cost of goods sold and as supplies. Check that expenses allocated to business use of the home are not deducted again elsewhere.

Interview question

"What did you have left to sell at year-end, and did you purchase equipment or use a specific area of your home for the business?"

Residential cleaning

Fictional cash-method sole proprietor / Tax year 2026

Kai's sales ledger shows $18,000 in cleaning revenue. An $11,000 Form 1099-NEC is already in the ledger. The other $7,000 came through a card processor, which reported $7,000 on Form 1099-K and deposited $6,550 after $450 in fees. Kai had no returns, inventory, or home-office claim.

Line 1 / line 7	$18,000 gross receipts and gross income. The two forms tie to the ledger. The processor deposit is already net of fees.
Line 8	$600 documented advertising
Line 9	$1,485 mileage. 1,000 miles × $0.725 plus 1,000 miles × $0.76. Assume a qualifying method and complete business-use records.
Line 10	$450 card processing fees, supported by processor records
Line 15	$900 business liability insurance
Line 22	$1,500 cleaning supplies consumed in the business
Line 28	$4,935 total expenses before business use of the home
Line 31	$13,065 net profit ($18,000 $4,935)

Workpaper trail

Save a reconciliation from the ledger to both forms and the processor deposits, dated mileage subtotals by rate period, and a category total tied to receipts or statements. Note why the processor fee appears once.

> **CHECK YOUR ENTRY**
>
> If software shows $6,550 of card sales and also deducts $450 in fees, fix the gross receipts entry. The receipts and expense totals should independently tie to the records.

From profit to Form 1040

Trace the amount beyond Schedule C

01 Transfer net profit or allowed loss

For the basic sole proprietor example, Schedule C net profit generally flows to Schedule 1 and is used to figure self-employment tax on Schedule SE. If line 31 is a loss, review line 32 and applicable at-risk, passive activity, and excess business loss rules before treating it as deductible.

02 Calculate self-employment tax

Schedule SE generally applies when net earnings from self-employment are $400 or more, subject to exceptions. For a basic case below the Social Security wage base, the computation generally applies 92.35% to profit, then 12.4% Social Security and 2.9% Medicare to the applicable amounts. W-2 Social Security wages can affect the Social Security portion.

03 Review the adjustment and other items

The deductible portion of SE tax generally goes to Schedule 1. SE tax generally flows through Schedule 2. Separately assess qualified business income under current Form 8995 or 8995-A instructions. Review estimated payments as payments on the return.

Continue Kai’s worked example

Assume no W-2 wages or other SE income. $13,065 × 92.35% yields approximately $12,066 in net earnings for SE tax. The estimated SE tax is about $1,846, with a deductible half of about $923. Verify software rounding and any limits on the prepared return.

> **QBI REVIEW**
>
> QBI is a separate calculation. Business-related adjustments may change it, and eligibility and taxable-income rules can affect the deduction. Use the tax-year form instructions, including the applicable 2026 rules, and escalate unusual facts.

Two Schedule C cases

Prepare the workpapers before opening the answer key

Case A | Handmade goods

Drew uses an inventory method for a small online store. Gross sales were $26,000, including the entire $21,000 reported on Form 1099-K. The remaining $5,000 was collected directly. Customers received $1,000 in documented sales refunds. Opening inventory was $3,000, purchases for resale were $10,000, and ending inventory was $4,000. There were no personal withdrawals or other inventory costs. Documented operating costs were $900 platform fees and $600 advertising.

Assignment. Reconcile sales, compute cost of goods sold, and calculate Schedule C net profit. Explain where to enter the refunds and why inventory purchases are not a separate supplies expense.

Gross receipts / net sales _____

Cost of goods sold / gross profit _____

Operating expenses / net profit _____

Case B | Local delivery

Morgan’s delivery app statement shows $17,000 in gross business payments and $1,200 in fees, leaving $15,800 deposited. Morgan collected another $1,000 in cash tips outside the app and used $300 in documented business supplies. Morgan qualifies for standard mileage and logged 600 eligible business miles through June 30 and 800 from July 1 on. The log separately lists 250 ordinary commuting miles. No other business expenses or income apply.

Assignment. Reconcile gross receipts, compute vehicle expenses for each period, and calculate Schedule C net profit. Identify which miles to exclude.

Gross receipts / app fees _____

Business mileage deduction _____

Other expenses / net profit _____

SUBMIT FOR REVIEW

Include your reconciliations, Schedule C line totals, and a short explanation of how you handled duplicate forms, sales refunds, app fees, or commuting miles as applicable.

Solutions & review

Compare the totals and explain the treatment

Case A | Handmade goods

Lines 1–3	$26,000 gross sales $1,000 returns = $25,000 net sales. The $21,000 Form 1099-K is included in gross sales.
Part III / lines 4–5	$3,000 opening inventory + $10,000 purchases $4,000 ending inventory = $9,000 cost of goods sold. Gross profit is $16,000.
Lines 28 and 31	$900 fees + $600 advertising = $1,500 expenses. Net profit is $14,500.

Case B | Local delivery

Line 1	$17,000 app gross payments + $1,000 cash tips = $18,000 receipts. Confirm app fees by reconciling gross app payments to $15,800 in deposits.
Lines 9, 10 and 22	$435 first-half mileage + $608 second-half mileage = $1,043. Exclude all 250 commuting miles. Claim $1,200 in app fees and $300 in supplies.
Lines 28 and 31	$2,543 total expenses. Net profit is $15,457.

ATS reviewer checklist

• Confirm business classification, activity code, and accounting method.

• Reconcile gross receipts to source records and explain any differences or overlaps.

• Verify business purpose, expense classification, allocations, and dated mileage support.

• Check inventory and home-use calculations where applicable. Confirm no cost was duplicated.

• Trace line 31 to Schedule 1 and Schedule SE as applicable. Resolve losses or other exceptions before release.

IRS resources

Official forms, instructions, and reference material

Use the tax-year revision for the return you are preparing. The IRS links below support the lessons, line references, and worked examples.

2026 Schedule C
Official form and line references

Schedule C instructions
Business classification, accounting, and line-by-line instructions

Publication 334
Tax guide for individuals using Schedule C

Publication 583
Starting a business and keeping records

Understanding Form 1099-K
Payment reporting and reconciling transaction records

Publication 1099
Current information-return reporting requirements

Publication 463
Travel, meals, vehicle expenses, and recordkeeping

IRS standard mileage rates
2026 business rates and the July 1 effective date

Publication 587 and Form 8829 • Form 8829
Business use of home, daycare, and deduction methods

Form 4562
Depreciation and amortization

Schedule SE
Self-employment tax and the related adjustment

Form 8995
Qualified business income deduction and current instructions