

FINISHED FILE

NATIONAL DISABILITY INSTITUTE
UNDERSTANDING FEDERAL TAXES FOR SMALL BUSINESS
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>> Recording in progress.

>> RUTH CHAVEZ: Thank you for joining us. Welcome, welcome. My name is Ruth Chavez. And I am the Small Business Specialist for the National Disability Institute. This webinar will begin momentarily. As everyone joins, we'll go over the disclaimer so we are all set before we start.

The contents of this webinar were developed under grant H421F240198 from the U.S. Department of Education. The Department does not mandate or prescribe practices, models, or other activities to be discussed in this document. The contents of this webinar may contain examples, adaptations of and links to resources created and maintained by another public or private organization.

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Now we will go through a few housekeeping slides before we introduce our interpreters -- our presenters for today. ASL interpretation is available for this webinar. Two interpreters will alternate throughout the event. To view interpreters, click

interpretation on the bottom menu and select American Sign Language.

Next slide. You can also join meeting audio via computer audio or by phone by dialing in 301-715-8592. The meeting code is 85367504572. Realtime human captioning is available. Just click the CC button at the bottom of the screen. If you are unable to see the captions, please notify the host via the chat. Next slide.

For today's presentation, questions will be addressed as time allows. If for any reason your questions are not answered, please continue to submit questions and our presenters for today will follow up with those questions. And we will follow up in sending them to you all via an email.

If you have any other questions or technical issues, please reach out to the host via the chat. If you are on the phone and can't use chat, your questions aren't answered, you can also email info@disabilitysmallbusiness.org.

Please note this webinar is being recorded. Video, slides, and materials will be available on the past events page on our website at disabilitysmallbusiness.org within the next two weeks.

The National Disability Institute Small Business Hub Program Inclusive Ventures is an initiative designed to encourage entrepreneurship by supporting vocational rehab agencies, counselors, disability and service providers, entrepreneur support organizations, and entrepreneurs with disabilities. Next slide.

We have also partnered with Verizon to bring you the Small Business Digital Ready platform, offering videos, tools, and courses in marketing, accounting, and operations, plus community networking. Also, once the applications opens up, you can also access an opportunity to apply for a \$10,000 grant by completing two courses.

All this information and links will be provided via chat in a followup email as well. Next slide.

If you are a business owner or an aspiring entrepreneur with disabilities, we encourage you to visit our website for events and resources at disabilitysmallbusiness.org. You can also stream motivational video content tailored for disability-owned small businesses at disabilityowned.com.

And if you'd like to stay up to date with NDI Small Business Hub, join our member list. If you have any questions, please feel free to reach out. Once again, if you have additional questions throughout the session, please submit questions through Q&A. Next slide.

At the Small Business Hub, we hold monthly webinars like today's session on essential topics. Our next two-part series is going to be presented by Cornell University and it's all about

SSDI, SSI, and self-employment, where they will break down the basics of eligibility and all available work incentives.

This will help you understand how to protect cash benefits and how these roles impact your business. Please note there is one registration for both events and you will also be provided that link. Next slide.

Once again, welcome, everyone. We are truly glad you could join us today. Now I'd like to introduce Carol Xie and Daniel Webber, Public Affairs Specialists with the IRS, on Understanding Federal Taxes for Small Business. Carol and Daniel, take it away.

>> CAROL XIE: Great. Thank you. Good afternoon, everyone. Thank you to our community partner, NDI, for having us today. My name is Carol, and I also have my colleague, Daniel Webber today joining me to share with you a basic summary of what you will need to know about successfully operating your business, as well as provide you some of the resources for additional information. Next slide, please.

So, again, I'm Carol. I'm with the Communication Team at the IRS for over five years now. I am the liaison between the IRS and its stakeholders, providing them with a direct and interactive line of contact. Through timely disseminating of updates and tips, my goal is to inform decision-making and collaboration within the diverse landscape of education.

So, Daniel, would you also like to quickly introduce yourself?

>> DANIEL WEBBER: Hello, everyone. My name is Daniel Webber, and I am also a Public Affairs Specialist with the Internal Revenue Service's Tax Outreach Partnership and Education Branch. Prior to joining our branch, I served under the Taxpayer Services Branch under this same position and role. And I'm just excited and happy to be here to share with you these tax tips and resources for small businesses.

>> CAROL XIE: Okay. Next slide, please. Great. So now, in the next 90 minutes we'll share the basic summary of what you will need to know about successfully operating your business. Specifically we'll begin with explaining the purpose of the Employer Identification Number. We'll describe some basic recordkeeping requirements for tax purposes, define basic bookkeeping, explain the forms of business organizations, and we'll suggest you how to choose a paid tax preparer.

Before I begin, however, I would like to remind everyone that you also need to understand your state and local tax reporting requirements in addition to the federal requirement that we'll be sharing with you today. Next slide, please.

Let's start with the federal Employer Identification Number. In short, we call it the EIN. And EIN identifies tax returns

filed with the IRS. And as a business owner, you may be required to get an EIN. You will need an EIN if you pay wages, have a self-employed retirement plan, operate your business as a partnership or corporation, or you will be required to file any of this tax return if you need to file employment tax return, excise tax returns, or you also need to pay for alcohol or tobacco, firearms.

All this will require you to have an EIN. Your type of business may not require you to obtain an EIN, but you still may want to get one to deal with other businesses, such as if you go to open a bank account for your business, sometimes bank will ask you for your EIN.

The easiest way to get an EIN is go online. It's free to obtain one. Simply go to [IRS.gov/EIN](https://www.irs.gov/ein). From there you will be able to complete the whole process. Usually it would take you about 15 minutes. And if you stop for a long period of time, the screen may frozen and you may have to redo it again.

So I would suggest when you are ready to get your EIN online on [IRS.gov](https://www.irs.gov), set aside a full 15 minutes until you finish the process and you'll be able to obtain your EIN right there.

We often got questions ask, okay, I want to close my business. I do not need my EIN anymore. Can you cancel my EIN? Well, we cannot cancel your EIN, because once you got assigned EIN, it's actually tied into your business. It's your business permanent federal taxpayer ID number.

But, we could deactivate it. When you would like to deactivate the EIN, send us a letter. Include your entity's EIN number, your legal name, address, and the EIN assignment notice. The assignment notice meaning when you received the EIN on the screen after you finished the application online. You instantly receive the EIN number.

You may do a screenshot, save as a PDF. That assignment notice, we would like you to include in your letter, if it's available. And the reason for you to deactivate the EIN. And mail it to us.

For the mailing address, when you go online and search deactivate EIN on [IRS.gov](https://www.irs.gov), you will have the full mailing address. Next slide, please.

Now, let's talk about recordkeeping for your business. Recordkeeping is definitely crucial for any business, because it's how income, deduction, and credits are done. Business should keep supporting documents for at least three years after filing a return. Some records may need to keep longer, such as employment tax record will require to have four years.

So business property records, it's for the life of the asset, since they are needed to calculate depreciation and gain or loss when the property is disposed. For guidance, IRS

publication 583 and tax topic 305 provide practical examples and additional resources will be available on IRS.gov when you search recordkeeping.

Next slide, please. So now, let's turn our attention to business structure. Early in the life of your small business, you will need to decide on the structure of ownership. The five common types including sole proprietorship, partnership, corporation, S corporation, and LLC, limited liability company.

For more information, we suggest you go to small business and self-employed tax center at www.irs.gov/smallbiz and click on the link to business structure. But now, let's take a look at the five basic business structure. Next slide, please.

The first one is sole proprietorship. And it is an unincorporated business that one person owns. The advantage of a sole proprietorship is, it is the simplest type of business organization. The sole owner of the business has absolute control over all decisions. The owner is not required to consult with anyone else to make decisions or changes.

But the disadvantage of this business structure is the business does not exist apart from its owner. And it is the owner who assumes the risk of the business to the extent of all of his or her assets, even if the owner does not use -- does not use his or her personal assets in the business.

Additionally, the ability to finance the business, we call it capital, is limited to whatever the owner can come up with, including loans from financial institutions, or which the owner is personally responsible.

A sole proprietor files his or her taxes using Schedule C, net profit from business. The Schedule C is included with the form 1040 to report the profit or loss from operating the business. The sole proprietor also files schedule SE, self-employment tax, to report to Social Security and Medicare taxes on net profits of the current year.

If you would like to learn more about this organization structure, we suggest you take a look at publication 334, Tax Guide for Small Business.

Next one, please. The second type of business organization is a general partnership. A partnership is a relationship between two or more persons who come together to carry on a trade or business. Each person contributes money, property, labor, or skills. And each expects to share in the profits and losses.

Any number of person may join in a partnership. The advantage of a partnership is it is easy to organize, it has a definite legal status, and it may have a greater financial strength than sole proprietorship.

But the first disadvantage is that decision authority now is divided. The other disadvantages would be the liability of the partnerships usually is unlimited unless otherwise stated in the partnership agreement. That is, each partner might be held liable for all the debt of the business.

For example, if one partner does not exercise good judgment, that partner could cause not only the loss of the partnership's assets, but also the loss of the other partners personal assets.

Partnerships report profit or losses on Form 1065, U.S. Return of a Partnership Income. Form 1065 summarizes the business activity of the partnership. If you would also like to learn more about this organization structure, IRS publication -- the publication 541, Partnerships, as well as instruction to Form 1065 and 1040 will help you learn more about this organization structure. Next one, please.

The third type that we're going to talk about is corporation. Corporations are treated by the law as a legal entity. That is, the corporation has a life separate from its owners and has the rights and duties of its own. The owner of a corporation, known as stockholder, shareholder, and it may be worth nothing.

One person can be the sole stock Holders. Managers may or may not be stakeholders. It involves property, from the prospective shareholder in exchange for capital stock in the corporation. For purpose of federal income tax, corporations include association, joint stock companies and trusts, as well as partnerships that operate as associations or corporations.

Now, let's take a look some advantage and disadvantage of running a corporation. The good thing is, a corporation, the stockholders have limited liability. Transfer ownership is easy. Raising capital and expanding the business might be easier.

The disadvantages is subject to tax on its income at the corporate level, and when the income is distributed as dividends, that income is taxed again at the shareholder level. So, it is wise to consult an accountant and an attorney specializing in corporate law, as corporations might be just a bit more difficult and expensive to organize than other business structure.

Additionally, the corporate chapter filed with the secretary of your state restricts the type of business activity and is subject to many state and federal control. So if you would like to learn more about this structure, Publication 542 -- Corporations, for more information. That publication will help you learn more about corporation.

Next slide. So, we're going to talk about the other type, which is S Corporation. And S Corporation is a small business corporation whose shareholder like to report corporate profit or

losses in the same manner as of a partnership. Like partnership, S corporation do not pay tax. Organizing shareholders of a corporation who wish to avoid double taxation can file the form 2553, Election by a Small Business Corporation.

This election must be submitted by the 15th day of the third month of the first S corporation year. We will give you an example to clarify the process. If your first S corporation tax year begins on January the 1st, then you must file form 2553 by March 15th. Otherwise, the elections is effective for the next tax year.

The IRS will send you a form CP261 notice, Notice of Acceptance As an S Corporation to let you know we received and approved your election. You should receive your approval in 60 days. If you do not, you may want to contact the IRS campus where you filed your form 2553.

Also, an S corporation does not pay tax on income from daily operation, or income, losses, deductions and credit generated by an S credit will pass through to the corporate shareholders. Next slide, please.

The last business structure that we're going to talk about is the LLC, limited liability company. This is the -- also a legal entity created under the law. The advantages and disadvantages -- it's separated from its owner, who we normally call its member. It's popular because members are personally protected against the LLC debt.

It has limited personal liability for the debt and action of the LLC. And without many of the formality of corporation. This is an advantage for this type of business organization. Other features of LLCs are more like partnership, providing management flexibility and the benefit of flow-through taxation.

Also, for federal tax purposes, owners or member of the LLC can make an election to be treated either as a disregard entity or a partnership. If you want to tell the IRS how to treat your business for federal income tax purpose, you do need to file the form 8832, Entity Classification Election.

If you do not file 8832 for tax purpose, the IRS will treat your business as sole proprietorship if it has a single owner. Or, as a partnership if it has two or more members.

Note that even though the LLC is treated as a sole proprietorship for tax purpose by the IRS, the single member owner of the LLC generally maintains limited personal liability protection from its action of the LLC, unlike an actual regular sole proprietorship, where the owner would be equally liable for the debt and actions of the sole proprietorship.

There are instructions with the form that explain the classification. If you disagree with the default classification, you could still file form 8832 to request a change.

So now, I will pause here and turn it back -- turn to to Daniel. He is going to take -- help you take a deeper look into the sole proprietorship, including the required form and how to calculate profit and loss. Daniel.

>> DANIEL WEBBER: Thank you, Carol. I appreciate you for giving us that good summary of the business structures. If we can for one moment, send a couple of emojis into the chat to let us know that you're still with us. We would appreciate that.

So, as Carol talked about, sole proprietors. You are required to file a Form 1040 Schedule C. We're going to provide an overview of that Form 1040 Schedule C, Profit or Loss from Business.

We'll discuss how to calculate gross profit and gross income as well. Now, I'll also show you how to identify and deduct expenses and how to calculate net profit or loss. In addition to that, we'll also cover some areas that are of interest on that 1040 U.S. individual income tax return that may be beneficial to you as small business owners.

So I do have a lot to cover. So we'll go ahead and get started. Next slide, please.

So, on your screen you'll see an image of the Form 1040 Schedule C Profit or Loss from Business. Now, although there are two official label parts on the form, I like to acknowledge five different areas.

Now, the first area I'd like to bring your attention to is the entity information portion. Secondly, I'd like to draw your attention to the part that's labeled Part 1, income. The next portion is Part 2, expenses. The fourth area you'll focus on the business use of the income. And lastly, the last portion is the net income/loss portion.

Now we'll take a little more deeper dive into the details of the Form 1040 Schedule C. Next slide, please.

First I want to give you a heads-up on some terms that we'll be discussing in the next few slides. They include gross receipts and returns and allowances, cost of goods sold, gross profit and gross income, bartering, expenses, and net profit or loss. Next slide, please.

Now, in order to complete a Schedule C, you'll first have to fill in standard information about yourself and your business. As you can see on your screen, an image of the Schedule C, it includes your identifying information, like your name, your business type, and your method of accounting.

Now, you'll also notice that there's a place for you to enter a principal business or activity code. These codes are based on the North American Industry Classification System and the Schedule C instructions contain a list of the six-digit codes.

Now, if any part of your gross receipts is from the sale of products, then you'll need to know all the terms I'm about to discuss on the next slide. Next slide, please.

So, for part one income, we're going to focus on gross receipts and returns and allowances; cost of goods sold; and gross profit and gross income. Next slide, please.

So the first term, gross receipts -- that is the income that a business receives from the sale of its products or services. An example of gross receipts is if a clothing store sells \$45,000 in clothes and \$35,000 in hats. It will then have a total of \$75,000 in gross receipts.

Now, let's talk about returns and allowances. Returns and allowances include cash or credit refunds that you make to customers, rebates and other allowances that are off of the actual sales price. Now, keep in mind, individuals or small businesses who don't make or buy products for resale as part of their business don't have returns or allowances to deduct from their gross receipts.

Next slide, please. Now, let's shift gears to talk about the cost of goods sold. So, cost of goods sold is the cost to a business to buy or to make the product that is sold. It's easy to calculate the cost of goods sold if you sell all of your merchandise during the same year. However, some of your sales will probably be from inventory that you carried over from earlier years and you will probably have inventory left unsold at the end of the year.

Now, in order to calculate the cost of goods sold, you'll need to start with the cost of inventory on hand at the beginning of the year. You'll need to add the cost of additional goods purchased or manufactured during the year. And you'll need to subtract the cost of any merchandise withdrawn from personal use.

For example, if you're a grocer, food that a grocer may take home, they may need to deduct that. Or if you are a garage owner, then you'll need to deduct any gasoline you may give to your relatives. You need to factor all of these calculations in order to process your cost of goods sold.

And the result of that is the cost of the items that will be available for sale during that year. Then, you'll subtract the value of all of that inventory at the end of the year. And, of course, this will give you the cost of goods sold. On your screen you'll see that calculation for the cost of goods sold.

And you can find additional information on the cost of goods sold in part three of your schedule C instructions. Next slide, please.

Now, let's talk about gross profit. To calculate the gross profit, you'll first need to subtract the returns and allowance

from the total gross receipts. Then you'll subtract the goods sold from that difference. Then you'll add other income. And this includes bartering income.

Now, let's talk about gross income. Gross income is simply the sum of gross profit and other income. And the instructions on Schedule C will provide you additional details of what is considered as other income. Next slide, please.

Now I'm going to talk to you about your day-to-day, ordinary, and necessary business expenses. On your screen, you'll see part two of the Schedule C expenses. Now, included in your expenses are car and truck depreciation and travel bills and entertainment. So let's take a little deeper dive into this. Next slide, please.

I want to note before we go into the different type of expenses that in order to deduct these, they will have to be considered ordinary and necessary. You can find more detailed information about expenses on IRS.gov by entering Guide to Business Expense Resources in the search bar. Next slide, please.

Now let's jump into some of the expenses that you can discuss. First, I want to discuss car and truck expense. Now, if you use your car for business only, then you may base your deduction on the full cost of operating it. If you use a car for both business and personal purposes, then you must divide your expenses between these uses based on mileage to compute a business percentage.

Do not include commuting to and from your place of business as business mileage. Now, you may want to take a deduction from your actual business expenses for the car, or use a standard mileage rate. And I'll talk in a second about those two different deduction types. Next slide, please.

So, actual business expenses do include gas, oil, repairs, insurance, depreciation, tires, and license plates. The standard mileage rate means that you're multiplying your business mileage by the standard rate. Now, for this year's rate you'll need to check IRS website at www.irs.gov to re-deuce the recordkeeping burden if you use no more than four vehicles at the same time for business purposes, you may want to consider using that standard mileage rate.

Now, there are some caveats that come with using the standard mileage rate. You must use the mileage rate on a vehicle after the first year of business use. And you must have used it on that first year. Excuse me, in the latter years of that rate, you can choose between either the standard mileage rate or the actual expenses rate.

So this option is available to you. Again, when considering using that standard mileage rate, you want to make sure that you

use it in that first year. Now, keep in mind, under either method, parking fees and tolls are deductible.

If you do claim any car or truck expenses, you must provide certain information on the use of your vehicle on Schedule C part four, information for your vehicle. You'll complete this part only if you are claiming car or expenses on line nine and are not required to file amortization information.

You'll see instructions on Schedule C for more information about that as well. Next slide, please.

Now, I do want to point out that the standard mileage rates for the use of a car -- which includes vans, pickups, or trucks -- went up this year beginning January 1st, from 70 cents per mile to 72.5 cents per mile for all miles of business use. These rates do apply to electric and hybrid electric vehicles, as well as gasoline and diesel powered vehicles as well. Next slide, please.

And speaking of the business standard mileage rate, here's a brief slide on the gig economy. I'm not sure if any of you are familiar with the gig economy, but it is taxable. It is a taxable business. So if you earn income as a rideshare driver, rental host, or online seller, then your business is part of what we call the gig economy.

Now, that gig economy, also called shared economy or access economy is an activity where people earn income providing on-demand work, services, or goods. And often it is through a digital platform like an app or a website. We do have more information on IRS.gov if you do type in IRS gig economy tax center.

And a great resource for that is Publication 5369. Next slide, please.

Now let's take a look at depreciation as an expense. So, depreciation is the annual deduction allowed to recover the cost or the other basis of a business, or investment property having a useful life substantially beyond the tax year.

Depreciation starts when you first use the property in your business or to produce income. And it ends when you take the property out of service, deduct all depreciable cost, or no longer use the property in your business or to produce income.

You cannot depreciate land, inventory, or property that you place in service and disposed of in that same tax year. Next slide, please.

Now, there are two main methods of depreciation that I want to draw your attention to. And that is the modified accelerated cost recovery system and the Section 179 deduction.

The method for depreciating most tangible property -- that is property that you can see or touch -- is the modified accelerated cost recovery system. And it's commonly referred to

by the initials of MACRS. The general rule of Section 179 allows taxpayers other than trusts, states, and certain noncorporate lessors to -- lessors to elect to expense rather than depreciate the cost of property that they purchased and placed in service during the taxable year.

Now, taxpayers can elect on form 4562 to expense the cost of a Section 179 property. The deduction amount of the elected expense that can be deducted in any taxable year is limited to the amount of income that is derived from the active conduct by the taxpayer of any trade or business.

IRS Publication 946, *How to Depreciate Property*, explains all about the MACRS and Section 179 deduction, what property does and does not qualify for the Section 179 deduction, and what limits apply, and how to elect it.

So in summary, for purposes of Section 179, taxpayers must elect to use Section 179 method. The Section 179 deduction is limited to the amount of taxable income from any act of trade or businesses. And it does not apply to property held merely for the production of income, such as an investment property, or used in any activity engaged in for profit.

Next slide, please. So let's talk about the depreciation and the TCJA, the Tax Cut and Jobs Act of 2017. There are a couple of changes to expensing and depreciation. To give you a little background, the Tax Cuts and Jobs Act passed in December of 2017. It made several significant changes to tax law which affect individuals and businesses.

For example, the TCJA of 2017 modified Section 179 for tax years beginning after December 31st, 2017. The new tax law increases the maximum amount that a taxpayer may expense under code 179 to \$1 million and increases the phase-out threshold, the investment limitation amount, to \$2,500,000.

Now, the 25,000 limit for sport utility vehicles still remains unchanged under the TCJA. Now, these amounts are indexed for inflation for tax years beginning after 2018. Now, the TCJA of 2017 also made changes to the additional first-year depreciation deduction, which is often referred to as bonus depreciation.

Unlike 179, which is subject to the taxpayers making an election, bonus depreciation is mandatory unless taxpayers opt out. The new law increases bonus depreciation from 50% to 100% for qualified property acquired after September 27th, 2017, and property that's placed in service after September 27th, 2017, and before January 1st of 2023.

The 50% bonus depreciation rule will continue to apply to qualified property that a taxpayer acquired before September 28th, 2017, and placed in service before January 1st, 2018. Now, note the TCJA of 2017 also increases the depreciation

limitations for passenger automobiles used more than 50% for business purposes and placed in service after 2017, depending on whether bonus depreciation was claimed.

If bonus depreciation is not claimed, depreciation is limited to \$10,000 in a year. It's limited to \$16,000 in a year -- in the second year and \$9,600 in year three. For all subsequent years, it's limited to \$5,760.

If bonus depreciation is claimed, the depreciation limit for passenger automobiles acquired after --

(No audio)

>> DANIEL WEBBER: All subsequent years is \$5,760. These amounts have been adjusted for inflation after tax year 2018. Additionally, the TCJA of 2017 expands the definition of Code Section 179 property to include certain depreciable tangible personal property. It is used predominantly to furnish lodging, and expands the definition of qualified real property eligible for Code Section 179 expensing.

This includes any of the following improvements -- if you're making improvements to roofs, heating, ventilation, and air conditioning property. It also includes fire protection and alarm systems, and security systems to nonresidential real property that's placed in service after the date such as the date that the property was first placed in service.

A good resource for depreciation amortization is Form 4562 instructions. It will provide general guidance on how to claim deduction, how to make the election under 179 to expense certain property, and it provides information on business investment use of automobiles and other listed property.

Next slide. Now, let's go on and talk about the third and fourth expenses that I want to draw to your attention. And those are those for legal and professional services and office expenses. Now, included in these expenses are fees that are charged by accountants and attorneys that are ordinary and necessary expenses directly related to operating your business.

Also included are fees for tax advice related to your business and for preparation of the tax forms related to your business. In addition, under the category of office expense, include expenses for office supplies and postage. Next slide, please.

Now let's talk about the supplies expense. Now, in most cases, you can deduct the cost of materials and supplies only to the extent that you consumed and used them in your business during the tax year. Unless you deducted them in the prior tax year.

Now, you can also deduct the cost of books, professional instruments, equipment, etc. If you normally used them within a year, then these are eligible for deduction. If the usefulness,

however, extends substantially beyond a year, you must generally recover their cost through depreciation. Next slide, please.

Now let's talk about entertainment and meals expense. Although the Tax Cuts and Jobs Act of 2017 eliminated the deduction for any expenses related to activities generally considered entertainment, amusement, or recreation, businesses can still deduct 50% of the cost of business meals if the business owner or an employee of the business is present, and the food or beverages are not considered lavish or extravagant.

The meals may be provided to a current or potential business customer, client, consultant, or similar business contact. Food and beverages that are provided during entertainment events will not be considered entertainment if purchased separately from the event. Next slide, please.

Now let's talk about the travel part of the travel and meals. So, for the travel part of travel and meals, you'll enter your expenses for lodging and transportation connected with overnight travel for business while away from your tax home. The term tax home refers to your main place of business regardless of where you maintain your family home.

For the meals expenses, enter your total deductible business meal expenses. This will include expenses for meals while traveling away from home for business, and for meals that are business-related. Business meal expenses are deductible only if they are directly related to or associated with the active conduct of your trade or business.

Again, not lavish or extravagant. And they must be incurred while you or your employee are present at the meal. Furthermore, instead of basing your deduction on the actual cost of meals, you can use the standard meal allowance for your daily meals and incidental expenses.

Under this method, you deduct a specified amount depending on where you travel instead of keeping records of your actual meal expenses. Next slide, please.

Now, you must keep records, however, to prove the time, the place, and the business purpose of travel. The standard meal allowance for the federal M&IE -- that is, the meals and incidental expense rate -- can be found at [GSA.gov](https://www.gsa.gov). And you can click on the per diem rates link.

From there, you can search by your city and state, or you can search by the ZIP code. Now, in most cases, whether you use the actual cost of standard meal allowance or standard meal allowance, you can deduct only 50% of the expenses, including meals incurred away from home or business.

For more information, IRS Publication 463 is a great resource. And as we mentioned earlier, IRS Publication 535,

Business Expenses, tells you all about business expense deductions. Next slide, please.

Now, let's talk about line 30, business use of home. Now, whether you're self-employed or a partner, you may be able to deduct certain expenses for the part of your home that you use for business. To deduct these expenses from business use of home, you must use part of your home as one of the following -- you must use your home exclusively on a regular basis as your principal place of business for your trade or business.

You must use your home exclusively on a regular basis as a place where you meet or deal with your patients, clients, or customers in the normal course of your trade or business. You must use your home as a separate structure that's not attached to your home used exclusively on a regular basis in connection with your trade or business.

And you must use your home on a regular basis for storage of inventory or product samples used in your trade or business of selling products at retail or wholesale, as long as your home is the sole fixed location of such trade or business.

And also, you must use your home for rental use or as a daycare facility. Now, if the exclusive use requirement applies to you, then you can't deduct business expenses for any part of your home that you use it for both personal and business purposes.

For example, if you're an attorney and you use the den of your home to write legal briefs for your personal purposes, then you may not deduct any business use of your home expenses. Further, under the place of business test you must determine your home is the principal place of your trade or business after considering where you perform your most important business activities and where you spend most of your business activity time in order to deduct those expenses from the business use of your home.

Now, a portion of your home may qualify as your principal place of business if you use it for administrative or management activities of your trade or business and you have no other fixed location where you conduct substantial administrative or management activities for that trade or business. Next slide, please.

Next, you must enter your net profit or loss. And this will show up on line 31. Now, the net profit or loss is the amount which the gross profit and any other income for a period is more or less of a loss than the business expenses and depreciation for that same period.

Now, you'll see the calculation of that net profit or loss. To calculate the net profit or loss on Schedule C, you'll need to start with the gross profit, which is in part one. Then

you'll add the other income. And then that'll equal the gross income in part one as well.

Additionally, you'll subtract the total expenses for the business on part two, business use of your home. Then you get the tentative profit or loss, subtract the expenses for business use of income, and then that will provide you with the net profit or loss on part two.

The instructions on Schedule C, should it be a profit or loss, are a good resource to calculate that. And note you'll report this profit or loss on Schedule 1 of your 1040, 1040SR, and on Schedule SE. And you can find additional information on this in the Business Use of Your Home, Publication 587.

Now I'll hand it over to Carol, who will explain a little bit more about self-employment and estimated tax.

>> CAROL XIE: Great. Thanks, Daniel. And we see it's already the next slide. Perfect. So we'll turn our attention to self-employment tax and estimated tax right now.

Self-employed people who are sole proprietors or partners in a partnership might be subject to self-employment tax. Self-employment tax consists of Social Security and Medicare taxes. When you are an employee, your employer pays half and you pay half. When you are self-employed, however, you pay all of it.

If your net profit from self-employment is \$400 or more, then you must file form 1040, Schedule SE, self-employment tax. The IRS urges all employees, including those with other sources of income such as self-employment, to check their withholding. This will help them avoid unexpected year-end tax bill and possibly a penalty in the future.

The easiest way to do this is to use tax withholding estimator on IRS.gov. Next one, please.

When you self-report, you may also need to pay what is called estimated tax. When you work for someone else, they withhold federal tax from the your pay throughout the year. When you are self-employed, you take care of this by paying estimated taxes throughout the year.

Estimated tax payments are used to make payments against any self-employment tax and income tax liability you will have at the end of the year. That is associated with your business. Publication 505, Tax withholding and Estimated Tax, has more details, including worksheets and examples to help taxpayers figure out whether they should pay estimated tax.

Form 1040-ES, Estimated Tax for Individuals, can also help taxpayer figure these payments simply and accurately. To determine if you must pay estimated tax, please use Form 1040-ES to estimate your taxable income for the year, including your self-employment income and all other taxable income.

You generally must make estimated tax payments if you expect to owe taxes, including self-employment tax of a thousand dollars or more when you file your return. For more information on estimated tax, please take a look at the Publication 515 -- Tax Withholding and Estimated Tax.

Making estimated tax payment is easy, now that most of the paperwork has been eliminated. The electronic federal tax payment system, EFTPS, Electronic Federal Tax Payment System, will make a possible to pay online or over the phone through IRS direct pay online.

You can learn more about this EFTPS in the segment on how to file and pay your taxes electronically at IRS.gov by clicking the EFTPS link on the home page. Or you could simply remember this link -- www.eftps.gov. Again, it's EFTPS.gov.

Now, let's review some of the common mistakes or errors that small business owner often make. We have a couple advice for you on those mistakes.

The first one is we would like to remind you that you should avoid the mistake of filing your tax return late. Just like individual returns, business tax returns must be filed in a timely manner. Some small business owners don't file because they simply can't pay the tax balance due on their individual, business, or payroll returns.

But we would suggest to you that you should still file even if you cannot afford to pay your taxes. The second one, late paying or underpaying the estimated taxes.

You should avoid the mistakes of not filing or underpaying the estimated tax payment, as either a self-employed business owner or partner in a partnership, or shareholder in an S corporation. You don't have taxes with the paycheck like traditional W2 employees.

If you are a self-employed or filing as a sole proprietor, partner, or S corporation, you are most likely required to make quarterly tax payments based on your estimated tax bill for the year.

The next one, estimated tax for individuals not only include income tax, but also include self-payment tax. New small business owners may be surprised when filing their tax return for the first time for the season. In addition to income tax, you owe an additional 15.3% in self-employment tax on your net self-employment income.

While employees and employers share the burden of Social Security and Medicare taxes equally by paying 7.65% each, a self-employed individual must pay the full amount. Even partners in a partnership that conduct a trade or business must generally pay self-employment tax on their share of partnership income.

This is how people who aren't employees get Social Security and Medicare coverage when they become eligible for it.

The next common mistake is some small business owners make the mistake by treating workers who should be employees on payroll as independent contractor. This is a common way small business owners get into trouble with the government by avoiding their responsibility as employers.

You're probably aware that independent contractor don't have income and Social Security taxes withheld from their pay. Employers are required to match the Social Security amount withheld. The IRS and other agencies share information with each other. So we need to take care of our -- take good care of that when you determine whether to classify a worker as an employee or independent contractor, and properly document our actions. Next slide, please.

Since we are on the topic of employment taxes, many small business employers make the unwise choice of not depositing withheld income and Social Security taxes from their employees. Business owners with employees are expected to deposit taxes they withhold from their pay plus the matching employer's share through electronic fund transfers.

And if those taxes are not deposited correctly and on time, the business owner might be charged a penalty. Another common mistake is underreporting income. Some business owners might not report all their income, particularly when they receive cash for their product or services, or they don't understand what's included in business income, or to be clear, you must generally report all income earned on a tax return, even if the income is from part-time or temporary, or side job.

On the flip side of income is the deduction of expenses, a very common mistake is deducting personal expenses as business expenses. It's easy to get things mixed up, especially when you are a self-employed or new in business. Here are two ways small business owners get themselves into trouble when -- with respect to personal expenses.

First, sometimes we do not use separate bank accounts and separate credit cards for our expenses. Now they may be able to look over the last few months spending account or credit card statements and figure out which were for business and which were for personal use.

The other point is that deductions for expenses that have a personal aspect to them like phones, cars, home office, travels, and entertainment can be problematic since only the business-related portion is deductible. They are also expenses that could accrue a significant personal part.

If you are using any of your personal assets for business, such as your car or a home office, or incur other expenses that

could have the appearance of being personal, it is hard to keep records for business use to be able to support any deduction that you take.

The final topic would be keeping records. Keep in mind that good records really would help us to do the following actions -- to help us monitor the progress of your business, to prepare our financial statements, to identify sources of our income, and to keep track of our deductible expense, keep track of our basic property, prepare our tax return, and support items reported on your tax return.

Next, please. So now we will review all the common mistake that small business owners often make. Now, if you do want to -- when you decide to use a paid tax preparer, remember, you are still legally responsible for the information on your tax return. And let's review some of the areas that you may want to be aware of.

First is to avoid preparers who claim they can obtain a larger refunds than others. Second, avoid preparers who base their fees on the amount of your return. Also, avoid preparers who won't sign the tax return or won't give you a copy of your records. Fourth, never sign a blank tax return and never sign a completed form without reviewing it and making sure that you understand the return.

Finally, consider whether the preparer will be available to answer questions about the return for months or years after the return is filed. The IRS now has a registration and certification process for preparers to ensure that you are working with an honest and good reputation preparer.

Make sure the paid preparer has a valid IRS preparer tax identification number, also known as a PTIN. All preparers, whatever their professional designation, must have a valid PTIN number. You can find more tips on IRS.gov. Simply type Choosing a Preparer in the search box.

And now, I'm going to turn it over to Daniel. He is going to share with you more tips and resources that's available on IRS.gov.

>> DANIEL WEBBER: Thank you, Carol. So now that we have covered some of the essentials, let's talk about some tips and resources for small businesses, particularly some best practices, including protecting your business and customers against any fraudulent activity.

Now, as part of the National Tax Security Awareness Week, the IRS and the Security Summit partners urge businesses to remain vigilant against cyber attacks aimed at stealing their customers' personal information.

Small businesses should safeguard customer data by setting security software to update automatically, by backing up

important files, by requiring strong passwords for all devices, by encrypting devices and by using multifactor authentication.

Businesses should also remain vigilant to tax-related phishing email scams, which can often be cleverly written to fool employees into opening harmful embedded links or attachments. Businesses and consumers are encouraged to send IRS-related scams to phishing@IRS.gov.

Now, all employers should remain vigilant regarding form W2 schemes. We can't tell you how many rises we've seen in these scam attempts. While tax scams evolve and they change over time, in most common versions, a thief poses as a high-ranking company executive who emails payroll employees and asks for a list of employees and their W2s which contain sensitive tax and financial data.

As these scams become more sophisticated, businesses may not be aware that they've been a victim of a tax scam until fraudulent tax returns begin appearing with the employee's names.

So, to safeguard against that, the IRS has published Form 14039B, Business Identity Theft Affidavit, allowing businesses to proactively report possible identity theft to the IRS. Now, businesses should file form 14039B if they receive a rejection notice because their return is already on file for that same period.

They should also file a business identity theft affidavit if they receive a notice about a tax return that the entity didn't file, if they also received a notice about forms W2 filed with the Social Security Administration that the entity didn't file, and lastly, if they received a notice of a balance due that is not owed.

Now, you can check out the business section on IRS' identity theft central and see publication 5461C. Businesses should watch out for tax-related scams and implement safeguards, on IRS.gov for more information. And we'll try to provide that in our resource link at the end of our webinar.

Next slide, please. Now let's do a quick recap of what we discussed so far. So, so far we reviewed the basics of Schedule C. We included what business owners need to know to determine that gross profit and income. And we identified deductible expenses such as the car and truck expenses.

We also found out how to calculate net profit or loss. And we covered form 1040, some areas of interest that will be available for small businesses. Finally, Carol covered self-employment and the estimated tax. And we want to point to you guys that we do have a lot of resources available, including IRS Publication 334, which is Tax Guide for Small Businesses.

That's for individuals who do use Schedule C, which we talked about during the duration of this webinar. Now, we also

want to point everyone to Small Business and Self-Employed Tax Center at [IRS.gov/smallbusiness](https://www.irs.gov/smallbusiness). Next slide, please.

Now, as we have advised to you, all the resources that we have on [IRS.gov](https://www.irs.gov) will help you become more tax-confident when it comes to your needs. We have the tax center, IRS YouTube Small Business channel, we have the IRS e-news for small businesses newsletter that you can sign up for, and we have the IRS small business publications. Next slide, please.

In addition to that, we do have social media available. On your screen, you do see an example of some of the social media that our team puts together and distributes out to our partners. So, sign up for our social media accounts in order to receive those tips and resources as well.

Now, Carol, can you take us on a journey, a roadmap of what we've discovered so far, and of what a small business will need in order to become successful?

>> CAROL XIE: Sure. So, on our screen is a map of the topics and resources that we have available when having a small business. The life cycle begins with starting a business. Our resources provide basic federal tax information for anyone looking to start a business and includes a checklist to help make basic business decisions.

After learning the basics of starting a business, the focus shifts to the business structure. This section provides insight into choose the right form of business entity to establish. The business structure determines the type of business income tax return forms that must be filed.

Next up is actually operating a business. This section provides tools and tips on how to get an Employer Identification Number, keep good records, and how to file and pay your taxes.

Lastly, we have a section that covers how to close a business. We provide you with a blueprint on how to properly close your business from a federal tax perspective. This includes taking care of employees, the forms to file, and the records that you may have to hold onto. Next slide, please.

The Small Business and Self-employment Tax Center Hub houses everything. And here is the screenshot on your screen, www.irs.gov/smallbiz. That's our small business and self-employed tax center hub. From information about different business structures to general business topics. Next slide, please.

Right now on our screen it shows -- it's a screenshot of our Small Business Webinars web page. We offer webinars for small businesses. You can always type into the search box "webinars for small businesses" to view any upcoming webinar opportunities and register.

Daniel, would you like to share a bit more other resources?

>> DANIEL WEBBER: Yeah, Carol, sure. Next slide, please. So, on your screen you are seeing a view of IRS videos on YouTube. Now, if you're like me and you're a YouTube fanatic and you're a visual learner, then IRS YouTube Hub is the place for you.

We have everything from how to file as an individual, to how to file as a small business. And this includes topics such as five things to know about the Employer Identification Number. This includes topics such as qualified business income deduction. And also what is a hot topic for us now, your taxes in the sharing economy, AKA gig economy. Next slide, please.

And again, you'll also want to make sure that you are connected with our electronic resources as well. You can sign up to receive IRS e-news for small businesses. It's free. It's a free email service. And it provides subscribers with important upcoming tax dates for small business/self-employed customers.

And updates on IRS website that relate to the small business community. This provides tips to assist with you like the tax calendar for small businesses. It helps you to know about important estimated tax payment dates that may be upcoming, and to help you stay abreast on any deadlines that you may need to be familiar with as a small business owner.

Another great modern tool that we are proud of, like I talked about a couple of slides ago, our social media platforms. We are on Facebook, Twitter, which is now X. We are on LinkedIn, Instagram, and YouTube. And we do have multilingual options for some of these platforms.

So please do yourself a favor and go ahead and follow these social media -- excuse me, platforms -- because they do have really good tips and give great updates and information that is coming down the line for taxpayers. Next slide, please.

Now, we know that we've covered a ton of information and hopefully it was valuable information for you. So we want to put it out again. A great one-page resource for you is publication 5801. It's a good source and it's tangible. You can print it out and share it to distribute throughout your small business communities.

It houses all of the resources that we were talking about and links to others as well. So, be sure to print that one out and maybe put it in your lunchrooms or distribute it in your newsletters as well. Next slide, please.

>> CAROL XIE: Well, I know that it's towards the end of our webinar today, but before we wrap up and before we have Daniel start answering some of the questions that we received, I just want to quickly remind everyone that filing season, the 2026 filing season is under way.

April 15th is the deadline to file our 2025 tax returns, or file for an extension. On the right-hand side of your screen is

our Publication 5904, Access Your Business Tax Account. Utilize IRS online service by accessing your business tax account on IRS.com to manage your business payment and tax record and access other useful tools.

So, now I am going to turn it over to Daniel, because he's going to answer some of the questions that we received.

>> DANIEL WEBBER: Thank you, Carol. As I pull up some of the questions that we've received beforehand . . . I think I'll address those first. So, I see that we have a question. It says I use my vehicle for transportation for my business. I do not have a vehicle that is in my business name, so I use my personal car. Besides mileage, can I write off car repairs?

And that's actually a good question. So, first I'm going to give you a reference, Publication 334, Tax Guide for Small Business, a good resource for this. And I want to note that there are two methods for deducting car and truck expenses. Like I discussed earlier in the presentation.

So, there is the standard mileage rate method. And then there is the actual expenses method. Now, you may be able to use the standard mileage rate to figure the deductible cost of operating your car, van, pickup or truck for businesses purposes.

And the business standard mileage rate for 2025 is 70 cents per mile. Of course this year it has gone up to 72 cents per mile. So if you use this method, then you won't be able to deduct the car repair separately, as that rate already includes maintenance and repair cost.

The actual expense method, if you do not choose the standard mileage rate, then this will be the method for you and it will allow you to deduct your actual expenses. You can track all costs -- gas, oil, tires, repairs, insurance, depreciation, and multiply that total by your business' use percentage.

This often yields a higher deduction if you have major unexpected repairs. I suggest if you qualify for both methods to figure out both deduction methods and see which one works better for you and gives you a larger deduction. Carol, do you want to take the next one?

>> CAROL XIE: Sure. So we have another question. If I receive SSDI and have a single-member LLC, do I report IRWE on my tax return Schedule C or Schedule A? Impairment-related work expenses. This is not reported on Schedule C or Schedule A. Your tax return only reflects normal business expense on Schedule C, or medical expense if you itemize on Schedule A.

IRWE are handled separately by SSA, Social Security Administration, for SSDI purposes. So from an IRS perspective, IRWE is strictly an SSA matter.

>> DANIEL WEBBER: Okay, Carol. I'll take the next one. So the next one that we had coming in says, does the current tax

code provide for any particular tax breaks for companies owned by someone who is blind?

So, businesses accommodating people with disabilities may qualify for some of the following tax credits and deductions. So, with the standard deduction, if you are legally blind then you may be entitled to a higher standard deduction on your tax return. IRS Publication 501 is a good resource for that.

You may also be eligible for the Disabled Access Credit. This is a tax credit for an eligible small business that pays or incurs expenses to provide access to persons with disabilities. The expenses must be to enable the eligible small business to comply with the Americans with Disabilities Act of 1990.

IRS publication 535 and Form 8826 are good resources for the Disabled Access Credit. Carol, do you want to take the next one?

>> CAROL XIE: Yeah, sure. So, another question. Is it common for people to do freelance work without receiving a 1099 when they file their personal tax return? It is common for people to do freelance work without receiving the 1099, especially if they earned less than \$600 from a client or were paid by an individual rather than a business.

However, the IRS requires taxpayers to report all income regardless of whether a 1099 form is issued. The IRS uses income matching programs to compare information recorded by payers with what taxpayers report on their returns. And it could trigger a notice, penalties, and interest. Therefore, even if no 1099 is received, freelance income must still be reported on Schedule C, and it's subject to income tax and self-employment tax. Daniel, would you like to take the last one?

>> DANIEL WEBBER: I think I can squeeze in one more here. So, I'm looking at one that says if a business owner has a disability that affects executive functioning, communication, or processing speed, are there IRS supports to help them stay compliant?

So, for this one I'll refer you to IRS Publication 3966, Living and Working with Disabilities. So it's a good resource in that it has a wide array of tax benefits that are available to persons with disabilities. And it ranges from the standard deductions, and exemptions for businesses and itemized deductions and credits.

Another tool that I spoke about briefly was the IRS Tax Calendar on IRS.gov. It's a Good Tool to Use to Stay on top of key dates and deadlines that you should be aware of as a small business owner.

So, with that being said, I don't want to go over our time. I will refer you to IRS.gov for additional resources. And we'll provide you with all of the topics that we discussed during this

webinar within that resource page, in addition to answering some of your questions.

I was able to hop over into the Q&A chat and I saw the question about knowing the difference between a hobby and a business. Hopefully you guys were able to see that link for that fact sheet to help you determine whether you have a hobby or a business. Again, thank you for your time. We do appreciate you having us and hosting us today.

So I'll hand it back over to the host.

>> NIKKI POWIS: Thanks so much. That was wonderful. I do understand that that was very fast and probably somewhat like drinking from a fire hose. You know, taxes are complicated, right? So, please understand that we will get your questions answered. We will get Carol and Daniel to take a look at everything you've asked, both in the chat and in the Q&A.

We will get that sent out to you. And, of course, the recording will be available after -- as soon as we get that out as well. You'll all receive a post-email from this event which will tell you all the things you need to know. So, just don't expect that tomorrow. It'll be coming to you in a couple of weeks once we've already got everything done and sorted and the answers.

So I know we're out of time. Daniel, Carol, thank you so much. Thank you to our interpreters and thank you to all of our audience for such great questions. And we will get that back. On your screen you also will see a QR code for our satisfaction survey. We do listen and try to bring you what you need to know.

So please do give us the feedback on that and let us know how it went and what else you would like to hear from us. With that, thank you to everybody. And we will conclude.

(Session concluded at 3:30 p.m. ET)

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