Income Tax

2023-2024

Business Use of Your Home - Figuring the Deduction Part 2

Publication 946
Cat. No. 13081F

How To Depreciate Property

- **Section 179 Deduction**
- **Special Depreciation Allowance**
- **MACRS**
- **Listed Property**

For use in preparing

2023 Returns

	Income
-	Adjustments to Income
=	Adjusted Gross Income (AGI)
-	Greater of:
	Standard Deduction or
	Itemized Deduction
=	Taxable Income
x	Tax Rates (Tax Tables)
=	Tax Before Credits & Other Taxes
- +	Tax Credits & Other Taxes
=	Total Tax
-	Tax Payments & Refundable Credits
=	Tax Refund or Tax Due

Income	1a	Total amount from Form(s) W-2, box 1 (see instructions)				1a	
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	Household employee wages not reported on Form(s) W-2				1b	
If you did not get a Form W-2, see instructions.	c	Tip income not reported on line 1a (see instructions)				1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)				1d	
	e	Taxable dependent care benefits from Form 2441, line 26				1e	
	f	Employer-provided adoption benefits from Form 8839, line 29				1f	
	g	Wages from Form 8919, line 6				1g	
	h	Other earned income (see instructions)				1h	
	i	Nontaxable combat pay election (see instructions)	1i				
	z	Add lines 1a through 1h				1z	
Attach Sch. B if required.	2a	Tax-exempt interest	2a		b Taxable interest	2b	
	3a	Qualified dividends	3a		b Ordinary dividends	3b	
Standard Deduction for—	4a	IRA distributions	4a		b Taxable amount	4b	
• Single or Married filing separately, $13,850	5a	Pensions and annuities	5a		b Taxable amount	5b	
• Married filing jointly or Qualifying surviving spouse, $27,700	6a	Social security benefits	6a		b Taxable amount	6b	
• Head of household, $20,800	c	If you elect to use the lump-sum election method, check here (see instructions) ☐					
• If you checked any box under *Standard Deduction*, see instructions.	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐				7	
	8	Additional income from Schedule 1, line 10				8	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**				9	
	10	Adjustments to income from Schedule 1, line 26				10	
	11	Subtract line 10 from line 9. This is your **adjusted gross income**				11	
	12	**Standard deduction or itemized deductions** (from Schedule A)				12	
	13	Qualified business income deduction from Form 8995 or Form 8995-A				13	
	14	Add lines 12 and 13				14	
	15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**				15	

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR	**Your social security number**

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			**1**	
2a	Alimony received			**2a**	
b	Date of original divorce or separation agreement (see instructions):				
3	Business income or (loss). Attach Schedule C			**3**	
4	Other gains or (losses). Attach Form 4797			**4**	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E .			**5**	
6	Farm income or (loss). Attach Schedule F			**6**	
7	Unemployment compensation			**7**	
8	Other income:				
a	Net operating loss	**8a**	( )		
b	Gambling	**8b**			
c	Cancellation of debt	**8c**			
d	Foreign earned income exclusion from Form 2555	**8d**	( )		
e	Income from Form 8853	**8e**			
f	Income from Form 8889	**8f**			
g	Alaska Permanent Fund dividends	**8g**			
h	Jury duty pay	**8h**			

SCHEDULE C
(Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment
Sequence No. **09**

Name of proprietor	**Social security number (SSN)**

A	Principal business or profession, including product or service (see instructions)	**B Enter code from instructions**
C	Business name. If no separate business name, leave blank.	**D Employer ID number (EIN)** (see instr.)
E	Business address (including suite or room no.)	
	City, town or post office, state, and ZIP code	

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)

G Did you “materially participate” in the operation of this business during 2023? If “No,” see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2023, check here . . . . ☐

I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions . . . . ☐ **Yes** ☐ **No**

J If “Yes,” did you or will you file required Form(s) 1099? . . . . ☐ **Yes** ☐ **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the “Statutory employee” box on that form was checked . . . . ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions) .	18	

Permanent improvements.

A permanent improvement increases the value of property, adds to its life, or gives it a new or different use. Examples of improvements are replacing electric wiring or plumbing, adding a new roof or addition, paneling, or remodeling.

You must carefully distinguish between repairs and improvements. See *Repairs*, earlier, under *Actual Expenses*. You must also keep accurate records of these expenses.

These records will help you decide whether an expense is a deductible or a capital (added to the basis) expense. However, if you make repairs as part of an extensive remodeling or restoration of your home, the entire job is an improvement.

Example.

You buy an older home and fix up two rooms as a beauty salon. You patch the plaster on the ceilings and walls, paint, repair the floor, install an outside door, and install new wiring, plumbing, and other equipment.

Normally, the patching, painting, and floor work are repairs and the other expenses are permanent improvements.

However, because the work gives your property a new use, the entire remodeling job is a permanent improvement and its cost is added to the basis of the property. You cannot deduct any portion of it as a repair expense.

Adjusting for depreciation deducted in earlier years.

Decrease the basis of your property by the depreciation you deducted, or could have deducted, on your tax returns under the method of depreciation you properly selected.

If you deducted less depreciation than you could have under the method you selected, decrease the basis by the amount you could have deducted under that method. If you did not deduct any depreciation, decrease the basis by the amount you could have deducted.

If you deducted more depreciation than you should have, decrease your basis by the amount you should have deducted, plus the part of the excess depreciation you deducted that actually decreased your tax liability for any year.

If you deducted the incorrect amount of depreciation, see Pub. 946, How To Depreciate Property.

Fair market value defined.

The fair market value of your home is the price at which the property would change hands between a buyer and a seller, neither having to buy or sell, and both having reasonable knowledge of all necessary facts.

Sales of similar property, on or about the date you begin using your home for business, may be helpful in determining the property's fair market value.

Figuring the depreciation deduction for the current year.

If you began using your home for business before 2023, continue to use the same depreciation method you used in past tax years. However, if you figured your deduction for business use of the home using the simplified method in a prior year, you will need to use the optional depreciation table for modified accelerated cost recovery system (MACRS) property. See Pub. 946 for the optional depreciation tables.

For more information about the simplified method, see Revenue Procedure 2013-13, 2013-06 I.R.B. 478, available at *IRS.gov/irb/2013-06_IRB#RP-2013-13*.

If you began using your home for business for the first time in 2023, depreciate the business part as nonresidential real property under MACRS. Under MACRS, nonresidential real property is depreciated using the straight line method over 39 years. For more information on MACRS and other methods of depreciation, see Pub. 946.

To figure the depreciation deduction, you must first figure the part of the cost of your home that can be depreciated (depreciable basis). The depreciable basis is figured by multiplying the percentage of your home used for business by the smaller of the following.

The adjusted basis of your home (excluding land) on the date you began using your home for business.	The fair market value of your home (excluding land) on the date you began using your home for business.

Depreciation table.

- If 2023 was the first year you used your home for business, you can figure your 2023 depreciation for the business part of your home by using the appropriate percentage from the following table.

Table 2. **MACRS Percentage Table for 39-Year Nonresidential Real Property**

Month First Used for Business	Percentage To Use
1	2.461%
2	2.247%
3	2.033%
4	1.819%
5	1.605%
6	1.391%
7	1.177%
8	0.963%
9	0.749%
10	0.535%
11	0.321%
12	0.107%

Multiply the depreciable basis of the business part of your home by the percentage from the table for the first month you use your home for business.

See Pub. 946 for the percentages for the remaining tax years of the recovery period.

Example.

In May, Frankie began to use one room at home exclusively and regularly to meet clients. This room is 8% of the square footage of the home. Frankie bought their home in 2008 for $125,000.

Frankie determined from the property tax records that the adjusted basis in the house (exclusive of land) is $115,000. In May, the house had a fair market value of $165,000. Frankie multiplies the adjusted basis of $115,000 (which is less than the fair market value) by 8%. The result is $9,200, the depreciable basis for the business part of the house.

Frankie files their return based on the calendar year. May is the fifth month of this tax year. Frankie multiplies the depreciable basis of $9,200 by 1.605% (0.01605), the percentage from the table for the fifth month. Frankie's depreciation deduction is $147.66.

Depreciating permanent improvements.

Add the costs of permanent improvements made before you began using your home for business to the basis of your property.

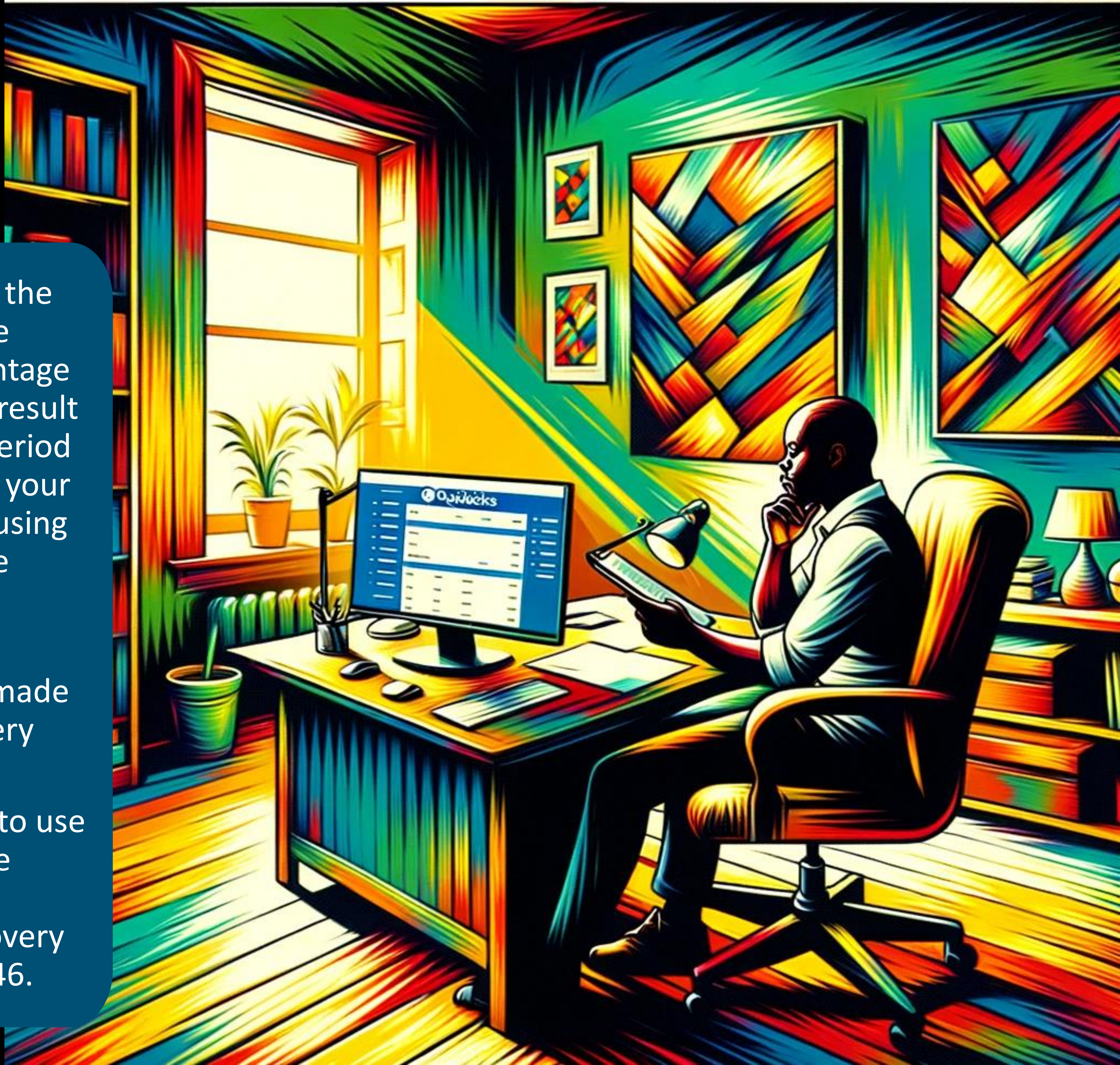
Depreciate these costs as part of the cost of your home, as explained earlier.

The costs of improvements made after you begin using your home for business (that affect the business part of your home, such as a new roof) are depreciated separately.

Multiply the cost of the improvement by the business-use percentage and depreciate the result over the recovery period that would apply to your home if you began using it for business at the same time as the improvement.

For improvements made this year, the recovery period is 39 years.

For the percentage to use for the first year, see Table 2. For more information on recovery periods, see Pub. 946.



Business Percentage

To find the business percentage, compare the size of the part of your home that you use for business to your whole house.

Use the resulting percentage to figure the business part of the expenses for operating your entire home.

You can use any reasonable method to determine the business percentage. The following are two commonly used methods for figuring the percentage.

Divide the area (length multiplied by the width) used for business by the total area of your home.

If the rooms in your home are all about the same size, you can divide the number of rooms used for business by the total number of rooms in your home.

Example 1.

Your office is 240 square feet (12 feet × 20 feet).

Your home is 1,200 square feet.

Your office is 20% (240 ÷ 1,200) of the total area of your home.

Your business percentage is 20%.

Example 2.

You use one room in your home for business.

Your home has 10 rooms, all about equal size.

Your office is 10% (1 ÷ 10) of the total area of your home.

Your business percentage is 10%.

Deduction Limit

If your gross income from the business use of your home equals or exceeds your total business expenses (including depreciation), you can deduct all your business expenses related to the use of your home.

If your gross income from the business use of your home is less than your total business expenses, your de-duction for certain expenses for the business use of your home is limited.

Your deduction of otherwise nondeductible expenses, such as insurance, utilities, and depreciation of your home (with depreciation of your home taken last), that are allocable to the business, is limited to the gross income from the business use of your home minus the sum of the following.

The business part of expenses you could deduct even if you did not use your home for business (such as mortgage interest, real estate taxes, and casualty losses attributable to a federally declared disaster if you itemize deductions on Schedule A (Form 1040) or net qualified disaster losses if you claim the standard de-duction).

The business expenses that relate to the business activity in the home (for example, business phone, supplies, and depreciation on equipment), but not to the use of the home itself.

If you are self-employed, do not include in (2) above your deduction for one-half of your self-employment tax.

Carryover of unallowed expenses.

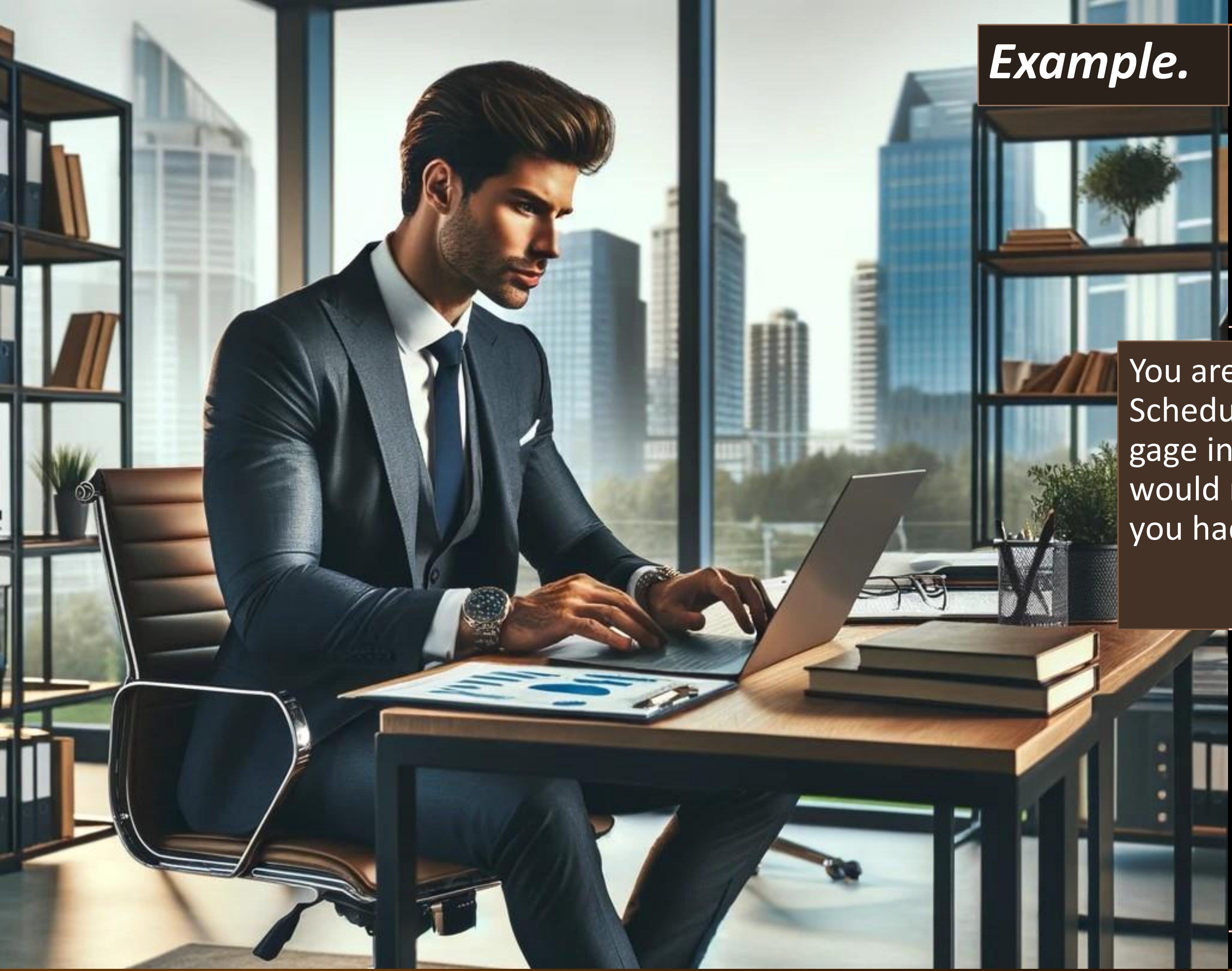
If your business expenses related to the home are greater than the current year's limit, you can carry over the excess to the next year in which you use actual expenses.

They are subject to the deduction limit for that year, whether or not you live in the same home during that year.

Figuring the deduction limit and carryover.

If you are a partner or you file Schedule F (Form 1040), use the Worksheet To Figure the Deduction for Business Use of Your Home, near the end of this publication.

If you file Schedule C (Form 1040), figure your deduction limit and carryover on Form 8829.



Example.

You meet the requirements for deducting expenses for the business use of your home. You use 20% of your home for business.

You are itemizing your deductions on Schedule A (Form 1040) and your home mortgage interest and total state and local taxes would not be limited on your Schedule A if you had not used your home for business.

In 2023, your business expenses and the expenses for the business use of your home are deducted from your gross income in the following order.

Gross income from business	$6,000
Minus:	
Deductible mortgage interest and real estate taxes (20%)	3,000
Business expenses not related to the use of your home (100%) (business phone, supplies, and depreciation on equipment)	2,000
Deduction limit	$1,000
Minus other expenses allocable to business use of home:	
Maintenance, insurance, and utilities (20%)	800
Depreciation allowed (20%)	200
Other expenses up to the deduction limit	$1,000
Depreciation carryover to 2024 ($1,600 – $200) (subject to deduction limit in 2024)	$1,400

You can deduct all of the business part of your deductible mortgage interest and real estate taxes ($3,000). You can also deduct all of your business expenses not related to the use of your home ($2,000).

Additionally, you can deduct all of the business part of your expenses for maintenance, insurance, and utilities, because the total ($800) is less than the $1,000 deduction limit.

Your deduction for depreciation for the business use of your home is limited to $200 ($1,000 minus $800) because of the deduction limit. You can carry over the $1,400 balance and add it to your depreciation for 2024, subject to your deduction limit in 2024.

More than one place of business.

If part of the gross income from your trade or business is from the business use of part of your home and part is from a place other than your home, you must determine the part of your gross income from the business use of your home before you figure the deduction limit.

In making this determination, consider the time you spend at each location, the business investment in each location, and any other relevant facts and circumstances.

Tip

If your home office qualifies as your principal place of business, you can deduct your daily transportation costs between your home and an-other work location in the same trade or business.

For more information on transportation costs, see Pub. 463, Travel, Gift, and Car Expenses.

Income Tax

2023-2024

Business Use of Your Home - Using the Simplified Method

Publication 946

Cat. No. 13081F

How To Depreciate Property

- **Section 179 Deduction**
- **Special Depreciation Allowance**
- **MACRS**
- **Listed Property**

For use in preparing

2023 Returns

	Income
-	Adjustments to Income
=	Adjusted Gross Income (AGI)
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=	Tax Before Credits & Other Taxes
- +	Tax Credits & Other Taxes
=	Total Tax
-	Tax Payments & Refundable Credits
=	Tax Refund or Tax Due

Income						
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	Total amount from Form(s) W-2, box 1 (see instructions)			1a	
	b	Household employee wages not reported on Form(s) W-2			1b	
	c	Tip income not reported on line 1a (see instructions)			1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)			1d	
	e	Taxable dependent care benefits from Form 2441, line 26			1e	
	f	Employer-provided adoption benefits from Form 8839, line 29			1f	
	g	Wages from Form 8919, line 6			1g	
	h	Other earned income (see instructions)			1h	
	i	Nontaxable combat pay election (see instructions)	1i			
	z	Add lines 1a through 1h			1z	
Attach Sch. B if required.	2a	Tax-exempt interest	2a	b Taxable interest	2b	
	3a	Qualified dividends	3a	b Ordinary dividends	3b	
Standard Deduction for— • Single or Married filing separately, $13,850 • Married filing jointly or Qualifying surviving spouse, $27,700 • Head of household, $20,800 • If you checked any box under *Standard Deduction*, see instructions.	4a	IRA distributions	4a	b Taxable amount	4b	
	5a	Pensions and annuities	5a	b Taxable amount	5b	
	6a	Social security benefits	6a	b Taxable amount	6b	
	c	If you elect to use the lump-sum election method, check here (see instructions) ☐				
	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐			7	
	8	Additional income from Schedule 1, line 10			8	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**			9	
	10	Adjustments to income from Schedule 1, line 26			10	
	11	Subtract line 10 from line 9. This is your **adjusted gross income**			11	
	12	**Standard deduction or itemized deductions** (from Schedule A)			12	
	13	Qualified business income deduction from Form 8995 or Form 8995-A			13	
	14	Add lines 12 and 13			14	
	15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**			15	

SCHEDULE 1
(Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR	**Your social security number**

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			**1**	
2a	Alimony received			**2a**	
b	Date of original divorce or separation agreement (see instructions):				
3	Business income or (loss). Attach Schedule C			**3**	
4	Other gains or (losses). Attach Form 4797			**4**	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E .			**5**	
6	Farm income or (loss). Attach Schedule F			**6**	
7	Unemployment compensation			**7**	
8	Other income:				
a	Net operating loss	**8a**	( )		
b	Gambling	**8b**			
c	Cancellation of debt	**8c**			
d	Foreign earned income exclusion from Form 2555	**8d**	( )		
e	Income from Form 8853	**8e**			
f	Income from Form 8889	**8f**			
g	Alaska Permanent Fund dividends	**8g**			
h	Jury duty pay	**8h**			

SCHEDULE C (Form 1040)

Department of the Treasury Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **09**

Name of proprietor	**Social security number (SSN)**

A	Principal business or profession, including product or service (see instructions)	**B Enter code from instructions**
C	Business name. If no separate business name, leave blank.	**D Employer ID number (EIN)** (see instr.)

E Business address (including suite or room no.)

City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2023? If "No," see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2023, check here . . . . ☐

I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions . . . . ☐ **Yes** ☐ **No**

J If "Yes," did you or will you file required Form(s) 1099? . . . . ☐ **Yes** ☐ **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . . ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6	7	

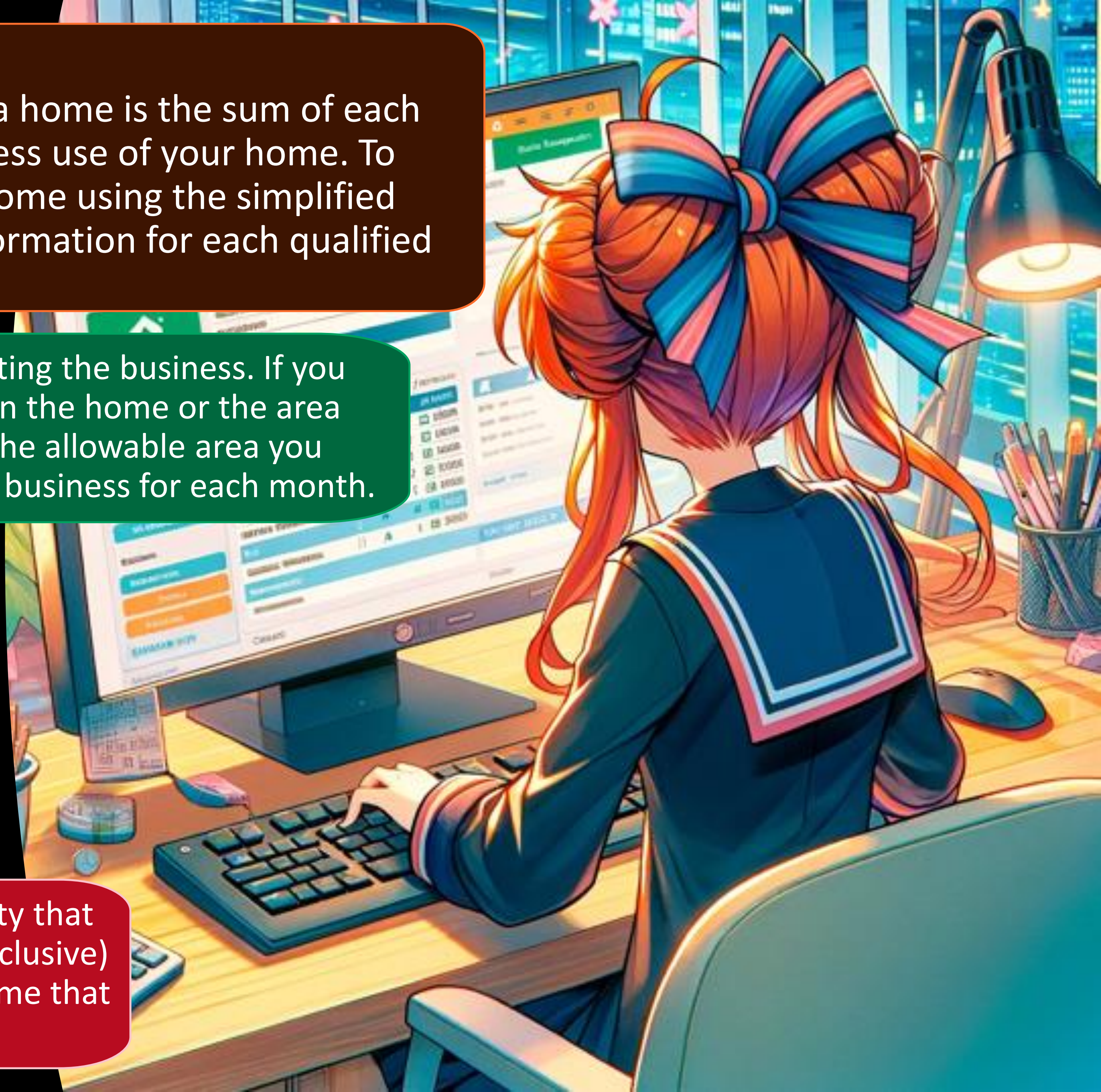
Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions) .	18	

Simplified Amount

Your deduction for the qualified business use of a home is the sum of each amount you figure for a separate qualified business use of your home. To figure your deduction for the business use of a home using the simplified method, you will need to know the following information for each qualified business use of the home.

- The allowable area of your home used in conducting the business. If you did not conduct the business for the entire year in the home or the area changed during the year, you will need to know the allowable area you used and the number of days you conducted the business for each month.
- The gross income from the business use of your home.
- The amount of the business expenses that are not related to the use of your home.
- If the qualified business use is for a daycare facility that uses space in your home on a regular (but not exclusive) basis, you will need to know the percentage of time that part of your home is used for daycare.



To figure the amount you can deduct for qualified business use of your home using the simplified method, follow these three steps.

Multiply the allowable area by $5 (or less than $5 if the qualified business use is for a daycare that uses space in your home on a regular, but not exclusive, basis). See *Allowable area* and *Space used regularly for daycare*, later.

Subtract the expenses from the business that are not related to the use of the home from the gross income related to the business use of the home. If these expenses are greater than the gross income from the business use of the home, then you cannot take a deduction for this business use of the home. See *Gross income limitation*, later.

Take the smaller of the amounts from (1) and (2). This is the amount you can deduct for this qualified business use of your home using the simplified method.

If you are a partner or you use your home in your farming business and file Schedule F (Form 1040), you can use the Simplified Method Worksheet, near the end of this publication, to help you figure your deduction.

If you use your home in a trade or business and you file Schedule C (Form 1040), you will use the Simplified Method Worksheet in your Instructions for Schedule C to figure your de-duction.

Allowable area.

In most cases, the allowable area is the smaller of the actual area (in square feet) of your home used in conducting the business and 300 square feet.

Your allowable area may be smaller if you conducted the business as a qualified joint venture with your spouse, the area used by the business was shared with another qualified business use, you used the home for the business for only part of the year, or the area used by the business changed during the year.

You can use the Area Adjustment Worksheet (for simplified method), near the end of this publication, to help you figure your allowable area for a qualified business use.

Area used by a qualified joint venture.

If the qualified business use of the home is also a qualified joint venture, you and your spouse will figure the deduction for the business use separately.

Split the actual area used in conducting business between you and your spouse in the same manner you split your other tax attributes.

Then, each spouse will figure the allowable area separately. For more information about qualified joint ventures, see *Qualified Joint Venture* in the Instructions for Schedule C.

Shared use.

If you share your home with someone else who uses the home to conduct business that also qualifies for this deduction, you may not include the same square feet to figure your deduction as the other person.

You must allocate the shared space between you and the other person in a reasonable manner.

Example.

Lindsey and Tracy are roommates. Lindsey uses 300 square feet of their home for a qualified business use. Tracy uses 200 square feet of their home for a separate qualified business use.

Lindsey and Tracy both share 100 square feet for their respective qualified businesses in their mutual home. In addition to the portion that they do not share, Lindsey and Tracy can both claim 50 of the 100 square feet or divide the 100 square feet between them in any reasonable manner.

If divided evenly, Lindsey could claim 250 square feet using the simplified method and Tracy could claim 150 square feet.

More than one qualified business use.

If you conduct more than one business qualifying for the deduction, you are limited to a maximum of 300 square feet for all of the businesses.

Allocate the actual square footage used (up to the maximum of 300 square feet) among your qualified business uses in a reasonable manner.

However, do not allocate more square feet to a qualified business use than you actually use for that business.

Rental use.

The simplified method does not apply to rental use. A rental use that qualifies for the deduction must be figured using actual expenses.

If the rental use and a qualified business use share the same area, you will have to allocate the actual area used between the two uses.

You cannot use the same area to figure a deduction for the qualified business use as you are using to figure the deduction for the rental use.

Part-year use or area changes (for simplified method only).

If your qualified business use was for a portion of the year (for example, a seasonal business, a business that begins during the year, or you moved during the year) or you changed the square footage of your qualified business use, your deduction is limited to the average monthly allowable square footage.

You calculate the average monthly allowable square footage by adding the amount of allowable square feet you used in each month and dividing the sum by 12.

When determining the average monthly allowable square footage, you cannot take more than 300 square feet into account for any 1 month.

Additionally, if your qualified business use was less than 15 days in a month, you must use -0- for that month.

Example 1.

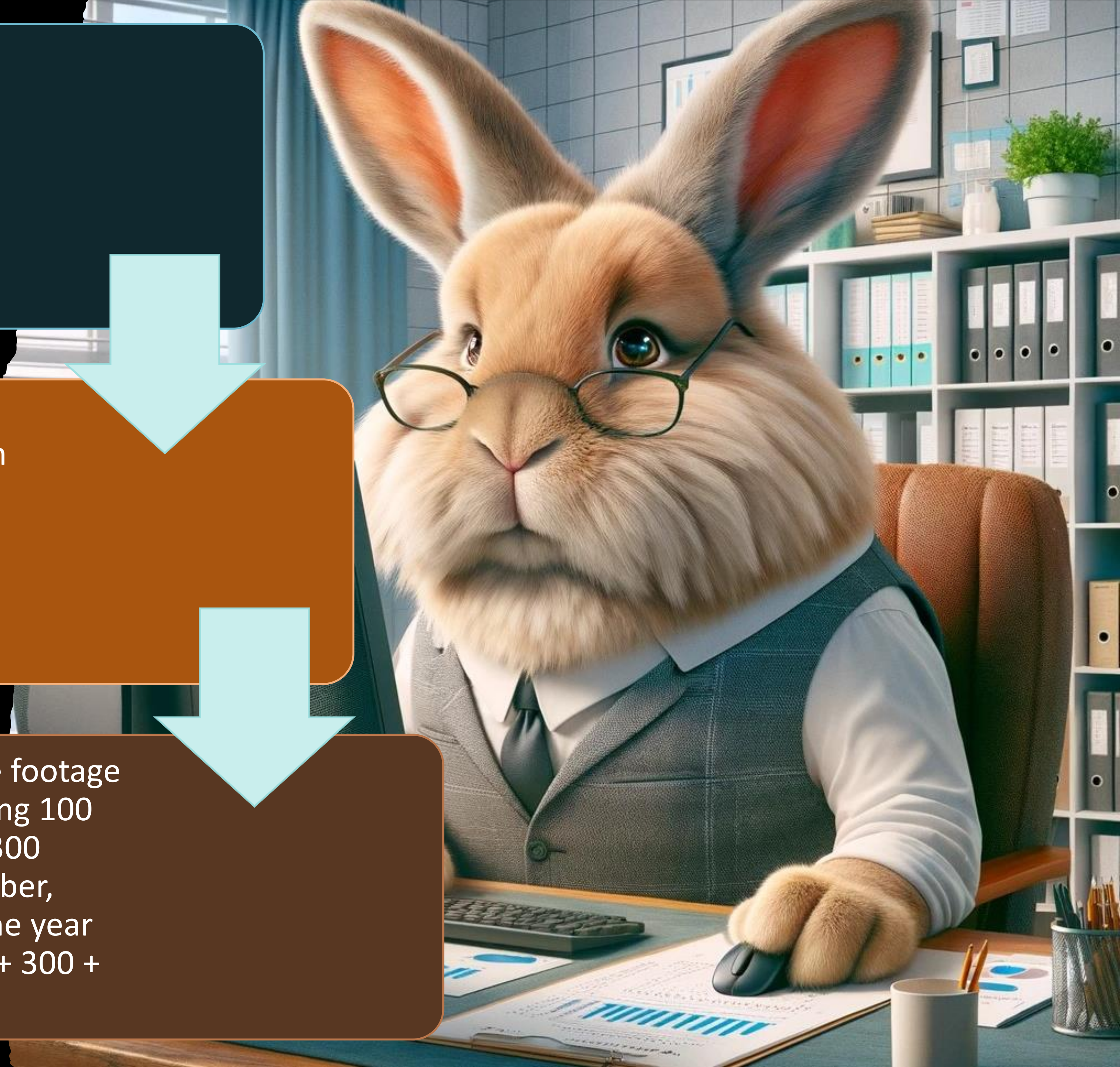
Jay files their federal income tax return on a calendar year basis. On July 20, Jay began using 420 square feet at their home for a qualified business use. Jay continued to use 420 square feet of their home until the end of the year.

The average monthly allowable square footage is 125 square feet, which is figured using 300 square feet for each month, August through December, divided by the number of months in the year ((0 + 0 + 0 + 0 + 0 + 0 + 0 + 300 + 300 + 300 + 300 + 300)/12).

Example 2.

Jessie files their federal tax return on a calendar year basis. On April 20, Jessie began using 100 square feet of their home for a qualified business use. On August 5, Jessie expanded the area of qualified use to 330 square feet. Jessie continued to use the 330 square feet until the end of the year.

The average monthly allowable square footage is 150 square feet, which is figured using 100 square feet for May through July and 300 square feet for August through December, divided by the number of months in the year ((0 + 0 + 0 + 0 + 100 + 100 +100 + 300 + 300 + 300 + 300 + 300)/12).



Example 3.

Guadalupe files their income tax return on a calendar year basis. From January 1 through July 16, Guadalupe used 300 square feet of their home for a qualified business use. On July 17, Guadalupe moved to a new home and immediately began using 200 square feet for the same qualified business use.

While preparing their tax return, Guadalupe decided to use the simplified method to deduct the qualified business use of the first home and files a Form 8829 to deduct the qualified business use of the second home.

The average monthly allowable square footage is 175 square feet, which is figured using 300 square feet for January through July, divided by the number of months in the year ((300 + 300 + 300 + 300 + 300 + 300 + 300 + 0 + 0 + 0 + 0 + 0)/12).

Gross income limitation.

Your deduction for business use of the home is limited to an amount equal to the gross income derived from the qualified business use of the home reduced by the business deductions that are unrelated to the use of your home.

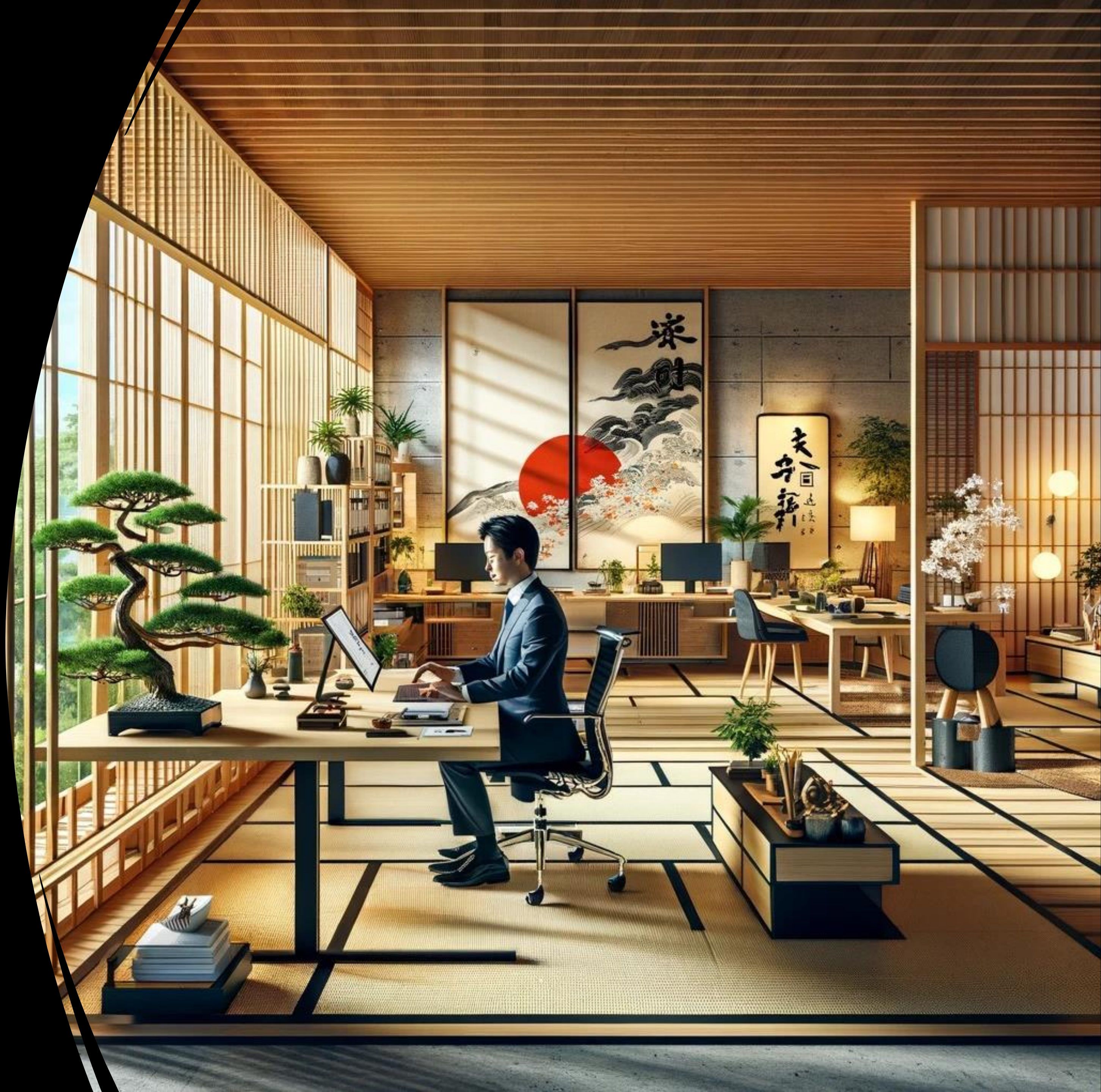
If the business deductions that are unrelated to the use of your home are greater than the gross income derived from the qualified business use of your home, then you cannot take a deduction for this qualified business use of your home.

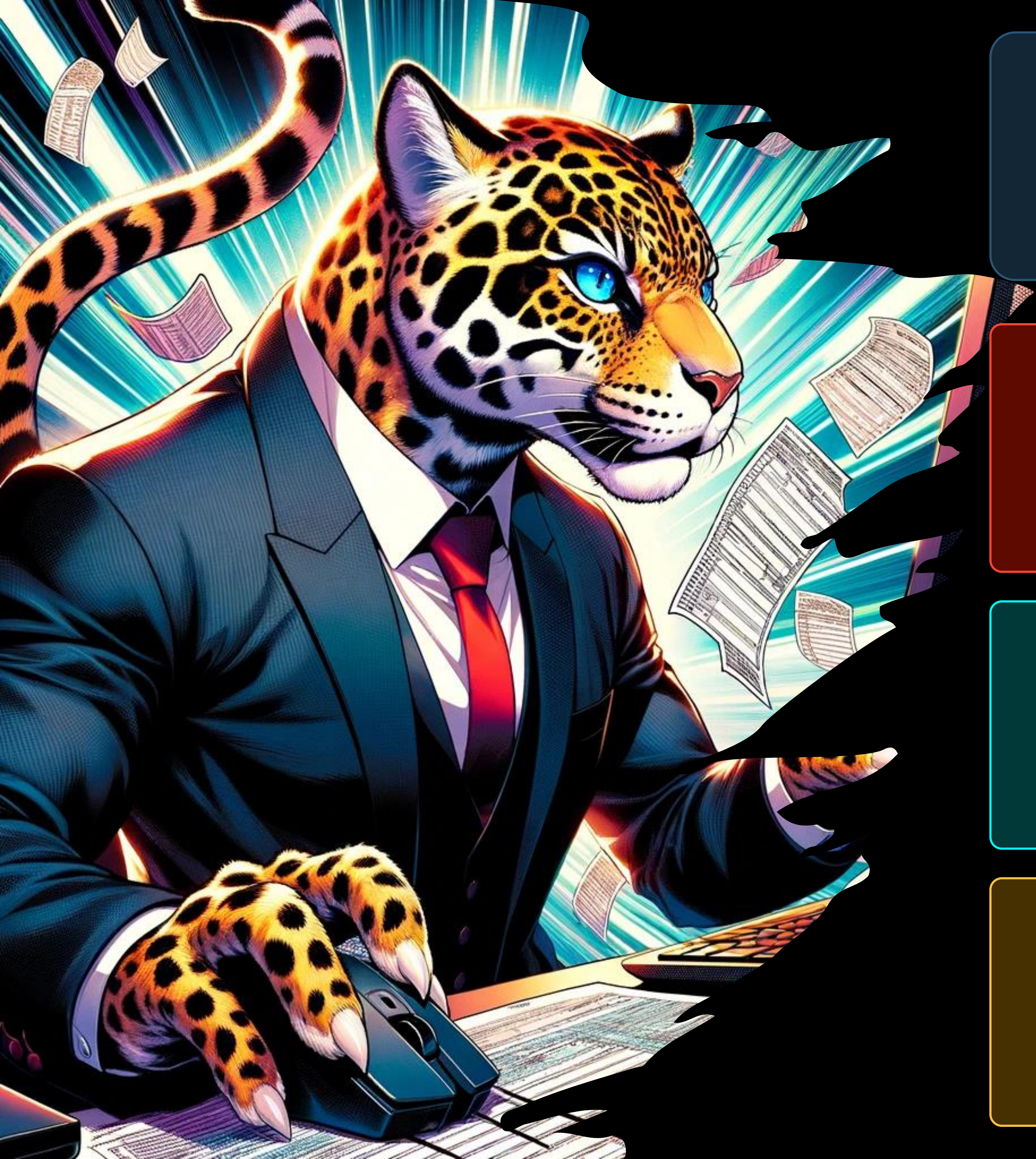
Business expenses not related to use of the home.

These expenses relate to the business activity in the home, but not to the use of the home itself.

You can still deduct business expenses that are unrelated to the use of the home.

See *Where To Deduct*, later. Examples of business expenses that are unrelated to the use of the home are advertising, wages, supplies, dues, and depreciation for equipment.





Space used regularly for daycare.

If you do not use the area of your home exclusively for daycare, you must reduce the prescribed rate (maximum $5 per square foot) before figuring your deduction. The reduced rate will equal the prescribed rate times a fraction.

The numerator of the fraction is the number of hours that the space was used during the year for daycare and the denominator is the total number of hours during the year that the space was available for all uses.

You can use the Daycare Facility Worksheet (for simplified method), near the end of this publication, to help you figure the reduced rate.

Tip

If you used at least 300 square feet for daycare regularly and exclusively during the year, then you do not need to reduce the prescribed rate or complete the Daycare Facility Worksheet.

Income Tax

2023-2024

Business Use of Your Home - Daycare Facility

Publication 946
Cat. No. 13081F

How To Depreciate Property

- **Section 179 Deduction**
- **Special Depreciation Allowance**
- **MACRS**
- **Listed Property**

For use in preparing

2023 Returns

	Income
-	<u>Adjustments to Income</u>
=	Adjusted Gross Income (AGI)
-	Greater of:
	Standard Deduction or
	<u>Itemized Deduction</u>
=	Taxable Income
x	<u>Tax Rates (Tax Tables)</u>
=	Tax Before Credits & Other Taxes
- +	Tax Credits & Other Taxes
=	Total Tax
-	<u>Tax Payments & Refundable Credits</u>
=	<u>Tax Refund or Tax Due</u>

Income						
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	Total amount from Form(s) W-2, box 1 (see instructions)			1a	
	b	Household employee wages not reported on Form(s) W-2			1b	
	c	Tip income not reported on line 1a (see instructions)			1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)			1d	
	e	Taxable dependent care benefits from Form 2441, line 26			1e	
	f	Employer-provided adoption benefits from Form 8839, line 29			1f	
	g	Wages from Form 8919, line 6			1g	
	h	Other earned income (see instructions)			1h	
	i	Nontaxable combat pay election (see instructions)	1i			
	z	Add lines 1a through 1h			1z	
Attach Sch. B if required.	2a	Tax-exempt interest	2a	b Taxable interest	2b	
	3a	Qualified dividends	3a	b Ordinary dividends	3b	
Standard Deduction for— • Single or Married filing separately, $13,850 • Married filing jointly or Qualifying surviving spouse, $27,700 • Head of household, $20,800 • If you checked any box under *Standard Deduction*, see instructions.	4a	IRA distributions	4a	b Taxable amount	4b	
	5a	Pensions and annuities	5a	b Taxable amount	5b	
	6a	Social security benefits	6a	b Taxable amount	6b	
	c	If you elect to use the lump-sum election method, check here (see instructions) ☐				
	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐			7	
	8	Additional income from Schedule 1, line 10			8	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**			9	
	10	Adjustments to income from Schedule 1, line 26			10	
	11	Subtract line 10 from line 9. This is your **adjusted gross income**			11	
	12	**Standard deduction or itemized deductions** (from Schedule A)			12	
	13	Qualified business income deduction from Form 8995 or Form 8995-A			13	
	14	Add lines 12 and 13			14	
	15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**			15	

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes		**1**
2a	Alimony received		**2a**
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C		**3**
4	Other gains or (losses). Attach Form 4797		**4**
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		**5**
6	Farm income or (loss). Attach Schedule F		**6**
7	Unemployment compensation		**7**
8	Other income:		
a	Net operating loss	**8a** ( )	
b	Gambling	**8b**	
c	Cancellation of debt	**8c**	
d	Foreign earned income exclusion from Form 2555	**8d** ( )	
e	Income from Form 8853	**8e**	
f	Income from Form 8889	**8f**	
g	Alaska Permanent Fund dividends	**8g**	
h	Jury duty pay	**8h**	

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **09**

Name of proprietor	**Social security number (SSN)**

A Principal business or profession, including product or service (see instructions)

B Enter code from instructions

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.)

City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2023? If "No," see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2023, check here . . . . ☐

I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions . . . . ☐ **Yes** ☐ **No**

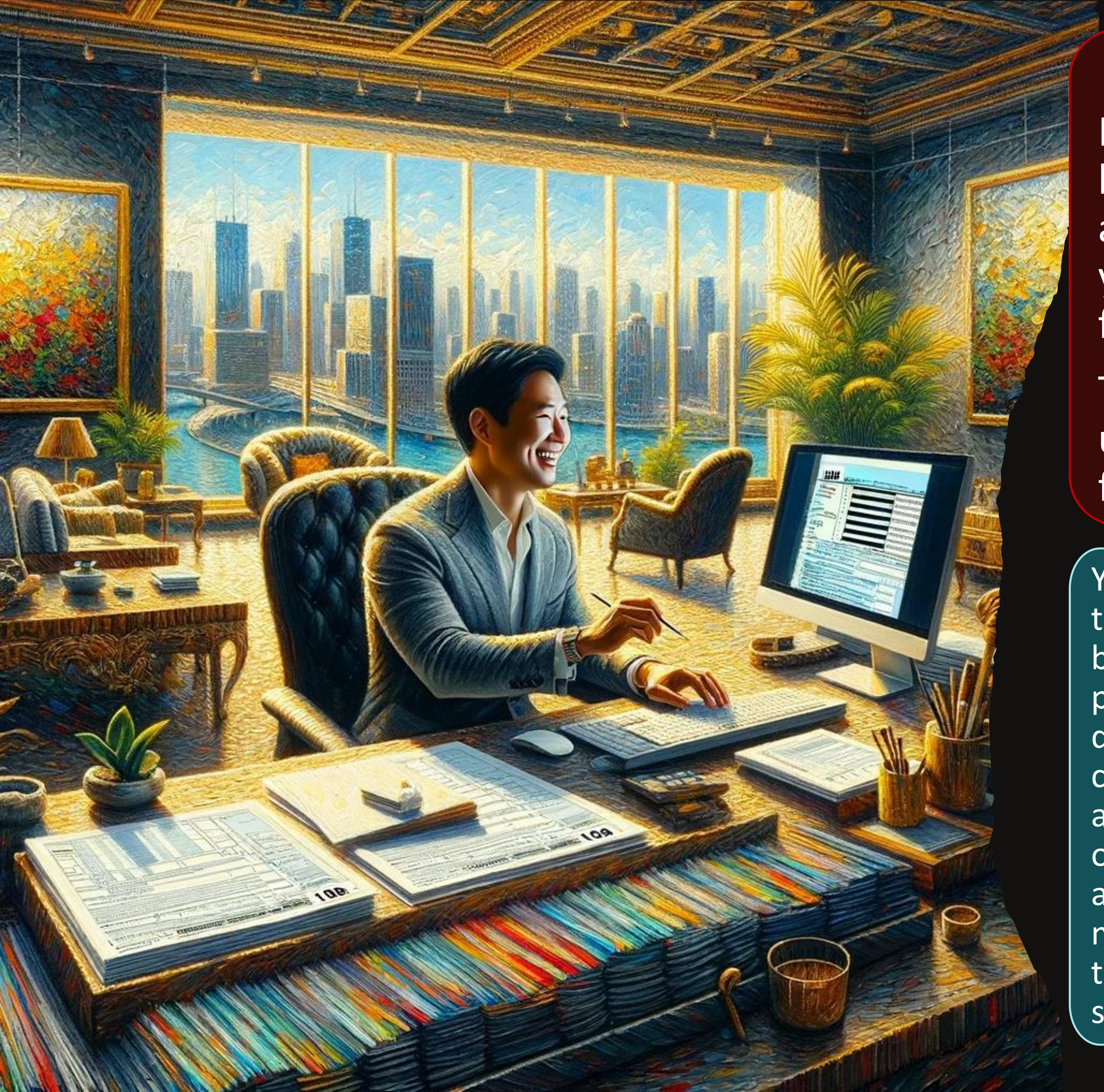
J If "Yes," did you or will you file required Form(s) 1099? . . . . ☐ **Yes** ☐ **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . . ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions) .	18	



Daycare Facility

If you use space in your home on a regular basis for providing daycare, you may be able to claim a deduction for that part of your home even if you use the same space for nonbusiness purposes.

To qualify for this exception to the exclusive use rule, you must meet both of the following requirements.

You must be in the trade or business of providing daycare for children, persons age 65 or older, or persons who are physically or mentally unable to care for themselves.

You must have applied for, been granted, or be exempt from having a license, certification, registration, or approval as a daycare center or as a family or group daycare home under state law.

You do not meet this requirement if your application was rejected or your li-cense or other authorization was revoked.

Figuring the deduction.

If you elect to use the simplified method for your home, figure your deduction as described earlier in *Using the Simplified Method* under *Figuring the Deduction*.

If you are figuring your deduction using actual expenses and you regularly use part of your home for daycare, figure what part is used for daycare, as explained in *Busi-ness Percentage*, earlier, under *Figuring the Deduction*. If you also use that part exclusively for daycare, deduct all the allocable expenses, subject to the deduction limit, as explained earlier.

If the use of part of your home as a daycare facility is regular, but not exclusive, you must figure the percentage of time that part of your home is used for daycare. A room that is available for use throughout each business day and that you regularly use in your business is considered to be used for daycare throughout each business day.

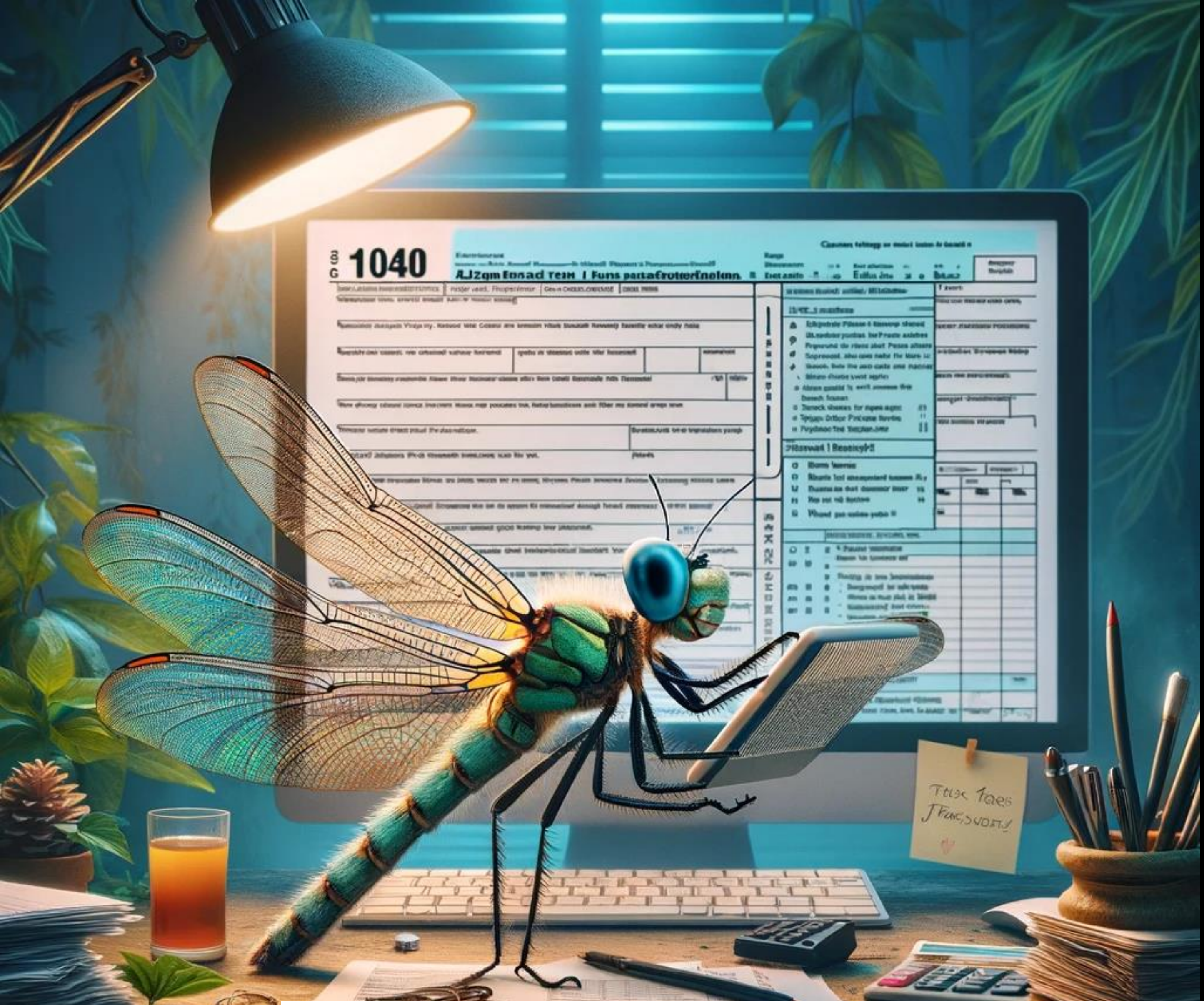
You do not have to keep records to show the specific hours the area was used for business. You can use the area occasionally for personal reasons. However, a room you use only occasionally for business does not qualify for the de-duction.

Tip

To find the percentage of time you actually use your home for business, compare the total time used for business to the total time that part of your home can be used for all purposes.

You can compare the hours of business use in a week with the number of hours in a week (168).

Or, you can compare the hours of business use for the year with the number of hours in the year (8,760 in 2023). If you started or stopped using your home for daycare in 2023, you must prorate the number of hours based on the number of days the home was available for daycare.



Example 1.

- Rene used the basement at home to operate a daycare business for children. Rene figures the business percentage of the basement as follows.

$$\frac{\text{Square footage of the basement}}{\text{Square footage of the home}} = \frac{1{,}600}{3{,}200} = 50\%$$

Rene used the basement for daycare an average of 12 hours a day, 5 days a week, for 50 weeks a year.

During the other 12 hours a day, the family could use the basement. Rene figures the percentage of time the basement was used for daycare as follows.

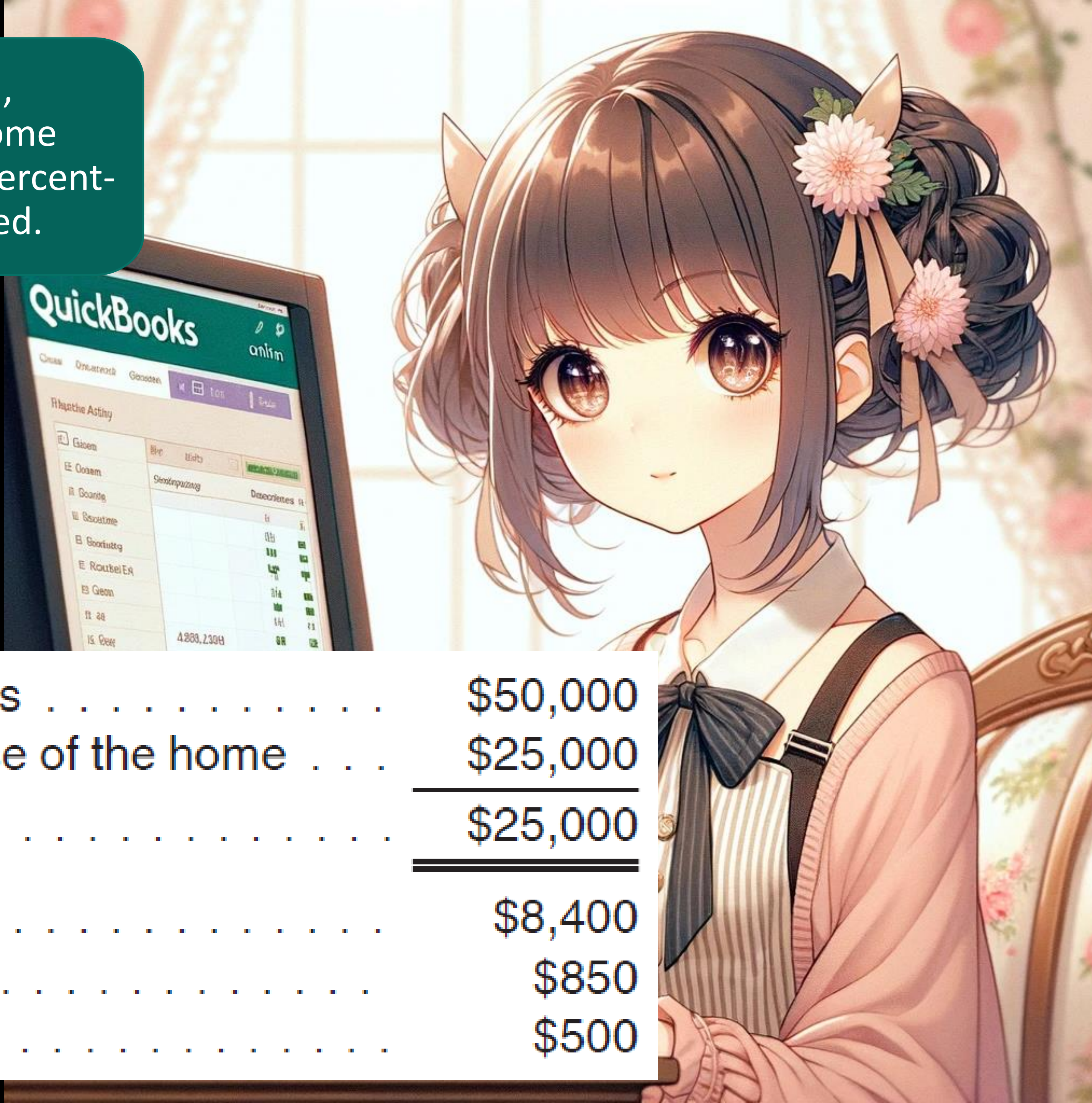
$$\frac{\text{Number of hours used for daycare } (12 \times 5 \times 50)}{\text{Total number of hours in the year } (24 \times 365)} = \frac{3{,}000}{8{,}760} = 34.25\%$$

Rene can deduct 34.25% of any direct expenses for the basement. However, because Rene's indirect expenses are for the entire house, Rene can deduct only 17.13% of the indirect expenses. Rene figures the percentage for their indirect expenses as follows.

Business percentage of the basement	50%
Multiplied by: Percentage of time used for daycare	× 34.25%
Percentage for indirect expenses	17.13%

Rene completes Form 8829, Part I, figuring the percent-age of the home used for business, including the percent-age of time the basement was used.

In Part II, Rene figures their deductible expenses. Rene uses the following information to complete Part II.



Gross income from the daycare business	$50,000
Expenses not related to the business use of the home	$25,000
Tentative profit	$25,000
Rent	$8,400
Utilities	$850
Painting the basement	$500

Rene enters their tentative profit, $25,000, on line 8. (This figure is the same as the amount on line 29 of their Schedule C (Form 1040)).

The expenses they paid for rent and utilities relate to their entire home. Therefore, Rene enters the amount paid for rent on line 19, column (b), and the amount paid for utilities on line 21, column (b). Rene shows the total of these expenses on line 23, column (b). For line 24, Rene multiplies the amount on line 23, column (b), by the per-centage on line 7 and enters the result, $1,585.

Rene paid $500 to have the basement painted. The painting is a direct expense. However, because the basement was not used exclusively for daycare, Rene must multiply $500 by the percentage of time the basement was used for daycare (34.25% – line 6). Rene then enters $171 (34.25% × $500) on line 20, column (a).

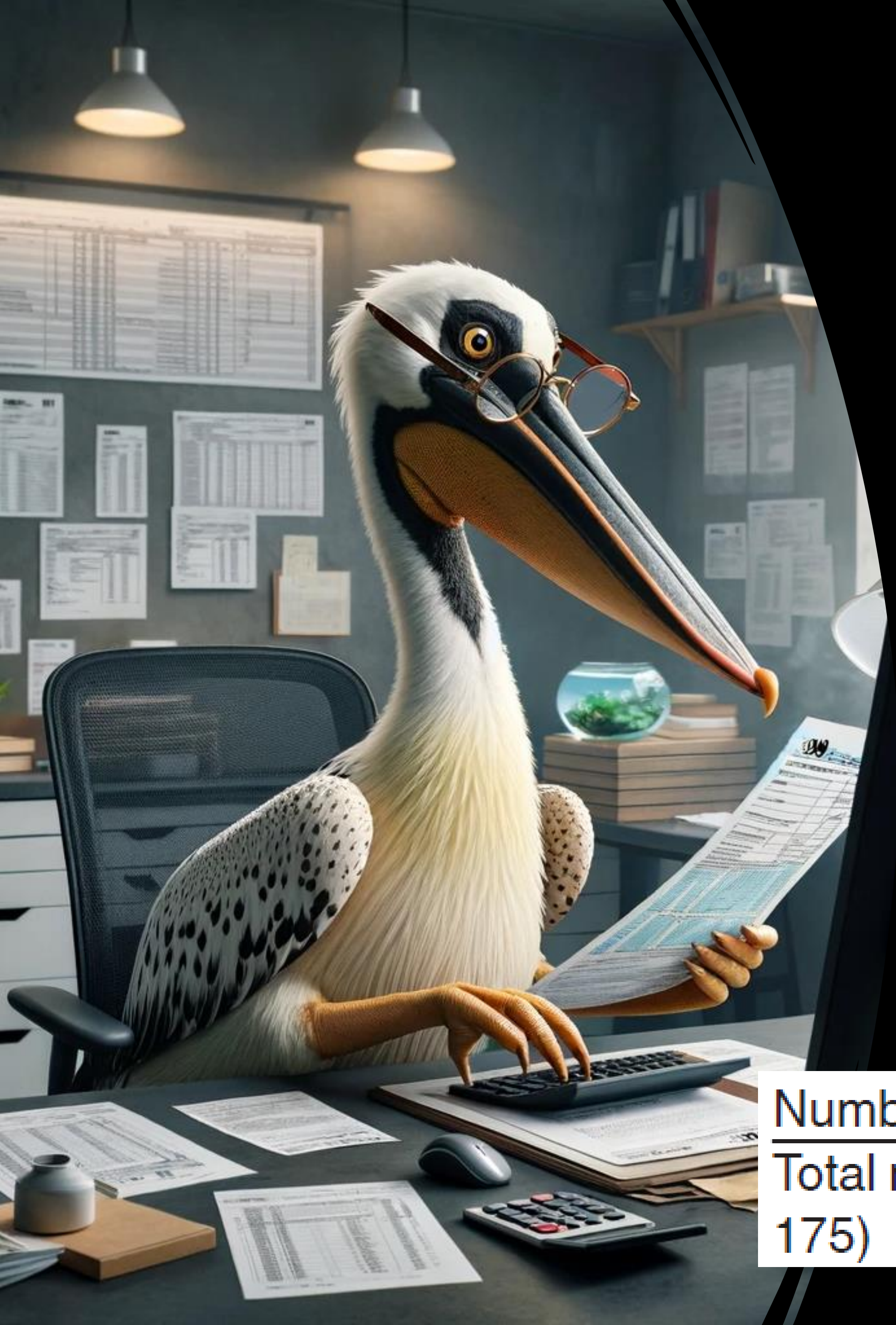
Rene then adds line 23, column (a), and line 24 and enters $1,756 ($171 + $1,585) on line 26. This is less than Rene's deduction limit (line 15), so Rene can deduct the entire amount. Rene follows the instructions to complete the rest of Part II and enters $1,756 on lines 34 and 36. Then Rene carries the $1,756 to line 30 of their Schedule C (Form 1040).

Example 2.

Assume the same facts as in *Example 1* except that Rene also has another room that was available each business day for children to take naps in. Although Rene did not keep a record of the number of hours the room was used for naps, it was used for part of each business day.

Since the room was available for business use during regular operating hours each business day and was used regularly in the business, it is considered used for daycare throughout each business day.

The basement and room are 60% of the total area of the home. In figuring Rene’s expenses, 34.25% of any direct expenses for the basement and room are deductible. In addition, 20.55% (34.25% × 60%) of their indirect expenses are deductible.



Example 3.

Assume the same facts as in *Example 1* except that Rene stopped using the home for a daycare facility on June 24, 2023. Rene used the basement for daycare an average of 12 hours a day, 5 days a week, but for only 25 weeks of the year.

During the other 12 hours a day, Rene's family could still use the basement. Rene figures the percentage of time the basement was used for business as follows.

$$\frac{\text{Number of hours used for daycare } (12 \times 5 \times 25)}{\text{Total number of hours during period used } (24 \times 175)} = \frac{1{,}500}{4{,}200} = 35.71\%$$

Rene can deduct 35.71% of any direct expenses for the basement.

However, because the indirect expenses are for the entire house, Rene can deduct only 17.86% of the indirect expenses.

Rene then figures the percentage for their indirect expenses as follows.

Business percentage of the basement	50%
Multiplied by: Percentage of time used for daycare	× 35.71%
Percentage for indirect expenses	17.86%

Meals.

If you provide food for your daycare recipients, do not include the expense as a cost of using your home for business. Claim it as a separate deduction on your Sched-ule C (Form 1040).

You can never deduct the cost of food consumed by you or your family. You can deduct as a business expense 100% of the actual cost of food consumed by your daycare recipients (see *Standard meal and snack rates*, later, for an optional method for eligible children) and generally only 50% of the cost of food consumed by your employees. For more information on meals that meet these requirements, see *Meals* in chapter 2 of Pub. 15-B, Employer's Tax Guide to Fringe Benefits.

If you deduct the actual cost of food for your daycare business, keep a separate record (with receipts) of your family's food costs.

Reimbursements you receive from a sponsor under the Child and Adult Care Food Program of the Department of Agriculture are taxable only to the extent they exceed your expenses for food for eligible children.

If your reimbursements are more than your expenses for food, show the difference as income in Part I of Schedule C (Form 1040).

If your food expenses are greater than the reimbursements, show the difference as an expense in Part V of Sched-ule C (Form 1040).

Do not include payments or expenses for your own children if they are eligible for the program. Follow this procedure even if you receive a Form 1099-MISC, Miscellaneous Information, reporting a payment from the sponsor.

Standard meal and snack rates.

If you qualify as a family daycare provider, you can use the standard meal and snack rates, instead of actual costs, to compute the deductible cost of meals and snacks provided to eligible children. For these purposes:

A family daycare provider is a person engaged in the business of providing family daycare;

Family daycare is childcare provided to eligible children in the home of the family daycare provider. The care must be non-medical, not involve a transfer of le-gal custody, and generally last less than 24 hours each day; and

Eligible children are minor children receiving family daycare in the home of the family daycare provider. Eligible children do not include children who are full-time or part-time residents in the home where the childcare is provided or children whose parents or guardians are residents of the same home. Eligible children do not include children who receive daycare services for personal reasons of the provider. For example, if a provider provides daycare services for a relative as a favor to that relative, that child is not an eligible child.

You can compute the deductible cost of each meal and snack you actually purchased and served to an eligible child during the time period you provided family daycare using the standard meal and snack rates shown in Table 3.

You can use the standard meal and snack rates for a maximum of one breakfast, one lunch, one dinner, and three snacks per eligible child per day. If you receive reimbursement for a particular meal or snack, you can deduct only the portion of the applicable standard meal or snack rate that is more than the amount of the reimbursement.

You can use either the standard meal and snack rates or actual costs to calculate the deductible cost of food provided to eligible children in the family daycare for any particular tax year. If you choose to use the standard meal and snack rates for a particular tax year, you must use the rates for all your deductible food costs for eligible children during that tax year. However, if you use the standard meal and snack rates in any tax year, you can use actual costs to compute the deductible cost of food in any other tax year.

If you use the standard meal and snack rates, you must maintain records to substantiate the computation of the total amount deducted for the cost of food provided to eligible children.

The records kept should include the name of each child, dates and hours of attendance in the daycare, and the type and quantity of meals and snacks served. This information can be recorded in a log similar to the one shown in Exhibit A, near the end of this publication.

The standard meal and snack rates include beverages, but do not include non-food supplies used for food preparation, service, or storage, such as containers, paper products, or utensils. These expenses can be claimed as a separate deduction on your Schedule C (Form 1040).

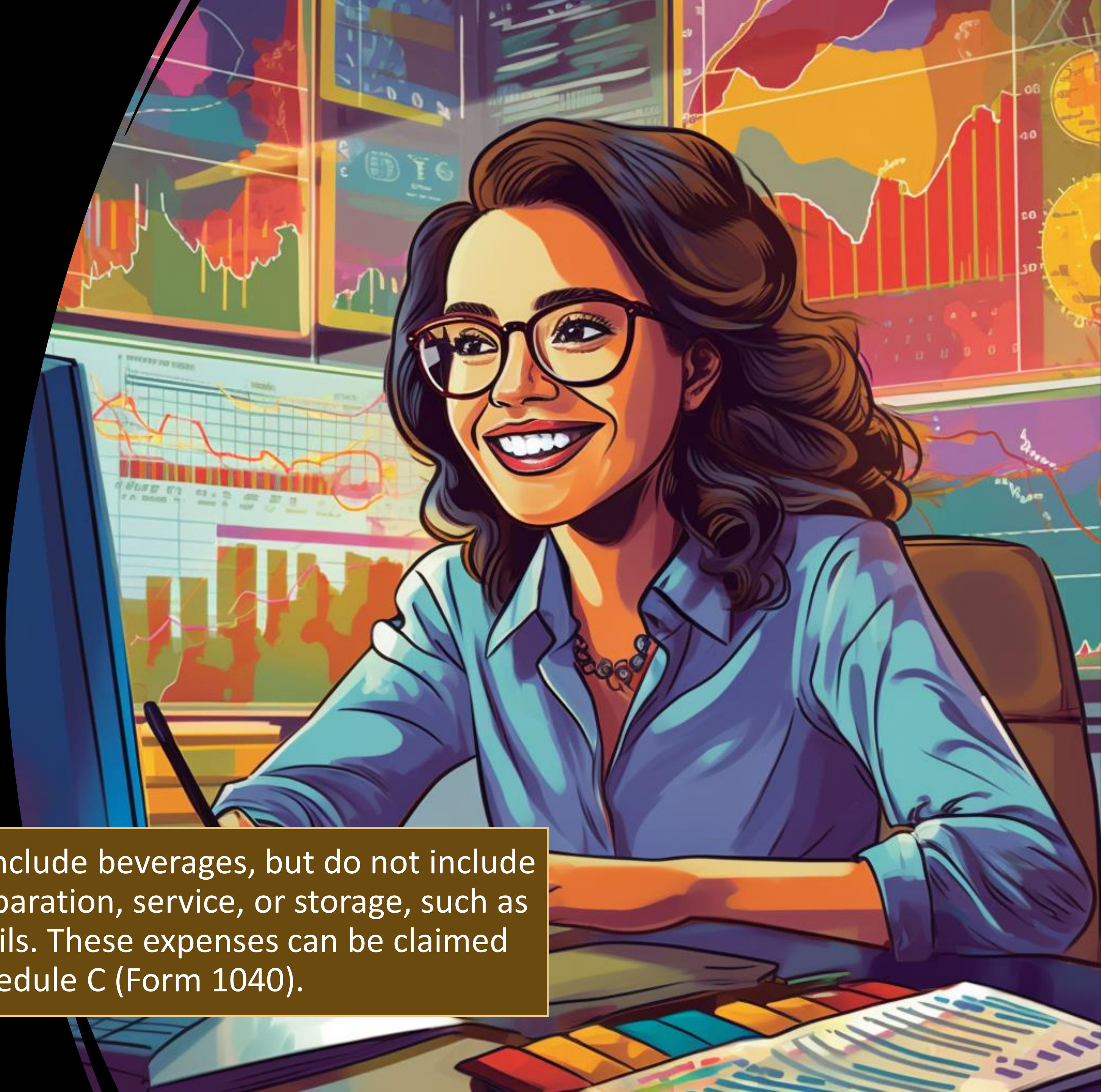


Table 3. **Standard Meal and Snack Rates**[1]

Location of Family Daycare Provider	Breakfast	Lunch	Dinner	Snack
States other than Alaska and Hawaii	$1.66	$3.04	$3.04	$0.97
Alaska	$2.59	$4.87	$4.87	$1.52
Hawaii	$1.91	$3.55	$3.55	$1.12

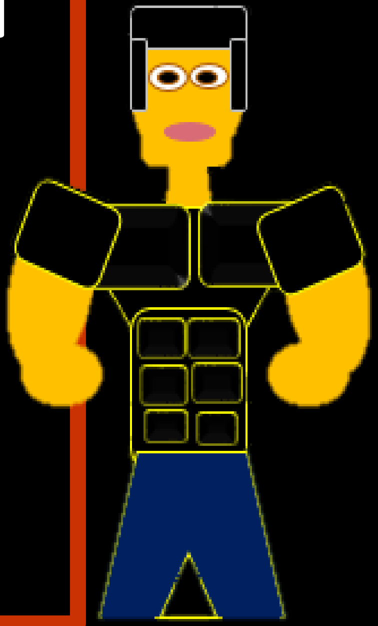
[1] The applicable rates for 2023 are the Child and Adult Care Food Program reimbursement rates in effect on December 31, 2022.

Income Tax

2023-2024

Business Use of Your Home

Example



Qualifying for a Deduction

Generally, you cannot deduct items related to your home, such as mortgage interest, real estate taxes, utilities, maintenance, rent, depreciation, or property insurance, as business expenses.	However, you may be able to deduct expenses related to the business use of part of your home if you meet specific requirements. Even then, the deductible amount of these types of expenses may be limited.	Use this section and Figure A to decide if you can deduct expenses for the business use of your home.

To qualify to deduct expenses for business use of your home, you must use part of your home:

- Exclusively and regularly as your principal place of business (see *Principal Place of Business*, later);
- Exclusively and regularly as a place where you meet or deal with patients, clients, or customers in the nor-mal course of your trade or business;
- In the case of a separate structure that is not attached to your home, in connection with your trade or business;
- On a regular basis for certain storage use (see *Storage of inventory or product samples*, later);
- For rental use (see Pub. 527); or
- As a daycare facility (see *Daycare Facility*, later).

Exclusive Use

To qualify under the exclusive use test, you must use a specific area of your home only for your trade or business.

The area used for business can be a room or other separately identifiable space.

The space does not need to be marked off by a permanent partition.

You do not meet the requirements of the exclusive use test if you use the area in question both for business and for personal purposes.

Example.

You are an attorney and use a den in your home to write legal briefs and prepare clients' tax returns. Your family also uses the den for recreation.

The den is not used exclusively in your trade or business, so you cannot claim a deduction for the business use of the den.

Exceptions to Exclusive Use

You do not have to meet the exclusive use test if either of the following applies.

You use the part of your home in question for the storage of inventory or product samples (discussed next).	You use the part of your home in question as a day-care facility (discussed later under *Daycare Facility*).

Note. With the exception of these two uses, any portion of the home used for business purposes must meet the exclusive use test.

Storage of inventory or product samples. If you use part of your home for storage of inventory or product samples, you can deduct expenses for the business use of your home without meeting the exclusive use test. However, you must meet all the following tests.

- You sell products at wholesale or retail as your trade or business.
- You keep the inventory or product samples in your home for use in your trade or business.
- Your home is the only fixed location of your trade or business.
- You use the storage space on a regular basis.
- The space you use is a separately identifiable space suitable for storage.

Example.

Your home is the only fixed location of your business of selling mechanics' tools at retail. You regularly use half of your basement for storage of inventory and product samples.

You sometimes use the area for personal purposes. The expenses for the storage space are deductible even though you do not use this part of your basement exclusively for business.

Regular Use

To qualify under the regular use test, you must use a specific area of your home for business on a regular basis.

Incidental or occasional business use is not regular use. You must consider all facts and circumstances in determining whether your use is on a regular basis.

Trade or Business Use

To qualify under the trade-or-business-use test, you must use part of your home in connection with a trade or business.

If you use your home for a profit-seeking activity that is not a trade or business, you cannot take a deduction for its business use.

Example.

You use part of your home exclusively and regularly to read financial periodicals and reports, clip bond coupons, and carry out similar activities related to your own investments.

You do not make investments as a broker or dealer. So, your activities are not part of a trade or business and you cannot take a deduction for the business use of your home.

Principal Place of Business

You can have more than one business location, including your home, for a single trade or business. To qualify to de-duct the expenses for the business use of your home under the principal place of business test, your home must be your principal place of business for that trade or business.

To determine whether your home is your principal place of business, you must consider:

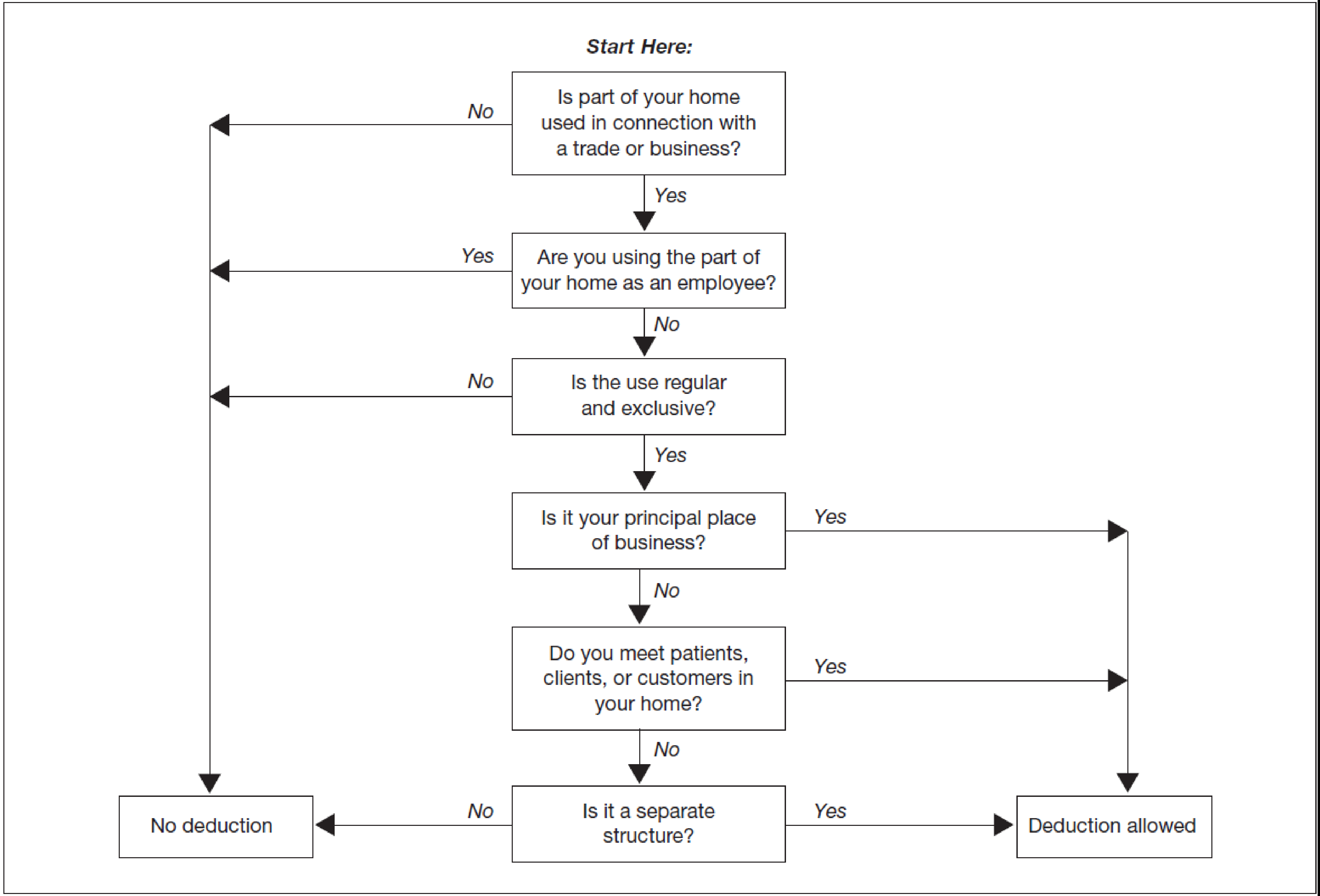
The relative importance of the activities performed at each place where you conduct business, and	The amount of time spent at each place where you conduct business.

Your home office will qualify as your principal place of business if you meet the following requirements.

You use it exclusively and regularly for administrative or management activities of your trade or business.

You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

Figure A. **Can You Deduct Business Use of the Home Expenses?** Do not use this chart if you use your home for the storage of inventory or product samples, or to operate a daycare facility. See *Exceptions to Exclusive Use,* earlier, and *Daycare Facility,* later.



If, after considering your business locations, your home cannot be identified as your principal place of business, you cannot deduct home office expenses.

However, see the later discussions under *Place To Meet Patients, Clients, or Customers* and *Separate Structure* for other ways to qualify to deduct home office expenses.

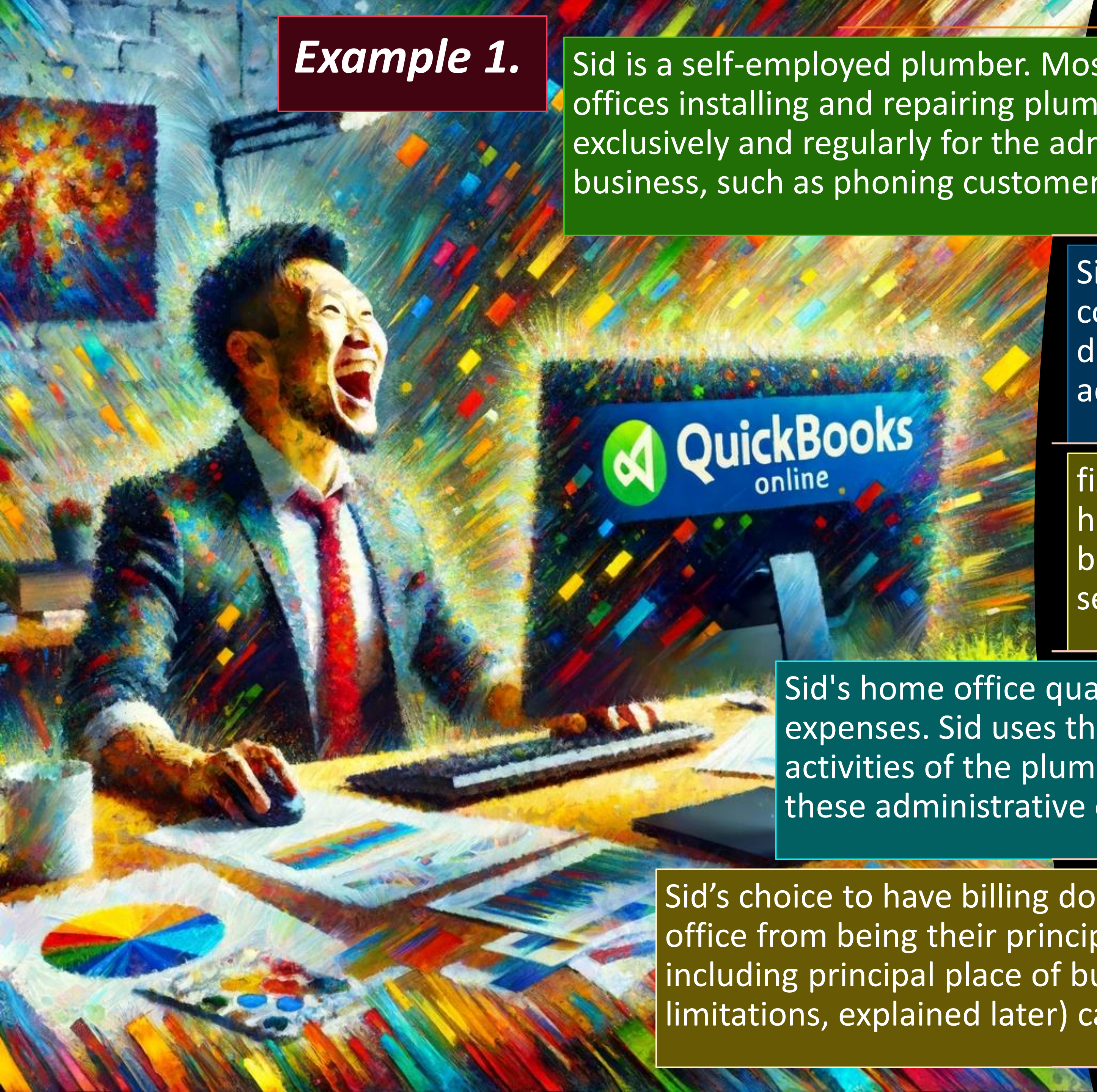
Administrative or management activities. There are many activities that are administrative or managerial in nature. The following are a few examples.

- Billing customers, clients, or patients.
- Keeping books and records.
- Ordering supplies.
- Setting up appointments.
- Forwarding orders or writing reports.

Administrative or management activities performed at other locations. The following activities performed by you or others will not disqualify your home office from being your principal place of business.

- You have others conduct your administrative or management activities at locations other than your home. (For example, another company does your billing from its place of business.)
- You conduct administrative or management activities at places that are not fixed locations of your business, such as in a car or a hotel room.
- You occasionally conduct minimal administrative or management activities at a fixed location outside your home.
- You conduct substantial non-administrative or nonmanagement business activities at a fixed location outside your home. (For example, you meet with or provide services to customers, clients, or patients at a fixed location of the business outside your home.)
- You have suitable space to conduct administrative or management activities outside your home, but choose to use your home office for those activities instead.

Example 1.



Sid is a self-employed plumber. Most of Sid's time is spent at customers' homes and offices installing and repairing plumbing. Sid has a small office at home that is used exclusively and regularly for the administrative or management activities of the plumbing business, such as phoning customers, ordering supplies, and keeping the books.

Sid writes up estimates and records of work completed at the customers' premises. Sid does not conduct any substantial administrative or management activities at any fixed location other than their home office. Sid does not do direct billing. Sid uses a local bookkeeping service to bill their customers.

Sid's home office qualifies as their principal place of business for deducting expenses. Sid uses the home office for the administrative or managerial activities of the plumbing business and has no other fixed location where these administrative or managerial activities are conducted.

Sid’s choice to have billing done by another company does not disqualify the home office from being their principal place of business. Sid meets all the qualifications, including principal place of business, so the expenses (subject to certain limitations, explained later) can be deducted for the business use of the home.

Example 2.

Alex is a self-employed sales representative for several different product lines. Alex has an office in their home that they use exclusively and regularly to set up appointments and write up orders and other reports for the products Alex sells. Alex occasionally writes up orders and sets up appointments from their hotel room while away on business overnight.

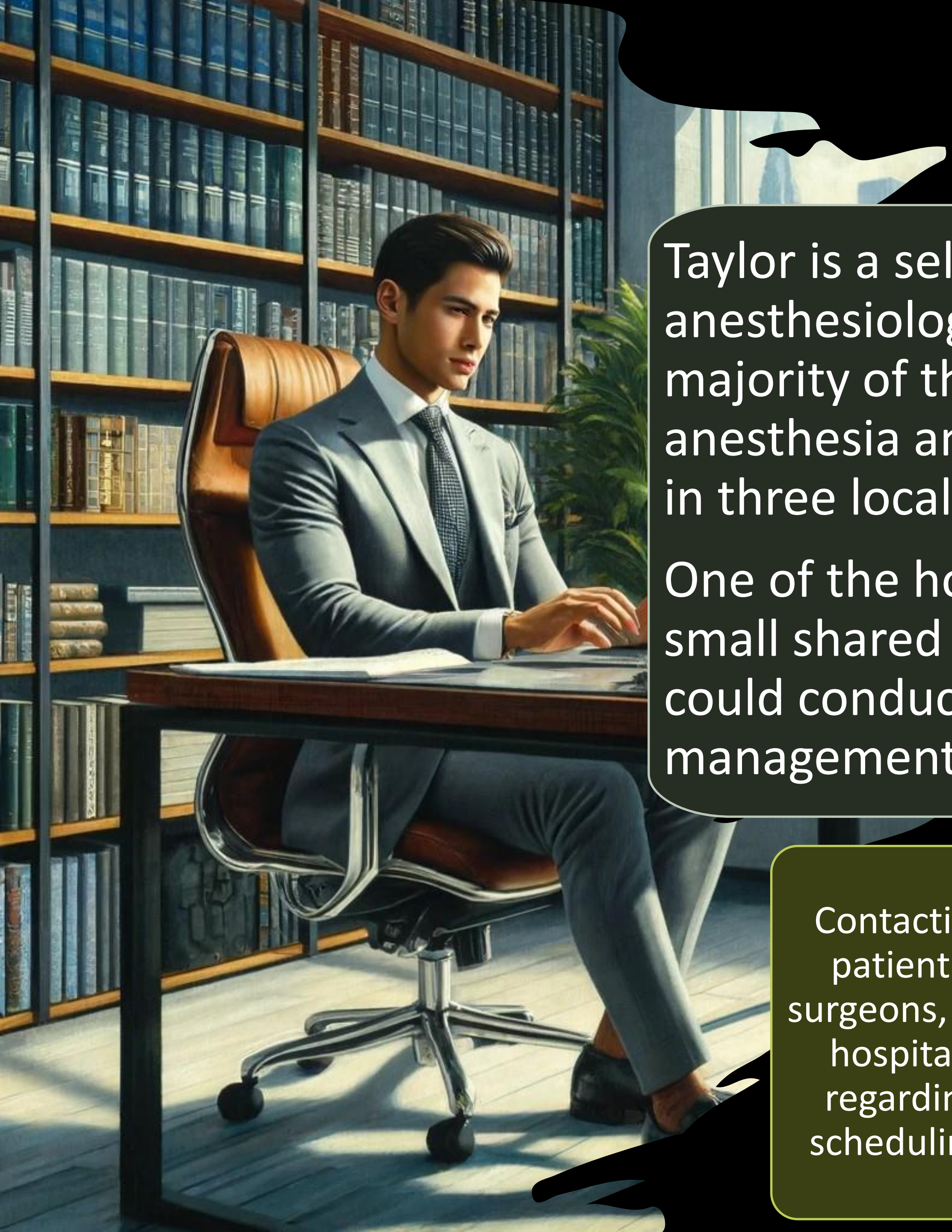
Alex’s business is selling products to customers at various locations throughout their assigned territory. To make these sales, Alex regularly visits customers to explain the available products and take orders.

Alex's home office qualifies as their principal place of business for deducting expenses for its use. Alex con-ducts administrative or management activities there and they have no other fixed location where substantial administrative or management activities are conducted.

The fact that Alex conducts some administrative or management activities in a hotel room (not a fixed location) does not disqualify the home office from being their principal place of business.

Alex meets all the qualifications, including principal place of business, so the expenses (subject to certain limitations, explained later) can be deducted for the business use of the home.

Example 3.



Taylor is a self-employed anesthesiologist. Taylor spends the majority of their time administering anesthesia and postoperative care in three local hospitals.

One of the hospitals provides a small shared office where Taylor could conduct administrative or management activities.

Taylor very rarely uses the office the hospital provides but instead uses a room at home that has been converted to an office.

Taylor uses this room exclusively and regularly to conduct all the following activities.

- Contacting patients, surgeons, and hospitals regarding scheduling.
- Preparing for treatments and presentations
- Maintaining billing records and patient logs.
- Satisfying continuing medical education requirements
- Reading medical journals and books.

Taylor’s home office qualifies as their principal place of business for deducting expenses for its use. Taylor conducts administrative or management activities for their business as an anesthesiologist there and at no other fixed location where substantial administrative or management activities for this business are conducted.

Taylor’s choice to use their home office instead of the one provided by their hospital does not disqualify their home office from being their principal place of business. Taylor’s performance of substantial non-administrative or nonmanagement activities at fixed locations outside their home also does not disqualify their home office from being their principal place of business.

Taylor meets all the qualifications, including principal place of business, so the expenses (subject to certain limitations, explained later) can be deducted for the business use of the home.

More Than One Trade or Business

The same home office can be the principal place of business for two or more separate business activities.

Whether your home office is the principal place of business for more than one business activity must be determined separately for each of your trade or business activities.

You must use the home office exclusively and regularly for one or more of the following purposes.

- As the principal place of business for one or more of your trades or businesses
- As a place to meet or deal with patients, clients, or customers in the normal course of one or more of your trades or businesses
- If your home office is a separate structure, in connection with one or more of your trades or businesses

Place To Meet Patients, Clients, or Customers

If you meet or deal with patients, clients, or customers in your home in the normal course of your business, even though you also carry on business at another location, you can deduct your expenses for the part of your home used exclusively and regularly for business if you meet both the following tests.

You physically meet with patients, clients, or customers on your premises.	Their use of your home is substantial and integral to the conduct of your business.

Doctors, dentists, attorneys, and other professionals who maintain offices in their homes will generally meet this requirement.

Using your home for occasional meetings and tele-phone calls will not qualify you to deduct expenses for the business use of your home.

The part of your home you use exclusively and regularly to meet patients, clients, or customers does not have to be your principal place of business.

Example.

- Sam, a self-employed attorney, works 3 days a week in their office, then works 2 days a week at home, in a home office used only for business.
- Sam regularly meets clients there. The home office qualifies for a business deduction because Sam meets clients there in the normal course of their business.

Separate Structure

You can deduct expenses for a separate free-standing structure, such as a studio, workshop, garage, or barn, if you use it exclusively and regularly for your business.

The structure does not have to be your principal place of business or a place where you meet patients, clients, or customers.

Example.

Bobbie operates a floral shop in town. Bobbie grows the plants for their shop in a greenhouse located at home.

Bobbie uses the greenhouse exclusively and regularly for their business, so Bobbie can deduct the expenses for its use (subject to certain limitations, described later).

Figuring the Deduction

After you determine that you meet the tests under *Qualifying for a Deduction*, you can begin to figure how much you can deduct.

When figuring the amount you can deduct for the business use of your home, you will use either your actual expenses or a simplified method.

Electing to use the simplified method.

The simplified method is an alternative to the calculation, allocation, and substantiation of actual expenses.

You choose whether or not to figure your deduction using the simplified method each tax year. See *Using the Simplified Method*, later.

Using Actual Expenses

If you do not or cannot elect to use the simplified method for a home, you will figure your deduction for that home using your actual expenses. You will also need to figure the percentage of your home used for business and the limit on the deduction.

If you are a partner or you use your home in your farming business and you file Schedule F (Form 1040), you can use the Worksheet To Figure the Deduction for Business Use of Your Home, near the end of this publication, to help you figure your deduction. If you use your home in a trade or business and you file Schedule C (Form 1040), you will use Form 8829 to figure your deduction.

Part-year use.

You cannot deduct expenses for the business use of your home incurred during any part of the year you did not use your home for business purposes.

For example, if you begin using part of your home for business on July 1, and you meet all the tests from that date until the end of the year, consider only your expenses for the last half of the year in figuring your allowable deduction.

Expenses related to tax-exempt income.

Generally, you cannot deduct expenses that are related to tax-exempt allowances.

However, if you receive a tax-exempt parsonage allowance or a tax-exempt military allowance, your expenses for mortgage interest and real estate taxes are deductible under the normal rules.

No deduction is allowed for other expenses related to the tax-exempt allowance.

If your housing is provided free of charge and the value of the housing is tax exempt, you cannot deduct the rental value of any portion of the housing.

Actual Expenses

You must divide the expenses of operating your home between personal and business use.

The part of a home operating expense you can use to figure your deduction depends on both of the following.

Whether the expense is direct, indirect, or unrelated.	The percentage of your home used for business.

Table 1. **Types of Expenses**

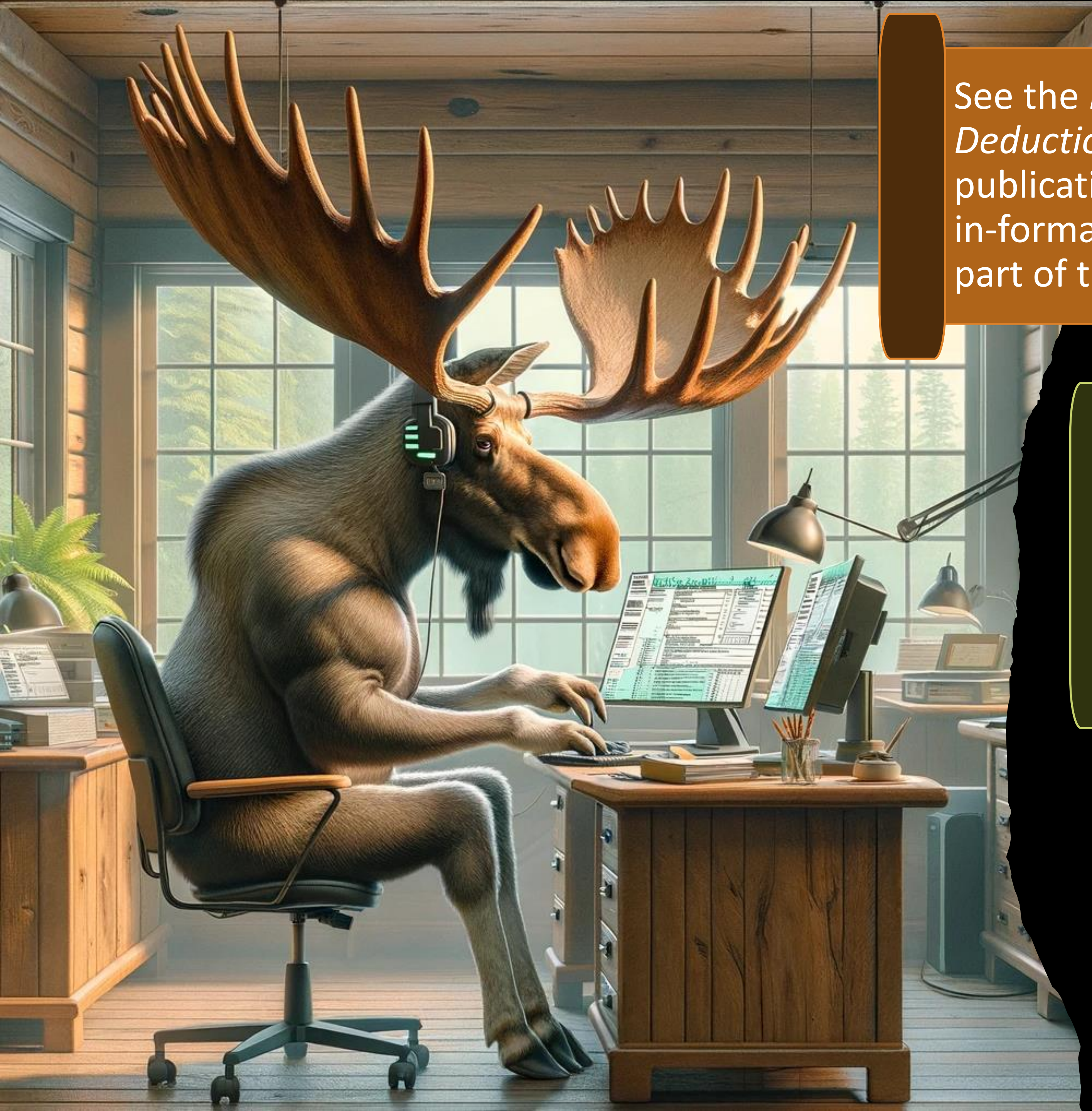
Expense	Description	Deductibility
Direct	Expenses only for the business part of your home. Examples: Painting or repairs only in the area used for business.	Deductible in full.* Exception: May be only partially deductible in a daycare facility. See *Daycare Facility*, later.
Indirect	Expenses for keeping up and running your entire home. Examples: Insurance, utilities, and general repairs.	Deductible based on the percentage of your home used for business.*
Unrelated	Expenses only for the parts of your home not used for business. Examples: Lawn care or painting a room not used for business.	Not deductible.

Certain expenses are deductible to the extent they would have been deductible as an itemized deduction on your Schedule A or, if claiming the standard deduction, would have increased your standard deduction had you not used your home for business.

If the expense is indirect, use the business percentage of these expenses to figure how much to include in your total business-use-of-the-home deduction. If you are itemizing your deductions on Schedule A (Form 1040), these expenses include the following.

- Real estate taxes.
- Home mortgage interest.
- Casualty losses attributable to a federally declared disaster.

If you are claiming the standard deduction, these expenses only include net qualified disaster losses that increase your standard deduction.



See the *Instructions for the Worksheet To Figure the Deduction for Business Use of Your Home*, later in this publication, or the Instructions for Form 8829 for more in-formation about figuring and deducting the business part of these otherwise allowable expenses.

For more information about deducting real estate taxes, see Pub. 530, Tax Information for Homeowners. For more information about deducting home mortgage interest, see Pub. 936, Home Mortgage Interest Deduction.

For more information about deducting casualty losses, see Pub. 547, Casualties, Disasters, and Thefts.

Other expenses are deductible only if you use your home for business. If the expense is indirect, use the business percentage of these expenses to figure how much to include in your total business-use-of-the-home deduction. These expenses generally include (but are not limited to) the following.

- Casualty losses not attributable to a federally declared disaster.
- Depreciation (discussed under *Depreciating Your Home*, later).
- Insurance.
- Rent paid for the use of property you do not own but use in your trade or business.
- Repairs.
- Security system.
- Utilities and services. (But see *Telephone*, later, for different rules that apply to telephone expenses.)

Insurance.

You can deduct the cost of insurance that covers the business part of your home.

However, if your insurance premium gives you coverage for a period that extends past the end of your tax year, you can deduct only the business percentage of the part of the premium that gives you coverage for your tax year.

You can deduct the business percentage of the part that applies to the following year in that year.

Rent.

If you rent the home you occupy and meet the requirements for business use of the home, you can deduct part of the rent you pay.

To figure your deduction, multiply your rent payments by the percentage of your home used for business.

If you own your home, you cannot deduct the fair rental value of your home. However, see *Depreciating Your Home*, later.

Repairs.

The cost of repairs that relate to your business, including labor (other than your own labor), is a deductible expense. For example, a furnace repair benefits the entire home. If you use 10% of your home for business, you can deduct 10% of the cost of the furnace repair.

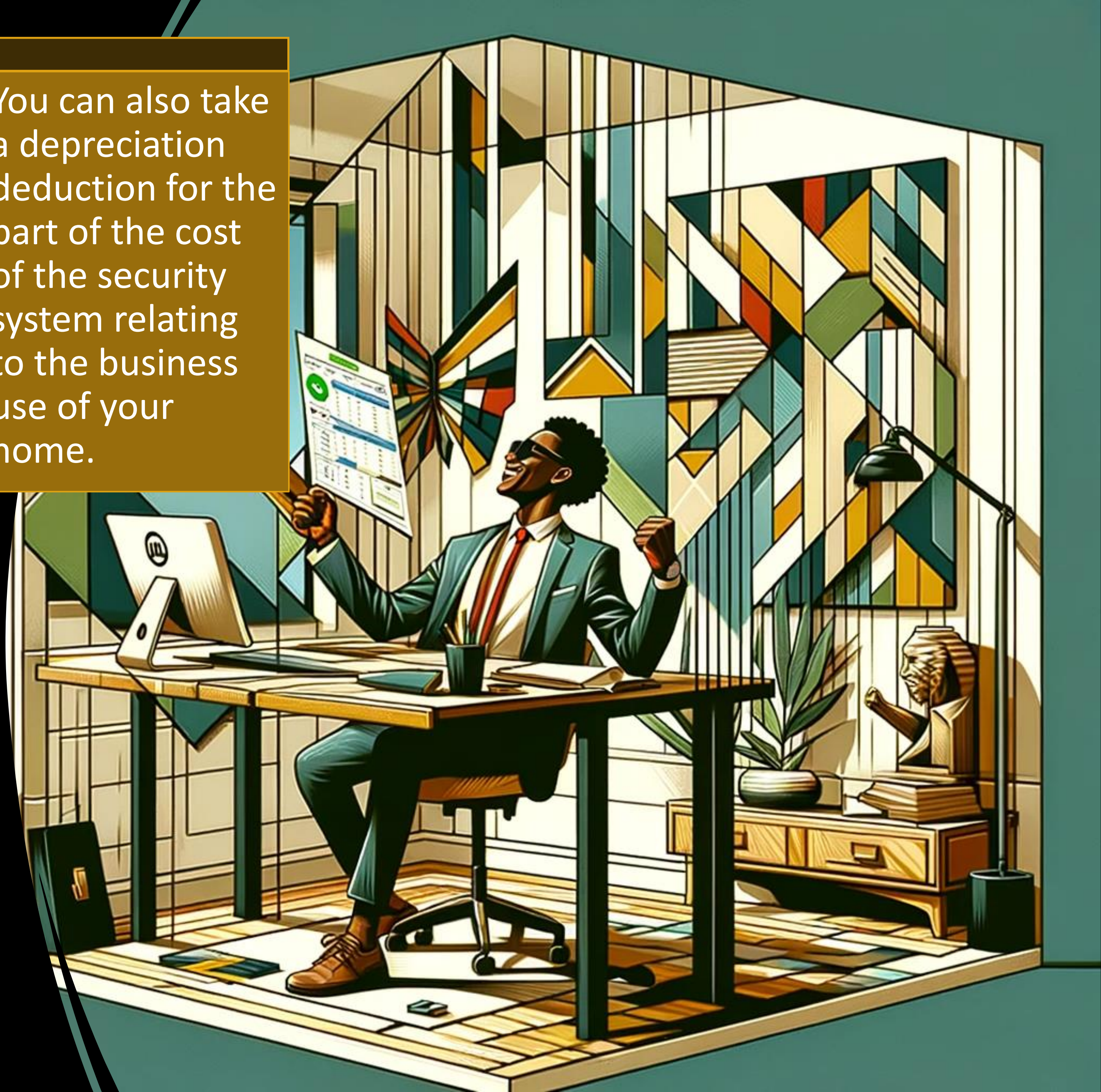
Repairs keep your home in good working order over its useful life. Examples of common repairs are patching walls and floors, painting, wallpapering, repairing roofs and gutters, and mending leaks.

However, repairs are sometimes treated as a permanent improvement and are not deductible. See *Permanent improvements*, later, under *Depreciating Your Home*.

Security system.

If you install a security system that protects all the doors and windows in your home, you can deduct the business part of the expenses you incur to maintain and monitor the system.

You can also take a depreciation deduction for the part of the cost of the security system relating to the business use of your home.



Utilities and services.

Expenses for utilities and serv-ices, such as electricity, gas, trash removal, and cleaning services, are primarily personal expenses.

However, if you use part of your home for business, you can deduct the business part of these expenses.

Generally, the business percentage for utilities is the same as the percentage of your home used for business.

Telephone.

The basic local telephone service charge, including taxes, for the first telephone landline into your home is a nondeductible personal expense.

However, charges for business long-distance phone calls on that line, as well as the cost of a second line into your home used exclusively for business, are deductible business expenses.

Do not include these expenses as a cost of using your home for business. Deduct these charges separately on the appropriate form or schedule.

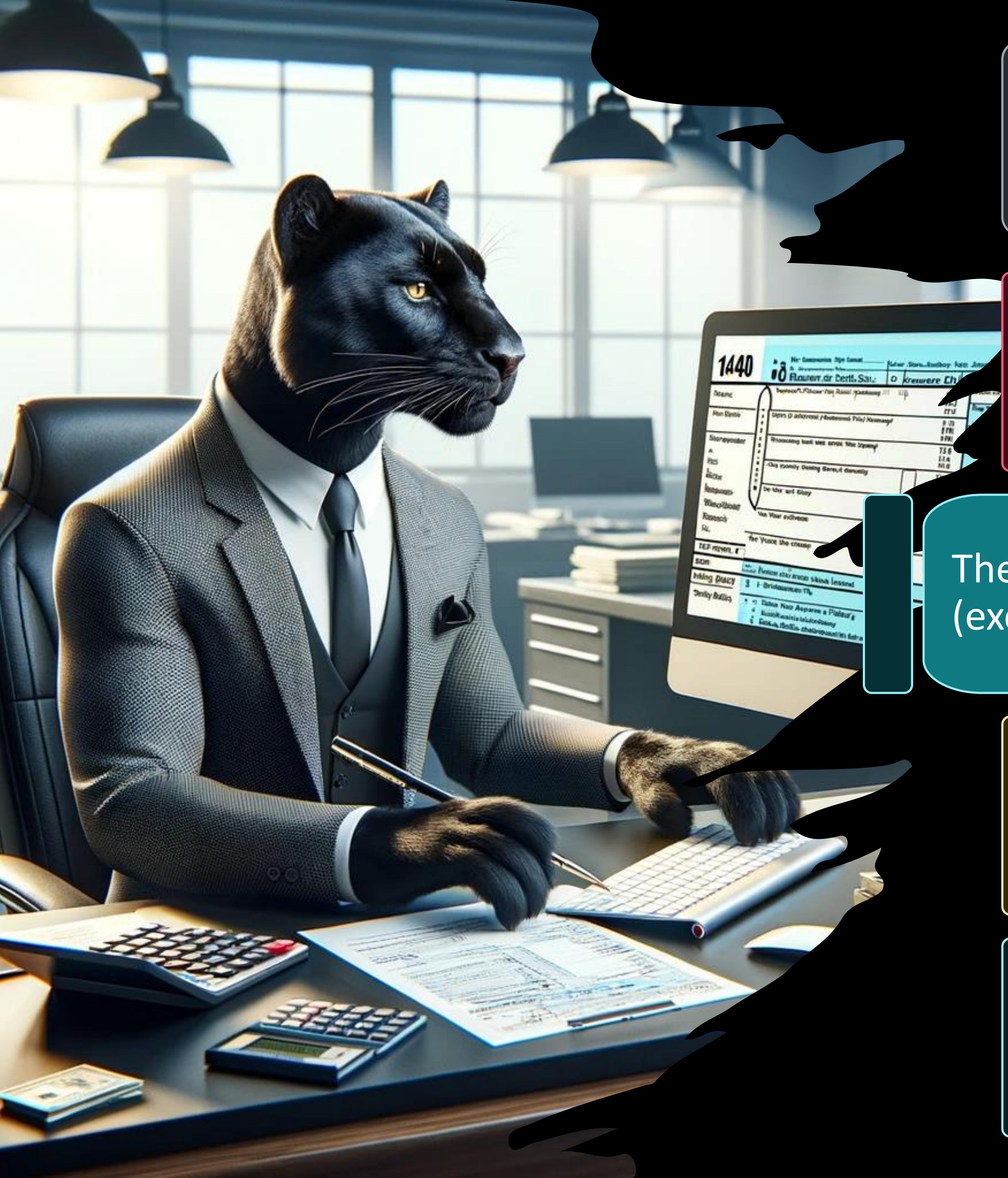
For example, if you file Schedule C (Form 1040), deduct these expenses on line 25, Utilities (instead of line 30, Expenses for business use of your home).

Depreciating Your Home

If you own your home and qualify to deduct expenses for its business use, you can claim a deduction for depreciation.

Depreciation is an allowance for the wear and tear on the part of your home used for business.

You cannot depreciate the cost or value of the land. You recover its cost when you sell or otherwise dispose of the property.



Before you figure your depreciation deduction, you need to know the following information.

- The month and year you started using your home for business.
- The adjusted basis and fair market value of your home (excluding land) at the time you began using it for business.
- The cost of any improvements before and after you began using the property for business.
- The percentage of your home used for business. See *Business Percentage*, later.

Adjusted basis defined.

The adjusted basis of your home is generally its cost, plus the cost of any permanent improvements you made to it, minus any casualty losses or depreciation deducted in earlier tax years.

For a discussion of adjusted basis, see Pub. 551, Basis of Assets.

Permanent improvements.

A permanent improvement increases the value of property, adds to its life, or gives it a new or different use. Examples of improvements are replacing electric wiring or plumbing, adding a new roof or addition, paneling, or remodeling.

You must carefully distinguish between repairs and improvements. See *Repairs*, earlier, under *Actual Expenses*. You must also keep accurate records of these expenses.

These records will help you decide whether an expense is a deductible or a capital (added to the basis) expense. However, if you make repairs as part of an extensive remodeling or restoration of your home, the entire job is an improvement.

Example.

You buy an older home and fix up two rooms as a beauty salon. You patch the plaster on the ceilings and walls, paint, repair the floor, install an outside door, and install new wiring, plumbing, and other equipment.

Normally, the patching, painting, and floor work are repairs and the other expenses are permanent improvements.

However, because the work gives your property a new use, the entire remodeling job is a permanent improvement and its cost is added to the basis of the property. You cannot deduct any portion of it as a repair expense.

Adjusting for depreciation deducted in earlier years.

Decrease the basis of your property by the depreciation you deducted, or could have deducted, on your tax returns under the method of depreciation you properly selected.

If you deducted less depreciation than you could have under the method you selected, decrease the basis by the amount you could have deducted under that method. If you did not deduct any depreciation, decrease the basis by the amount you could have deducted.

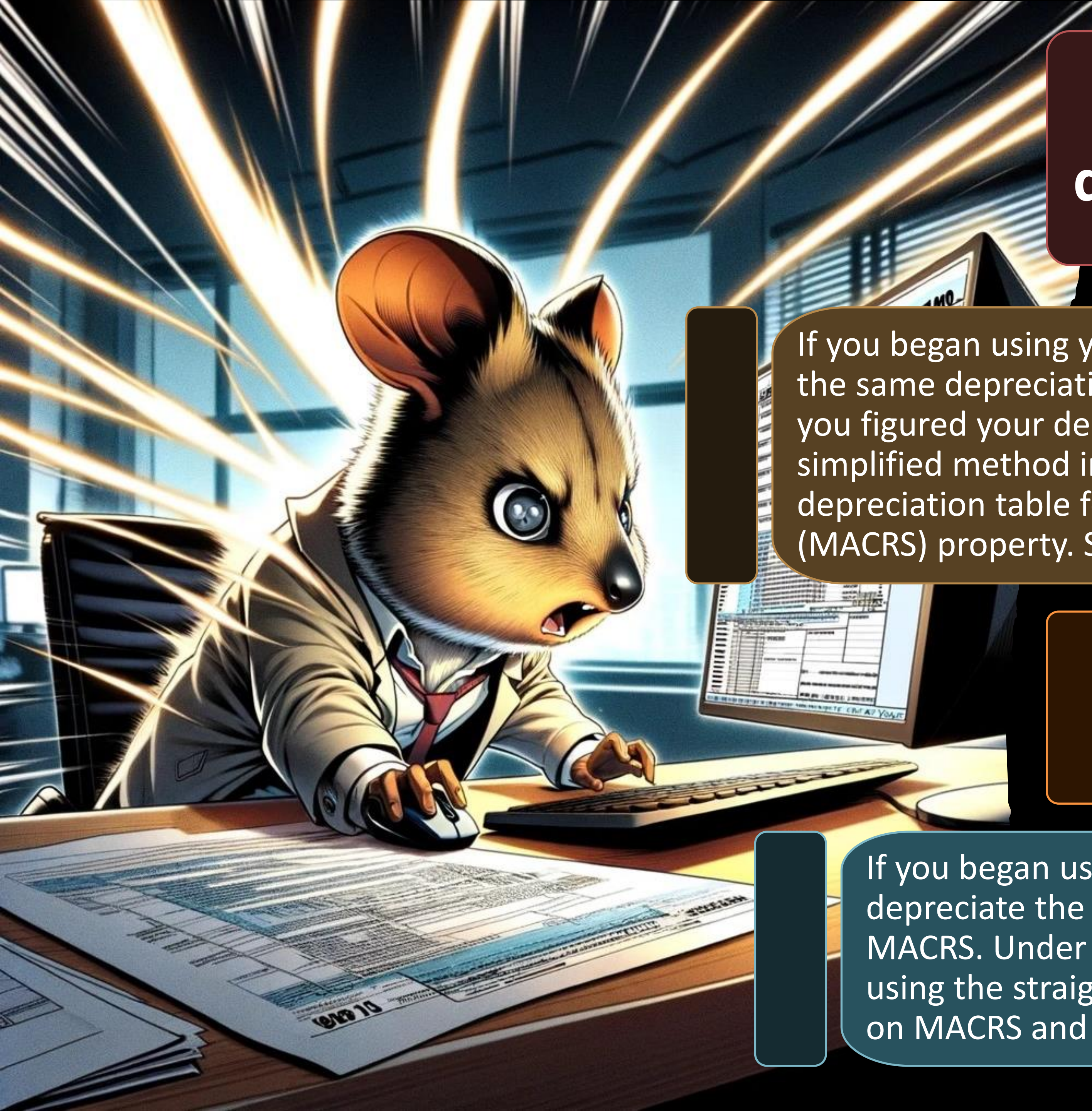
If you deducted more depreciation than you should have, decrease your basis by the amount you should have deducted, plus the part of the excess depreciation you deducted that actually decreased your tax liability for any year.

If you deducted the incorrect amount of depreciation, see Pub. 946, How To Depreciate Property.

Fair market value defined.

The fair market value of your home is the price at which the property would change hands between a buyer and a seller, neither having to buy or sell, and both having reasonable knowledge of all necessary facts.

Sales of similar property, on or about the date you begin using your home for business, may be helpful in determining the property's fair market value.



Figuring the depreciation deduction for the current year.

If you began using your home for business before 2023, continue to use the same depreciation method you used in past tax years. However, if you figured your deduction for business use of the home using the simplified method in a prior year, you will need to use the optional depreciation table for modified accelerated cost recovery system (MACRS) property. See Pub. 946 for the optional depreciation tables.

For more information about the simplified method, see Revenue Procedure 2013-13, 2013-06 I.R.B. 478, available at *IRS.gov/irb/2013-06_IRB#RP-2013-13*.

If you began using your home for business for the first time in 2023, depreciate the business part as nonresidential real property under MACRS. Under MACRS, nonresidential real property is depreciated using the straight line method over 39 years. For more information on MACRS and other methods of depreciation, see Pub. 946.

To figure the depreciation deduction, you must first figure the part of the cost of your home that can be depreciated (depreciable basis). The depreciable basis is figured by multiplying the percentage of your home used for business by the smaller of the following.

The adjusted basis of your home (excluding land) on the date you began using your home for business.

The fair market value of your home (excluding land) on the date you began using your home for business.

Depreciation table.

- If 2023 was the first year you used your home for business, you can figure your 2023 depreciation for the business part of your home by using the appropriate percentage from the following table.

Table 2. **MACRS Percentage Table for 39-Year Nonresidential Real Property**

Month First Used for Business	Percentage To Use
1	2.461%
2	2.247%
3	2.033%
4	1.819%
5	1.605%
6	1.391%
7	1.177%
8	0.963%
9	0.749%
10	0.535%
11	0.321%
12	0.107%

Multiply the depreciable basis of the business part of your home by the percentage from the table for the first month you use your home for business.

See Pub. 946 for the percentages for the remaining tax years of the recovery period.

Example.

In May, Frankie began to use one room at home exclusively and regularly to meet clients. This room is 8% of the square footage of the home. Frankie bought their home in 2008 for $125,000.

Frankie determined from the property tax records that the adjusted basis in the house (exclusive of land) is $115,000. In May, the house had a fair market value of $165,000. Frankie multiplies the adjusted basis of $115,000 (which is less than the fair market value) by 8%. The result is $9,200, the depreciable basis for the business part of the house.

Frankie files their return based on the calendar year. May is the fifth month of this tax year. Frankie multiplies the depreciable basis of $9,200 by 1.605% (0.01605), the percentage from the table for the fifth month. Frankie's depreciation deduction is $147.66.

Depreciating permanent improvements.

Add the costs of permanent improvements made before you began using your home for business to the basis of your property.

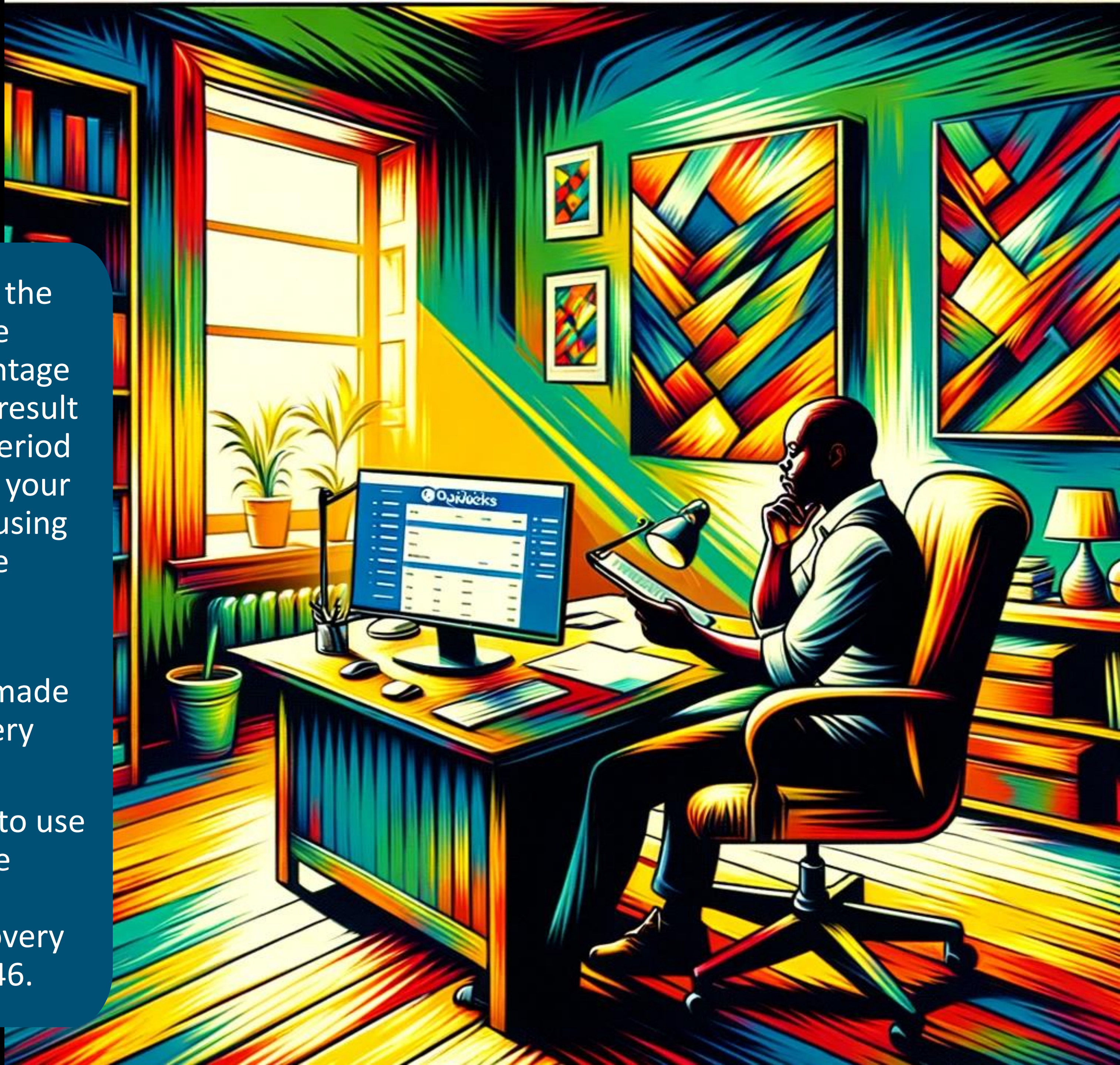
Depreciate these costs as part of the cost of your home, as explained earlier.

The costs of improvements made after you begin using your home for business (that affect the business part of your home, such as a new roof) are depreciated separately.

Multiply the cost of the improvement by the business-use percentage and depreciate the result over the recovery period that would apply to your home if you began using it for business at the same time as the improvement.

For improvements made this year, the recovery period is 39 years.

For the percentage to use for the first year, see Table 2. For more information on recovery periods, see Pub. 946.



Business Percentage

To find the business percentage, compare the size of the part of your home that you use for business to your whole house.

Use the resulting percentage to figure the business part of the expenses for operating your entire home.

You can use any reasonable method to determine the business percentage. The following are two commonly used methods for figuring the percentage.

Divide the area (length multiplied by the width) used for business by the total area of your home.

If the rooms in your home are all about the same size, you can divide the number of rooms used for business by the total number of rooms in your home.

Example 1.

Your office is 240 square feet (12 feet × 20 feet).

Your home is 1,200 square feet.

Your office is 20% (240 ÷ 1,200) of the total area of your home.

Your business percentage is 20%.

Example 2.

You use one room in your home for business.

Your home has 10 rooms, all about equal size.

Your office is 10% (1 ÷ 10) of the total area of your home.

Your business percentage is 10%.

Deduction Limit

If your gross income from the business use of your home equals or exceeds your total business expenses (including depreciation), you can deduct all your business expenses related to the use of your home.

If your gross income from the business use of your home is less than your total business expenses, your de-duction for certain expenses for the business use of your home is limited.

Your deduction of otherwise nondeductible expenses, such as insurance, utilities, and depreciation of your home (with depreciation of your home taken last), that are allocable to the business, is limited to the gross income from the business use of your home minus the sum of the following.

The business part of expenses you could deduct even if you did not use your home for business (such as mortgage interest, real estate taxes, and casualty losses attributable to a federally declared disaster if you itemize deductions on Schedule A (Form 1040) or net qualified disaster losses if you claim the standard de-duction).

The business expenses that relate to the business activity in the home (for example, business phone, supplies, and depreciation on equipment), but not to the use of the home itself.

If you are self-employed, do not include in (2) above your deduction for one-half of your self-employment tax.

Carryover of unallowed expenses.

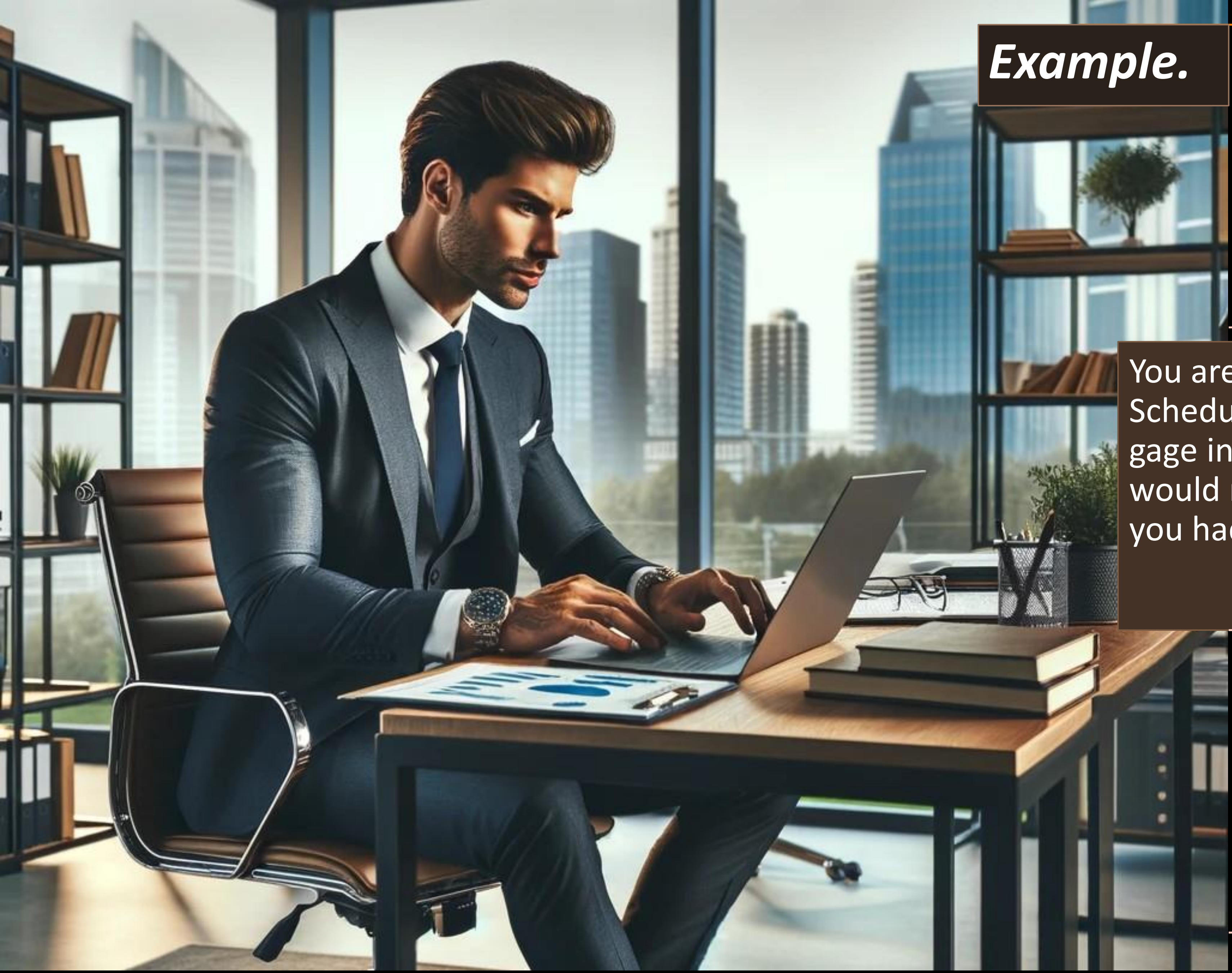
If your business expenses related to the home are greater than the current year's limit, you can carry over the excess to the next year in which you use actual expenses.

They are subject to the deduction limit for that year, whether or not you live in the same home during that year.

Figuring the deduction limit and carryover.

If you are a partner or you file Schedule F (Form 1040), use the Worksheet To Figure the Deduction for Business Use of Your Home, near the end of this publication.

If you file Schedule C (Form 1040), figure your deduction limit and carryover on Form 8829.



Example.

You meet the requirements for deducting expenses for the business use of your home. You use 20% of your home for business.

You are itemizing your deductions on Schedule A (Form 1040) and your home mort-gage interest and total state and local taxes would not be limited on your Schedule A if you had not used your home for business.

In 2023, your business expenses and the expenses for the business use of your home are deducted from your gross income in the following order.

Gross income from business	$6,000
Minus:	
Deductible mortgage interest and real estate taxes (20%)	3,000
Business expenses not related to the use of your home (100%) (business phone, supplies, and depreciation on equipment)	2,000
Deduction limit	$1,000
Minus other expenses allocable to business use of home:	
Maintenance, insurance, and utilities (20%)	800
Depreciation allowed (20%)	200
Other expenses up to the deduction limit	$1,000
Depreciation carryover to 2024 ($1,600 – $200) (subject to deduction limit in 2024)	$1,400

You can deduct all of the business part of your deductible mortgage interest and real estate taxes ($3,000). You can also deduct all of your business expenses not related to the use of your home ($2,000).

Additionally, you can deduct all of the business part of your expenses for maintenance, insurance, and utilities, because the total ($800) is less than the $1,000 deduction limit.

Your deduction for depreciation for the business use of your home is limited to $200 ($1,000 minus $800) because of the deduction limit. You can carry over the $1,400 balance and add it to your depreciation for 2024, subject to your deduction limit in 2024.

More than one place of business.

If part of the gross income from your trade or business is from the business use of part of your home and part is from a place other than your home, you must determine the part of your gross income from the business use of your home before you figure the deduction limit.

In making this determination, consider the time you spend at each location, the business investment in each location, and any other relevant facts and circumstances.

Tip

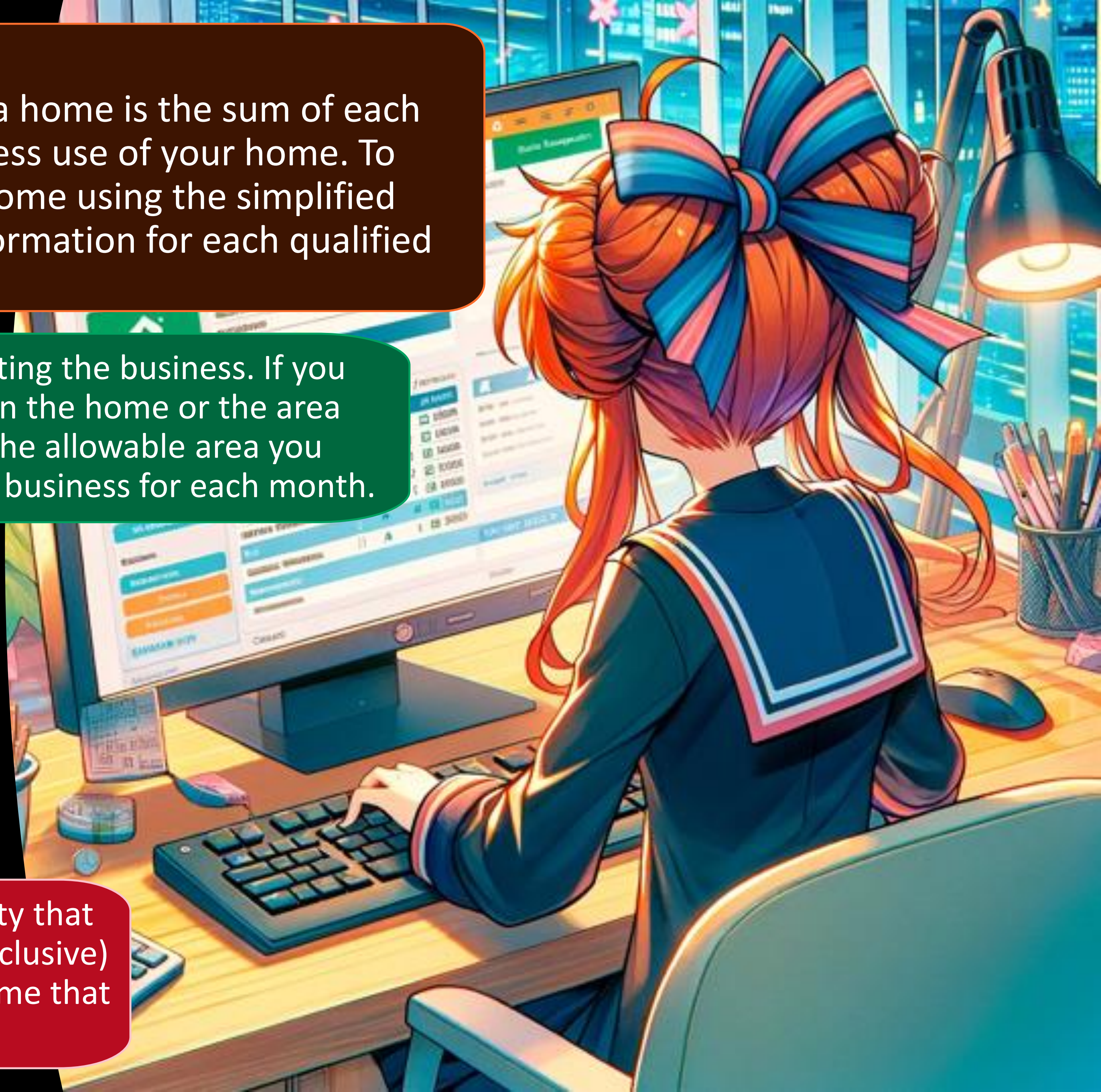
If your home office qualifies as your principal place of business, you can deduct your daily transportation costs between your home and an-other work location in the same trade or business.

For more information on transportation costs, see Pub. 463, Travel, Gift, and Car Expenses.

Simplified Amount

Your deduction for the qualified business use of a home is the sum of each amount you figure for a separate qualified business use of your home. To figure your deduction for the business use of a home using the simplified method, you will need to know the following information for each qualified business use of the home.

- The allowable area of your home used in conducting the business. If you did not conduct the business for the entire year in the home or the area changed during the year, you will need to know the allowable area you used and the number of days you conducted the business for each month.
- The gross income from the business use of your home.
- The amount of the business expenses that are not related to the use of your home.
- If the qualified business use is for a daycare facility that uses space in your home on a regular (but not exclusive) basis, you will need to know the percentage of time that part of your home is used for daycare.



To figure the amount you can deduct for qualified business use of your home using the simplified method, follow these three steps.

Multiply the allowable area by $5 (or less than $5 if the qualified business use is for a daycare that uses space in your home on a regular, but not exclusive, basis). See *Allowable area* and *Space used regularly for daycare*, later.

Subtract the expenses from the business that are not related to the use of the home from the gross income related to the business use of the home. If these expenses are greater than the gross income from the business use of the home, then you cannot take a deduction for this business use of the home. See *Gross income limitation*, later.

Take the smaller of the amounts from (1) and (2). This is the amount you can deduct for this qualified business use of your home using the simplified method.

If you are a partner or you use your home in your farming business and file Schedule F (Form 1040), you can use the Simplified Method Worksheet, near the end of this publication, to help you figure your deduction.

If you use your home in a trade or business and you file Schedule C (Form 1040), you will use the Simplified Method Worksheet in your Instructions for Schedule C to figure your de-duction.

Allowable area.

In most cases, the allowable area is the smaller of the actual area (in square feet) of your home used in conducting the business and 300 square feet.

Your allowable area may be smaller if you conducted the business as a qualified joint venture with your spouse, the area used by the business was shared with another qualified business use, you used the home for the business for only part of the year, or the area used by the business changed during the year.

You can use the Area Adjustment Worksheet (for simplified method), near the end of this publication, to help you figure your allowable area for a qualified business use.

Area used by a qualified joint venture.

If the qualified business use of the home is also a qualified joint venture, you and your spouse will figure the deduction for the business use separately.

Split the actual area used in conducting business between you and your spouse in the same manner you split your other tax attributes.

Then, each spouse will figure the allowable area separately. For more information about qualified joint ventures, see *Qualified Joint Venture* in the Instructions for Schedule C.

Shared use.

If you share your home with someone else who uses the home to conduct business that also qualifies for this deduction, you may not include the same square feet to figure your deduction as the other person.

You must allocate the shared space between you and the other person in a reasonable manner.

Example.

Lindsey and Tracy are roommates. Lindsey uses 300 square feet of their home for a qualified business use. Tracy uses 200 square feet of their home for a separate qualified business use.

Lindsey and Tracy both share 100 square feet for their respective qualified businesses in their mutual home. In addition to the portion that they do not share, Lindsey and Tracy can both claim 50 of the 100 square feet or divide the 100 square feet between them in any reasonable manner.

If divided evenly, Lindsey could claim 250 square feet using the simplified method and Tracy could claim 150 square feet.

More than one qualified business use.

If you conduct more than one business qualifying for the deduction, you are limited to a maximum of 300 square feet for all of the businesses.

Allocate the actual square footage used (up to the maximum of 300 square feet) among your qualified business uses in a reasonable manner.

However, do not allocate more square feet to a qualified business use than you actually use for that business.

Rental use.

The simplified method does not apply to rental use. A rental use that qualifies for the deduction must be figured using actual expenses.

If the rental use and a qualified business use share the same area, you will have to allocate the actual area used between the two uses.

You cannot use the same area to figure a deduction for the qualified business use as you are using to figure the deduction for the rental use.

Part-year use or area changes (for simplified method only).

If your qualified business use was for a portion of the year (for example, a seasonal business, a business that begins during the year, or you moved during the year) or you changed the square footage of your qualified business use, your deduction is limited to the average monthly allowable square footage.

You calculate the average monthly allowable square footage by adding the amount of allowable square feet you used in each month and dividing the sum by 12.

When determining the average monthly allowable square footage, you cannot take more than 300 square feet into account for any 1 month.

Additionally, if your qualified business use was less than 15 days in a month, you must use -0- for that month.

Example 1.

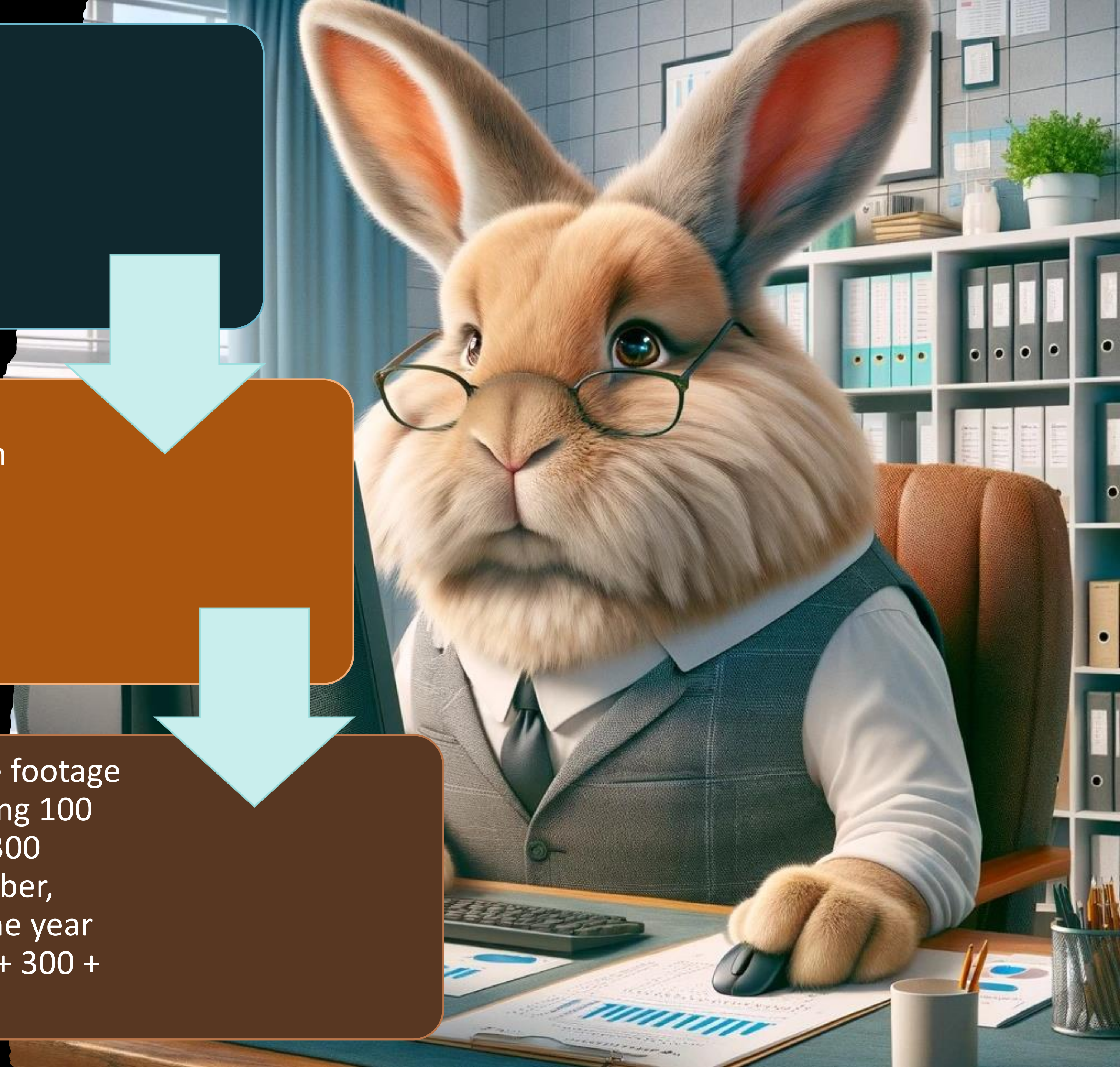
Jay files their federal income tax return on a calendar year basis. On July 20, Jay began using 420 square feet at their home for a qualified business use. Jay continued to use 420 square feet of their home until the end of the year.

The average monthly allowable square footage is 125 square feet, which is figured using 300 square feet for each month, August through December, divided by the number of months in the year ((0 + 0 + 0 + 0 + 0 + 0 + 0 + 300 + 300 + 300 + 300 + 300)/12).

Example 2.

Jessie files their federal tax return on a calendar year basis. On April 20, Jessie began using 100 square feet of their home for a qualified business use. On August 5, Jessie expanded the area of qualified use to 330 square feet. Jessie continued to use the 330 square feet until the end of the year.

The average monthly allowable square footage is 150 square feet, which is figured using 100 square feet for May through July and 300 square feet for August through December, divided by the number of months in the year ((0 + 0 + 0 + 0 + 100 + 100 +100 + 300 + 300 + 300 + 300 + 300)/12).



Example 3.

Guadalupe files their income tax return on a calendar year basis. From January 1 through July 16, Guadalupe used 300 square feet of their home for a qualified business use. On July 17, Guadalupe moved to a new home and immediately began using 200 square feet for the same qualified business use.

While preparing their tax return, Guadalupe decided to use the simplified method to deduct the qualified business use of the first home and files a Form 8829 to deduct the qualified business use of the second home.

The average monthly allowable square footage is 175 square feet, which is figured using 300 square feet for January through July, divided by the number of months in the year ((300 + 300 + 300 + 300 + 300 + 300 + 300 + 0 + 0 + 0 + 0 + 0)/12).

Gross income limitation.

Your deduction for business use of the home is limited to an amount equal to the gross income derived from the qualified business use of the home reduced by the business deductions that are unrelated to the use of your home.

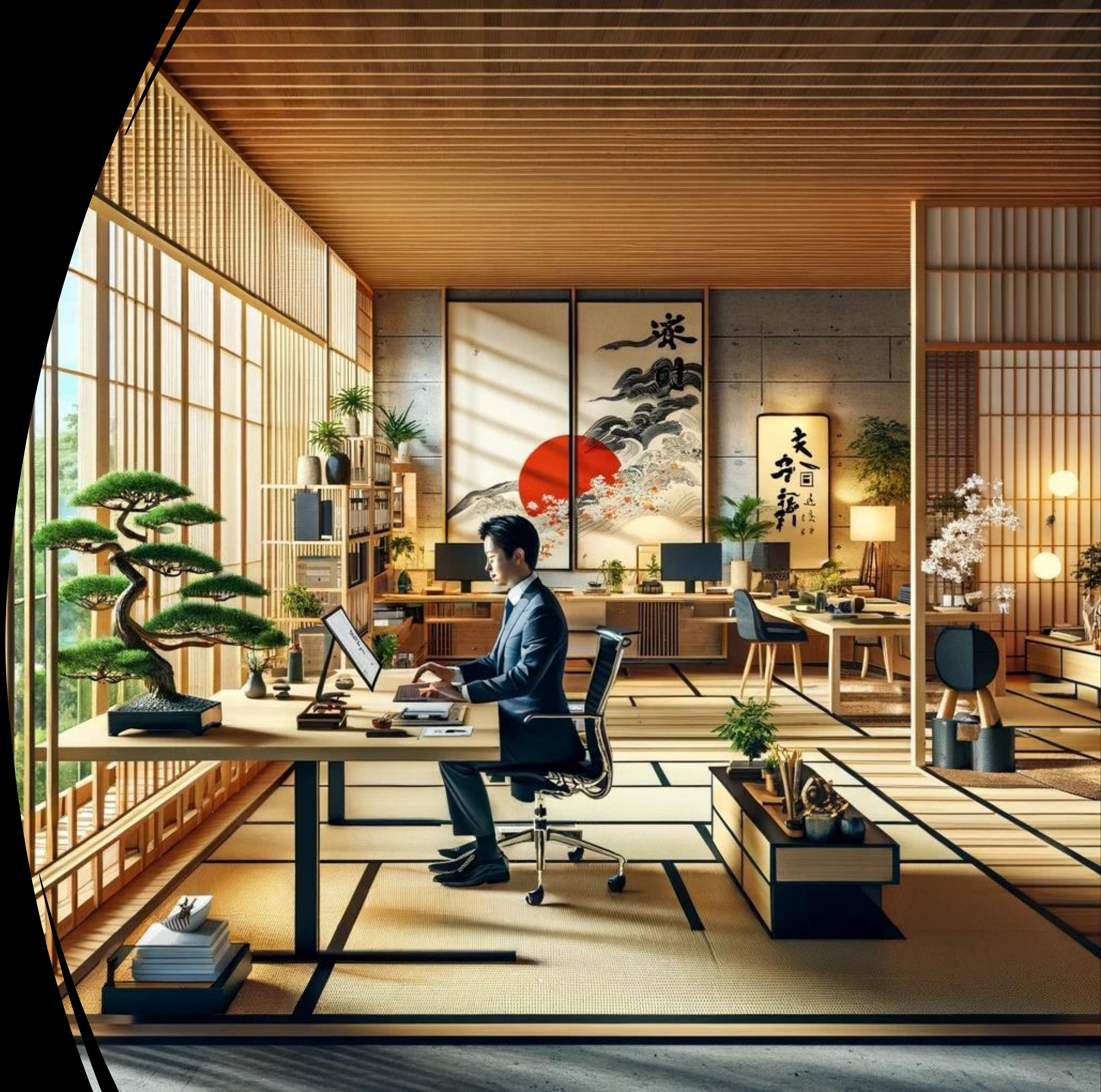
If the business deductions that are unrelated to the use of your home are greater than the gross income derived from the qualified business use of your home, then you cannot take a deduction for this qualified business use of your home.

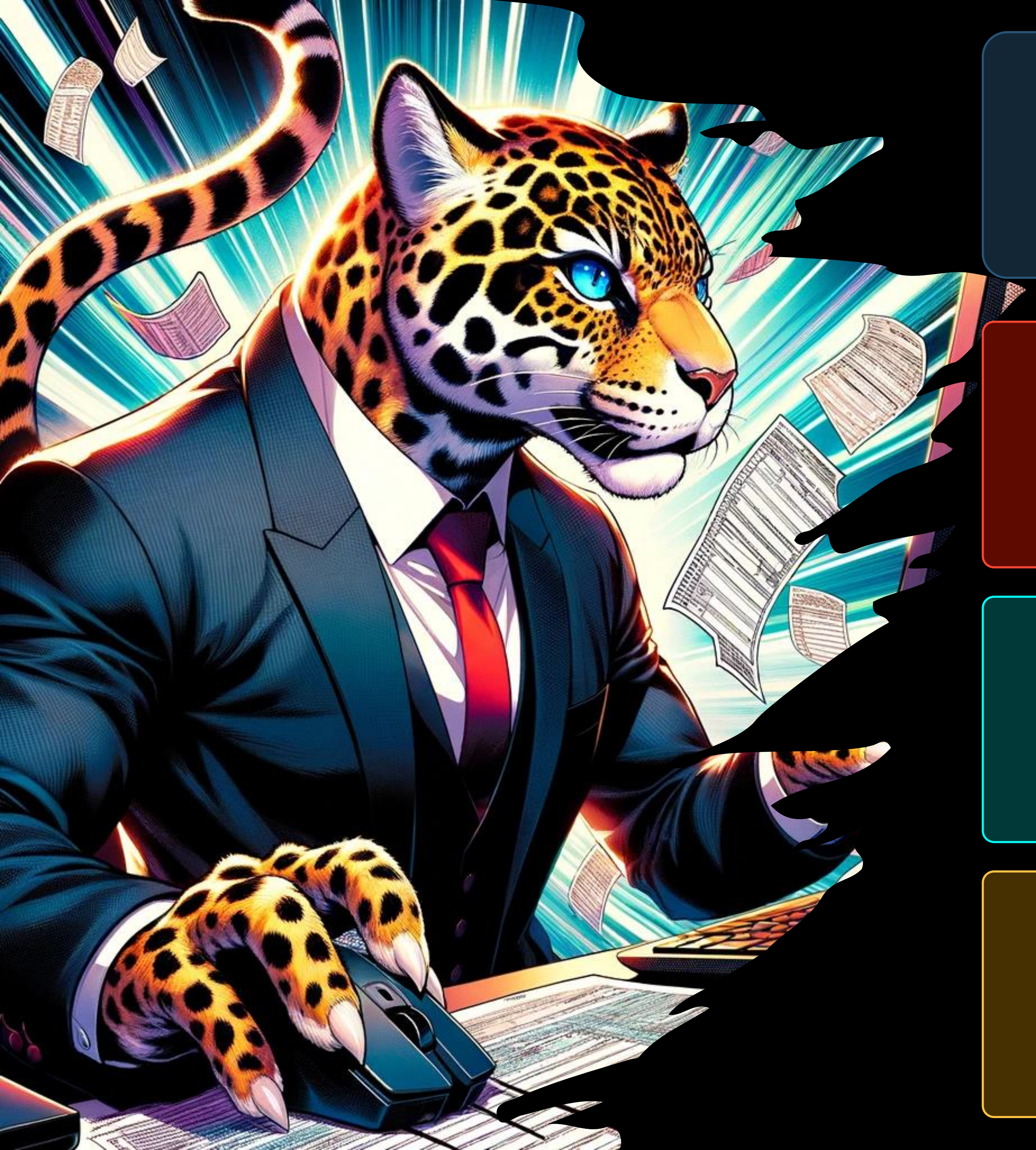
Business expenses not related to use of the home.

These expenses relate to the business activity in the home, but not to the use of the home itself.

You can still deduct business expenses that are unrelated to the use of the home.

See *Where To Deduct*, later. Examples of business expenses that are unrelated to the use of the home are advertising, wages, supplies, dues, and depreciation for equipment.





Space used regularly for daycare.

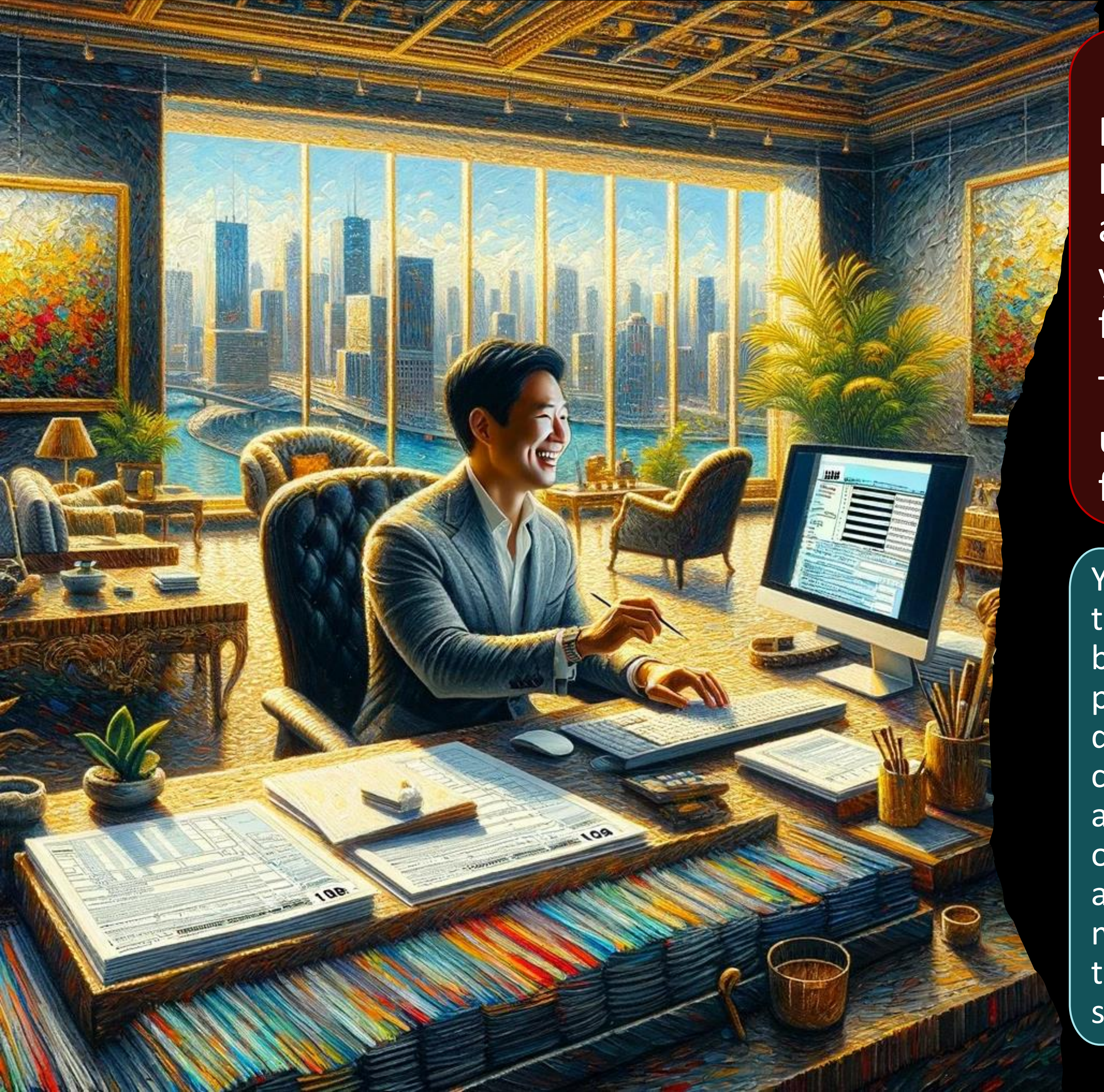
If you do not use the area of your home exclusively for daycare, you must reduce the prescribed rate (maximum $5 per square foot) before figuring your deduction. The reduced rate will equal the prescribed rate times a fraction.

The numerator of the fraction is the number of hours that the space was used during the year for daycare and the denominator is the total number of hours during the year that the space was available for all uses.

You can use the Daycare Facility Worksheet (for simplified method), near the end of this publication, to help you figure the reduced rate.

Tip

If you used at least 300 square feet for daycare regularly and exclusively during the year, then you do not need to reduce the prescribed rate or complete the Daycare Facility Worksheet.



Daycare Facility

If you use space in your home on a regular basis for providing daycare, you may be able to claim a deduction for that part of your home even if you use the same space for nonbusiness purposes.

To qualify for this exception to the exclusive use rule, you must meet both of the following requirements.

You must be in the trade or business of providing daycare for children, persons age 65 or older, or persons who are physically or mentally unable to care for them-selves.

You must have applied for, been granted, or be exempt from having a license, certification, registration, or approval as a daycare center or as a family or group daycare home under state law.

You do not meet this requirement if your application was rejected or your li-cense or other authorization was revoked.

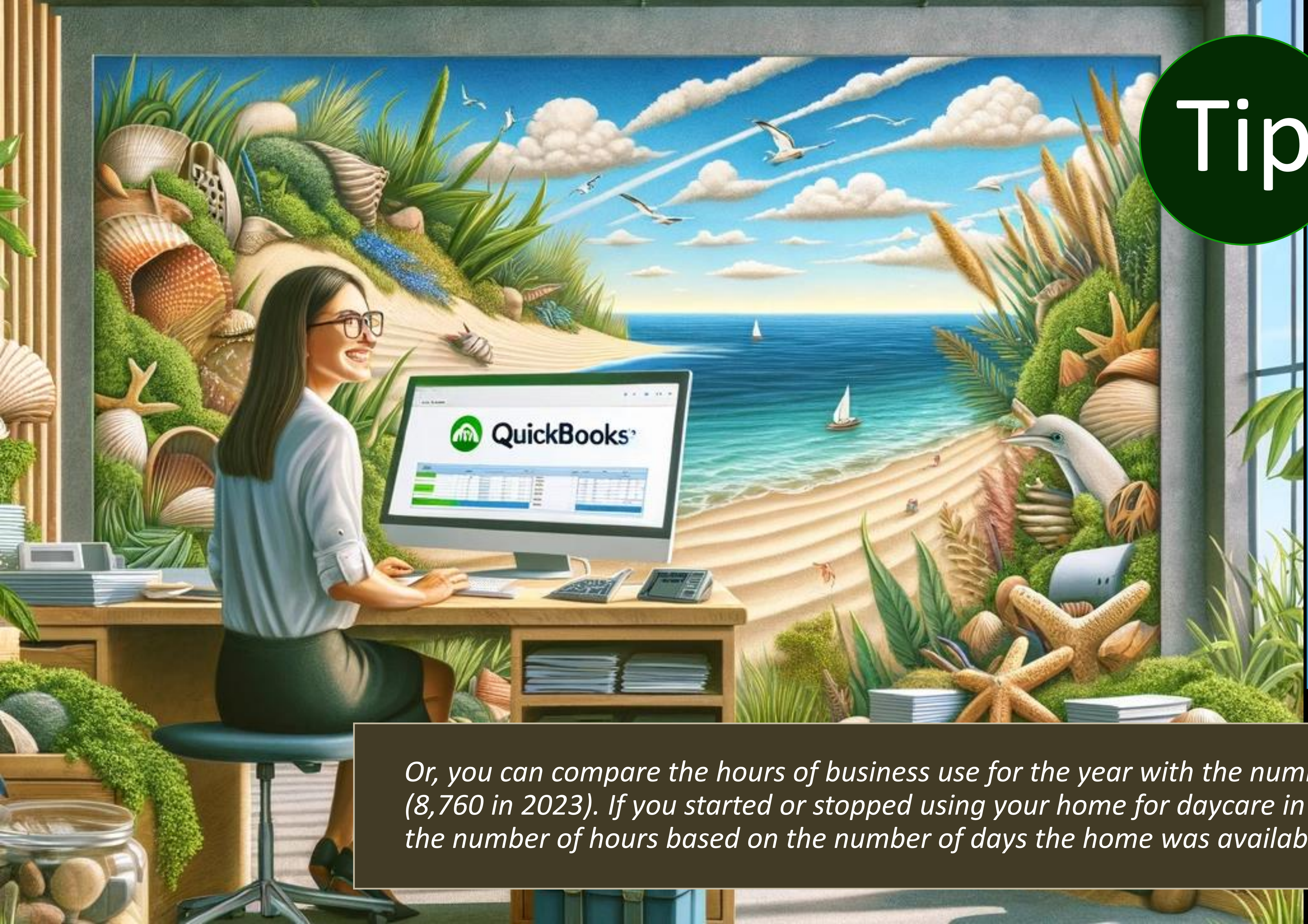
Figuring the deduction.

If you elect to use the simplified method for your home, figure your deduction as described earlier in *Using the Simplified Method* under *Figuring the Deduction*.

If you are figuring your deduction using actual expenses and you regularly use part of your home for daycare, figure what part is used for daycare, as explained in *Busi-ness Percentage*, earlier, under *Figuring the Deduction*. If you also use that part exclusively for daycare, deduct all the allocable expenses, subject to the deduction limit, as explained earlier.

If the use of part of your home as a daycare facility is regular, but not exclusive, you must figure the percentage of time that part of your home is used for daycare. A room that is available for use throughout each business day and that you regularly use in your business is considered to be used for daycare throughout each business day.

You do not have to keep records to show the specific hours the area was used for business. You can use the area occasionally for personal reasons. However, a room you use only occasionally for business does not qualify for the de-duction.

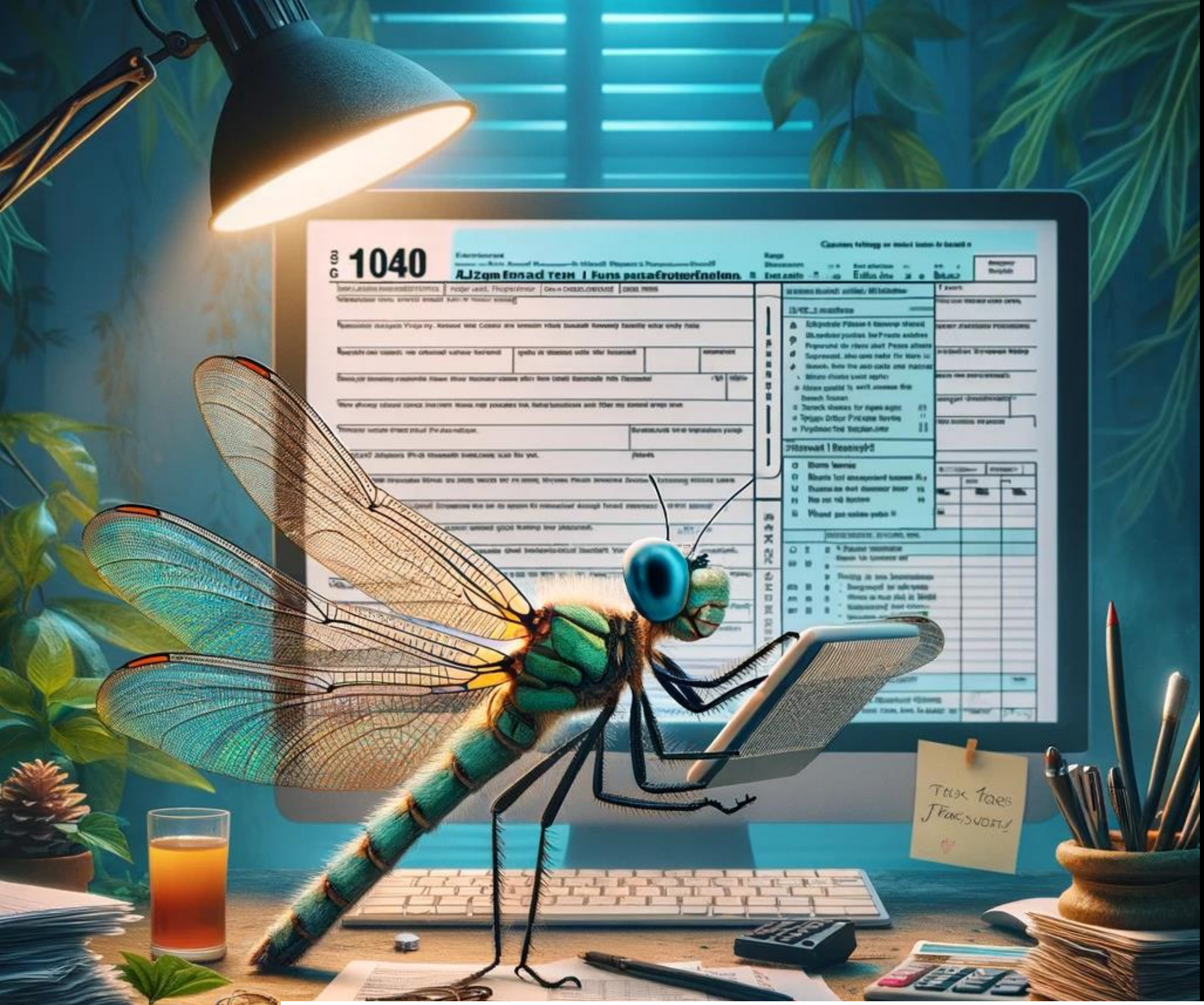


Tip

To find the percentage of time you actually use your home for business, compare the total time used for business to the total time that part of your home can be used for all purposes.

You can compare the hours of business use in a week with the number of hours in a week (168).

Or, you can compare the hours of business use for the year with the number of hours in the year (8,760 in 2023). If you started or stopped using your home for daycare in 2023, you must prorate the number of hours based on the number of days the home was available for daycare.



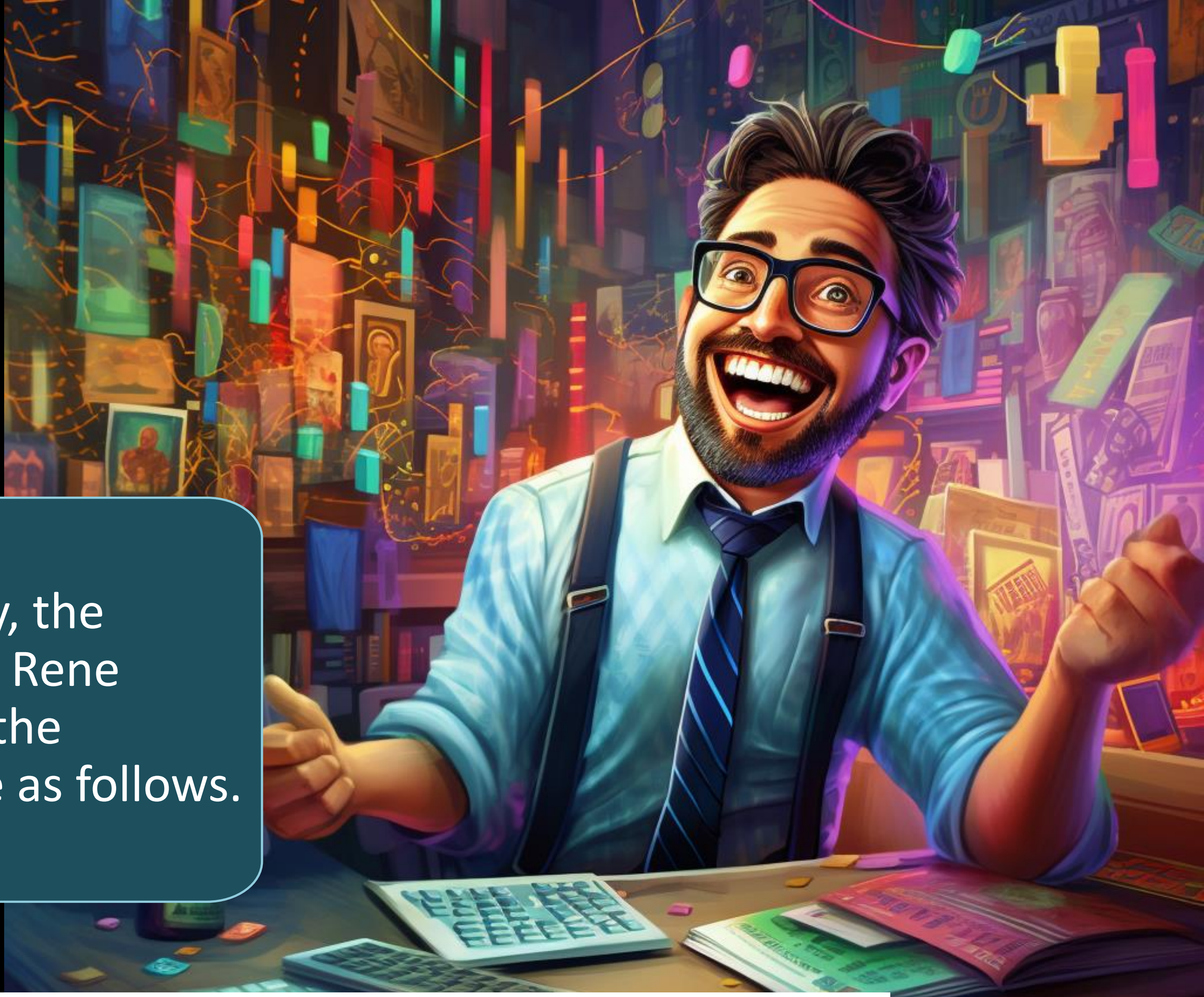
Example 1.

- Rene used the basement at home to operate a daycare business for children. Rene figures the business percentage of the basement as follows.

$$\frac{\text{Square footage of the basement}}{\text{Square footage of the home}} = \frac{1,600}{3,200} = 50\%$$

Rene used the basement for daycare an average of 12 hours a day, 5 days a week, for 50 weeks a year.

During the other 12 hours a day, the family could use the basement. Rene figures the percentage of time the basement was used for daycare as follows.



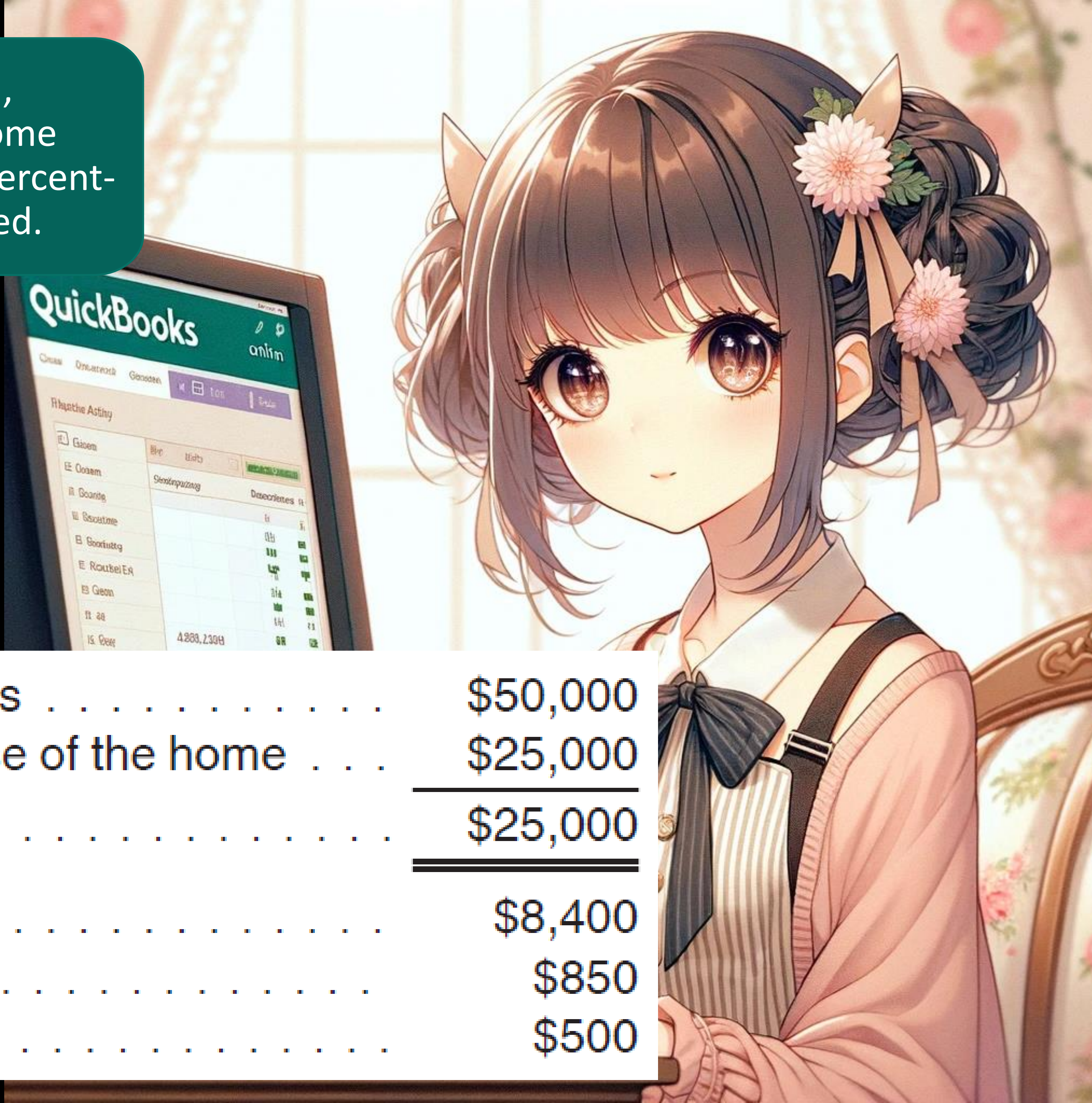
$$\frac{\text{Number of hours used for daycare } (12 \times 5 \times 50)}{\text{Total number of hours in the year } (24 \times 365)} = \frac{3{,}000}{8{,}760} = 34.25\%$$

Rene can deduct 34.25% of any direct expenses for the basement. However, because Rene's indirect expenses are for the entire house, Rene can deduct only 17.13% of the indirect expenses. Rene figures the percentage for their indirect expenses as follows.

Business percentage of the basement	50%
Multiplied by: Percentage of time used for daycare	× 34.25%
Percentage for indirect expenses	17.13%

Rene completes Form 8829, Part I, figuring the percent-age of the home used for business, including the percent-age of time the basement was used.

In Part II, Rene figures their deductible expenses. Rene uses the following information to complete Part II.



Gross income from the daycare business	$50,000
Expenses not related to the business use of the home	$25,000
Tentative profit	$25,000
Rent	$8,400
Utilities	$850
Painting the basement	$500

Rene enters their tentative profit, $25,000, on line 8. (This figure is the same as the amount on line 29 of their Schedule C (Form 1040)).

The expenses they paid for rent and utilities relate to their entire home. Therefore, Rene enters the amount paid for rent on line 19, column (b), and the amount paid for utilities on line 21, column (b). Rene shows the total of these expenses on line 23, column (b). For line 24, Rene multiplies the amount on line 23, column (b), by the per-centage on line 7 and enters the result, $1,585.

Rene paid $500 to have the basement painted. The painting is a direct expense. However, because the basement was not used exclusively for daycare, Rene must multiply $500 by the percentage of time the basement was used for daycare (34.25% – line 6). Rene then enters $171 (34.25% × $500) on line 20, column (a).

Rene then adds line 23, column (a), and line 24 and enters $1,756 ($171 + $1,585) on line 26. This is less than Rene's deduction limit (line 15), so Rene can deduct the entire amount. Rene follows the instructions to complete the rest of Part II and enters $1,756 on lines 34 and 36. Then Rene carries the $1,756 to line 30 of their Schedule C (Form 1040).

Example 2.

Assume the same facts as in *Example 1* except that Rene also has another room that was available each business day for children to take naps in. Although Rene did not keep a record of the number of hours the room was used for naps, it was used for part of each business day.

Since the room was available for business use during regular operating hours each business day and was used regularly in the business, it is considered used for daycare throughout each business day.

The basement and room are 60% of the total area of the home. In figuring Rene's expenses, 34.25% of any direct expenses for the basement and room are deductible. In addition, 20.55% (34.25% × 60%) of their indirect expenses are deductible.

Example 3.

Assume the same facts as in *Example 1* except that Rene stopped using the home for a daycare facility on June 24, 2023. Rene used the basement for daycare an average of 12 hours a day, 5 days a week, but for only 25 weeks of the year.

During the other 12 hours a day, Rene's family could still use the basement. Rene figures the percentage of time the basement was used for business as follows.

$$\frac{\text{Number of hours used for daycare } (12 \times 5 \times 25)}{\text{Total number of hours during period used } (24 \times 175)} = \frac{1{,}500}{4{,}200} = 35.71\%$$

Rene can deduct 35.71% of any direct expenses for the basement.

However, because the indirect expenses are for the entire house, Rene can deduct only 17.86% of the indirect expenses.

Rene then figures the percentage for their indirect expenses as follows.

Business percentage of the basement	50%
Multiplied by: Percentage of time used for daycare	× 35.71%
Percentage for indirect expenses	17.86%

Meals.

If you provide food for your daycare recipients, do not include the expense as a cost of using your home for business. Claim it as a separate deduction on your Sched-ule C (Form 1040).

You can never deduct the cost of food consumed by you or your family. You can deduct as a business expense 100% of the actual cost of food consumed by your daycare recipients (see *Standard meal and snack rates*, later, for an optional method for eligible children) and generally only 50% of the cost of food consumed by your employees. For more information on meals that meet these requirements, see *Meals* in chapter 2 of Pub. 15-B, Employer's Tax Guide to Fringe Benefits.

If you deduct the actual cost of food for your daycare business, keep a separate record (with receipts) of your family's food costs.

Reimbursements you receive from a sponsor under the Child and Adult Care Food Program of the Department of Agriculture are taxable only to the extent they exceed your expenses for food for eligible children.

If your reimbursements are more than your expenses for food, show the difference as income in Part I of Schedule C (Form 1040).

If your food expenses are greater than the reimbursements, show the difference as an expense in Part V of Sched-ule C (Form 1040).

Do not include payments or expenses for your own children if they are eligible for the program. Follow this procedure even if you receive a Form 1099-MISC, Miscellaneous Information, reporting a payment from the sponsor.

Standard meal and snack rates.

If you qualify as a family daycare provider, you can use the standard meal and snack rates, instead of actual costs, to compute the deductible cost of meals and snacks provided to eligible children. For these purposes:

A family daycare provider is a person engaged in the business of providing family daycare;

Family daycare is childcare provided to eligible children in the home of the family daycare provider. The care must be non-medical, not involve a transfer of le-gal custody, and generally last less than 24 hours each day; and

Eligible children are minor children receiving family daycare in the home of the family daycare provider. Eligible children do not include children who are full-time or part-time residents in the home where the childcare is provided or children whose parents or guardians are residents of the same home. Eligible children do not include children who receive daycare services for personal reasons of the provider. For example, if a provider provides daycare services for a relative as a favor to that relative, that child is not an eligible child.

You can compute the deductible cost of each meal and snack you actually purchased and served to an eligible child during the time period you provided family daycare using the standard meal and snack rates shown in Table 3.

You can use the standard meal and snack rates for a maximum of one breakfast, one lunch, one dinner, and three snacks per eligible child per day. If you receive reimbursement for a particular meal or snack, you can deduct only the portion of the applicable standard meal or snack rate that is more than the amount of the reimbursement.

You can use either the standard meal and snack rates or actual costs to calculate the deductible cost of food provided to eligible children in the family daycare for any particular tax year. If you choose to use the standard meal and snack rates for a particular tax year, you must use the rates for all your deductible food costs for eligible children during that tax year. However, if you use the standard meal and snack rates in any tax year, you can use actual costs to compute the deductible cost of food in any other tax year.

If you use the standard meal and snack rates, you must maintain records to substantiate the computation of the total amount deducted for the cost of food provided to eligible children.

The records kept should include the name of each child, dates and hours of attendance in the daycare, and the type and quantity of meals and snacks served. This information can be recorded in a log similar to the one shown in Exhibit A, near the end of this publication.

The standard meal and snack rates include beverages, but do not include non-food supplies used for food preparation, service, or storage, such as containers, paper products, or utensils. These expenses can be claimed as a separate deduction on your Schedule C (Form 1040).

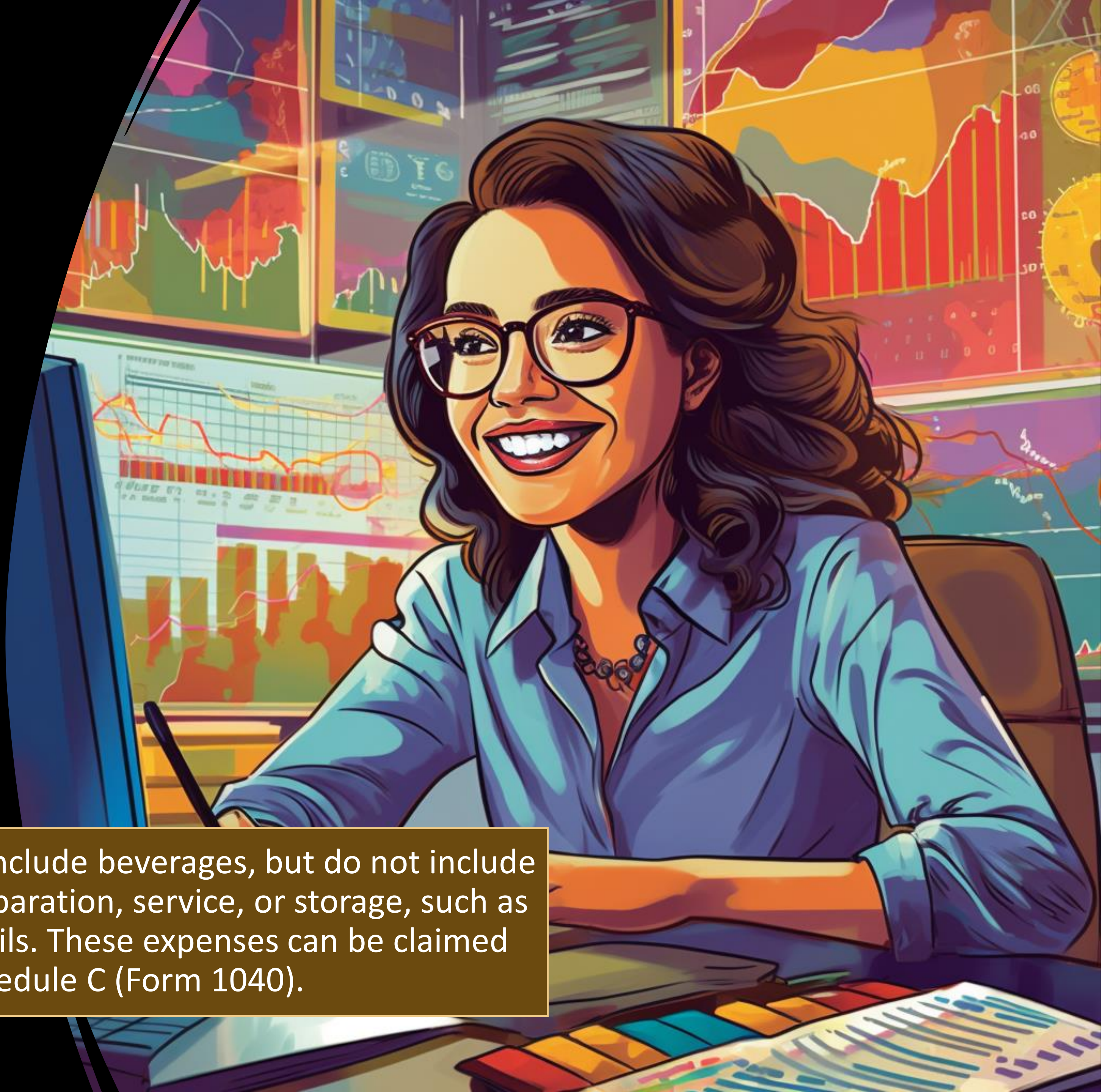


Table 3. **Standard Meal and Snack Rates**[1]

Location of Family Daycare Provider	Breakfast	Lunch	Dinner	Snack
States other than Alaska and Hawaii	$1.66	$3.04	$3.04	$0.97
Alaska	$2.59	$4.87	$4.87	$1.52
Hawaii	$1.91	$3.55	$3.55	$1.12

[1] The applicable rates for 2023 are the Child and Adult Care Food Program reimbursement rates in effect on December 31, 2022.

Income Tax

2023-2024

Other Common Expenses & De Minimis Safe Harbor for Tangible Property

Publication 946
Cat. No. 13081F

How To Depreciate Property

- **Section 179 Deduction**
- **Special Depreciation Allowance**
- **MACRS**
- **Listed Property**

For use in preparing

2023 Returns

	Income
-	Adjustments to Income
=	Adjusted Gross Income (AGI)
-	Greater of:
	Standard Deduction or
	Itemized Deduction
=	Taxable Income
x	Tax Rates (Tax Tables)
=	Tax Before Credits & Other Taxes
- +	Tax Credits & Other Taxes
=	Total Tax
-	Tax Payments & Refundable Credits
=	Tax Refund or Tax Due

Income						
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	Total amount from Form(s) W-2, box 1 (see instructions)			1a	
	b	Household employee wages not reported on Form(s) W-2			1b	
	c	Tip income not reported on line 1a (see instructions)			1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)			1d	
	e	Taxable dependent care benefits from Form 2441, line 26			1e	
	f	Employer-provided adoption benefits from Form 8839, line 29			1f	
	g	Wages from Form 8919, line 6			1g	
	h	Other earned income (see instructions)			1h	
	i	Nontaxable combat pay election (see instructions)	1i			
	z	Add lines 1a through 1h			1z	
Attach Sch. B if required.	2a	Tax-exempt interest	2a	b Taxable interest	2b	
	3a	Qualified dividends	3a	b Ordinary dividends	3b	
Standard Deduction for— • Single or Married filing separately, $13,850 • Married filing jointly or Qualifying surviving spouse, $27,700 • Head of household, $20,800 • If you checked any box under *Standard Deduction*, see instructions.	4a	IRA distributions	4a	b Taxable amount	4b	
	5a	Pensions and annuities	5a	b Taxable amount	5b	
	6a	Social security benefits	6a	b Taxable amount	6b	
	c	If you elect to use the lump-sum election method, check here (see instructions) ☐				
	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐			7	
	8	Additional income from Schedule 1, line 10			8	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**			9	
	10	Adjustments to income from Schedule 1, line 26			10	
	11	Subtract line 10 from line 9. This is your **adjusted gross income**			11	
	12	**Standard deduction or itemized deductions** (from Schedule A)			12	
	13	Qualified business income deduction from Form 8995 or Form 8995-A			13	
	14	Add lines 12 and 13			14	
	15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**			15	

SCHEDULE 1
(Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR	**Your social security number**

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	**1**	
2a	Alimony received	**2a**	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	**3**	
4	Other gains or (losses). Attach Form 4797	**4**	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	**5**	
6	Farm income or (loss). Attach Schedule F	**6**	
7	Unemployment compensation	**7**	
8	Other income:		
a	Net operating loss	**8a**	( )
b	Gambling	**8b**	
c	Cancellation of debt	**8c**	
d	Foreign earned income exclusion from Form 2555	**8d**	( )
e	Income from Form 8853	**8e**	
f	Income from Form 8889	**8f**	
g	Alaska Permanent Fund dividends	**8g**	
h	Jury duty pay	**8h**	

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **09**

Name of proprietor	**Social security number (SSN)**
A Principal business or profession, including product or service (see instructions)	**B Enter code from instructions**
C Business name. If no separate business name, leave blank.	**D Employer ID number (EIN)** (see instr.)

E Business address (including suite or room no.)

City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2023? If "No," see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2023, check here . . . ☐

I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions . . . ☐ **Yes** ☐ **No**

J If "Yes," did you or will you file required Form(s) 1099? . . . ☐ **Yes** ☐ **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . ☐	1	
2	Returns and allowances . . .	2	
3	Subtract line 2 from line 1 . . .	3	
4	Cost of goods sold (from line 42) . . .	4	
5	**Gross profit.** Subtract line 4 from line 3 . . .	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . .	6	
7	**Gross income.** Add lines 5 and 6 . . .	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising . . .	8		18	Office expense (see instructions) .	18	

De Minimis Safe Harbor for Tangible Property

Generally, you must capitalize costs to acquire or produce real or tangible personal property used in your trade or business, such as buildings, equipment, or furniture. How-ever, if you elect to use the de minimis safe harbor for tangible property, you may deduct de minimis amounts paid to acquire or produce certain tangible property if these amounts are deducted by you for financial accounting purposes or in keeping your books and records.

If you have an applicable financial statement, you may use this safe harbor to deduct amounts paid for tangible property up to $5,000 per item or invoice. If you do not have an applicable financial statement, you may use the de minimis safe harbor to deduct amounts paid for tangible property up to $2,500 per item or invoice.

Amounts qualifying under this de minimis safe harbor should be included as other expenses in Part V of Schedule C.

More information.

- For details on making this election and requirements for using the de minimis safe harbor for tangible property, see *Tangible Property Regulations*.

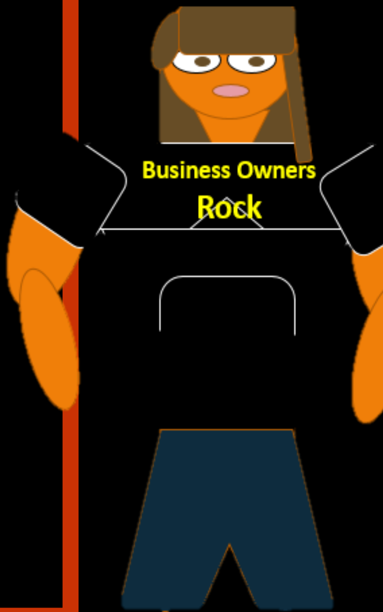
Other Expenses You Can Deduct - You may also be able to deduct the following expenses.

- Advertising.
- Bank fees.
- Donations to business organizations.
- Education expenses.
- Impairment-related expenses.
- Interview expense allowances.
- Licenses and regulatory fees.
- Moving machinery.
- Outplacement services.
- Penalties and fines you pay for late performance or nonperformance of a contract.
- Repairs and maintenance to real or tangible personal property.
- Repayments of income.
- Supplies and materials.
- Utilities.

Income Tax

2023-2024

Expenses You Cannot Deduct, Net Profit or Loss, & Operating Losses (NOLs)



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=	Tax Refund or Tax Due

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
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c	Tip income not reported on line 1a (see instructions)	1c	
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g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions)	1h	
i	Nontaxable combat pay election (see instructions) 1i		
z	Add lines 1a through 1h	1z	

Attach Sch. B if required.

2a	Tax-exempt interest	2a		b Taxable interest	2b	
3a	Qualified dividends	3a		b Ordinary dividends	3b	
4a	IRA distributions	4a		b Taxable amount	4b	
5a	Pensions and annuities	5a		b Taxable amount	5b	
6a	Social security benefits	6a		b Taxable amount	6b	

Standard Deduction for—

- Single or Married filing separately, $13,850
- Married filing jointly or Qualifying surviving spouse, $27,700
- Head of household, $20,800
- If you checked any box under *Standard Deduction*, see instructions.

c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐	7	
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**	9	
10	Adjustments to income from Schedule 1, line 26	10	
11	Subtract line 10 from line 9. This is your **adjusted gross income**	11	
12	**Standard deduction or itemized deductions** (from Schedule A)	12	
13	Qualified business income deduction from Form 8995 or Form 8995-A	13	
14	Add lines 12 and 13	14	
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**	15	

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR	**Your social security number**

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	**1**	
2a	Alimony received	**2a**	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	**3**	
4	Other gains or (losses). Attach Form 4797	**4**	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	**5**	
6	Farm income or (loss). Attach Schedule F	**6**	
7	Unemployment compensation	**7**	
8	Other income:		
a	Net operating loss	**8a**	( )
b	Gambling	**8b**	
c	Cancellation of debt	**8c**	
d	Foreign earned income exclusion from Form 2555	**8d**	( )
e	Income from Form 8853	**8e**	
f	Income from Form 8889	**8f**	
g	Alaska Permanent Fund dividends	**8g**	
h	Jury duty pay	**8h**	

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **09**

Name of proprietor	**Social security number (SSN)**

A	Principal business or profession, including product or service (see instructions)	**B** **Enter code from instructions**
C	Business name. If no separate business name, leave blank.	**D** **Employer ID number (EIN)** (see instr.)

E Business address (including suite or room no.)

City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2023? If "No," see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2023, check here . . . . ☐

I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions . . . . ☐ **Yes** ☐ **No**

J If "Yes," did you or will you file required Form(s) 1099? . . . . ☐ **Yes** ☐ **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . . ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions) .	18	

Expenses You Cannot Deduct - You usually cannot deduct the following as business expenses.

- Bribes and kickbacks.
- Charitable contributions.
- Demolition expenses or losses.
- Dues to business, social, athletic, luncheon, sporting, airline, and hotel clubs.
- Entertainment expenses.

Improvements to real or tangible personal property. Improvements are amounts paid for betterments to your property, restorations of your property, or work that adapts your property to a new or different use.

Lobbying expenses.

Penalties and fines you pay to a governmental agency or instrumentality because you broke the law.

Personal, living, and family expenses.

Political contributions.

Settlements or payments related to sexual harassment or sexual abuse if such settlement or payment is subject to a nondisclosure agreement. You also cannot deduct attorney fees related to such settlement or payment.

Figuring Net Profit or Loss

After figuring your business income and expenses, you are ready to figure the net profit or net loss from your business.

You do this by subtracting business expenses from business income.

If your expenses are less than your income, the difference is net profit and becomes part of your income on line 3 of Schedule 1 (Form 1040).

If your expenses are more than your income, the difference is a net loss. You can usually deduct it from gross income on line 3 of Schedule 1 (Form 1040).

But in some situations your loss is limited. This chapter briefly explains three of those situations.

Other situations that may limit your loss are explained in the instructions for Schedule C, line G and line 32.

Caution

- *If you have more than one business, you must figure your net profit or loss for each business on a separate Schedule C.*

Excess business loss limitation.

Your loss from a trade or business may be limited. Use Form 461 to determine the amount of your excess business loss, if any.

Your excess business loss will be included as income on line 8p of Schedule 1 (Form 1040) and treated as an NOL that you must carry forward and deduct in a subsequent year.

For more information about the excess business loss limitation, see Form 461 and its instructions.

Net Operating Losses (NOLs)

- If your deductions for the year are more than your income for the year, you may have an NOL. You can use an NOL by deducting it from your income in another year or years.

Examples of typical losses that may produce an NOL include, but are not limited to, losses incurred from the following.

- Your trade or business.
- A casualty or theft resulting from a federally declared disaster.
- Moving expenses.
- Rental property.

A loss from operating a business is the most common reason for an NOL.

For details about NOLs, see Pub. 536. It explains how to figure an NOL, when to use it, how to claim an NOL de-duction, and how to figure an NOL carryover.

Not-for-Profit Activities

If you do not carry on your business to make a profit, there is a limit on the deductions you can take. You cannot use a loss from the activity to offset other income.

Activities you do as a hobby, or mainly for sport or recreation, come un-der this limit.

For details about not-for-profit activities, see *Hobby or business: here's what to know about that side hustle.*

Income Tax

2023-2024

Net Profit or Loss, & Net Operating Losses (NOLs) Example

Expenses You Cannot Deduct - You usually cannot deduct the following as business expenses.

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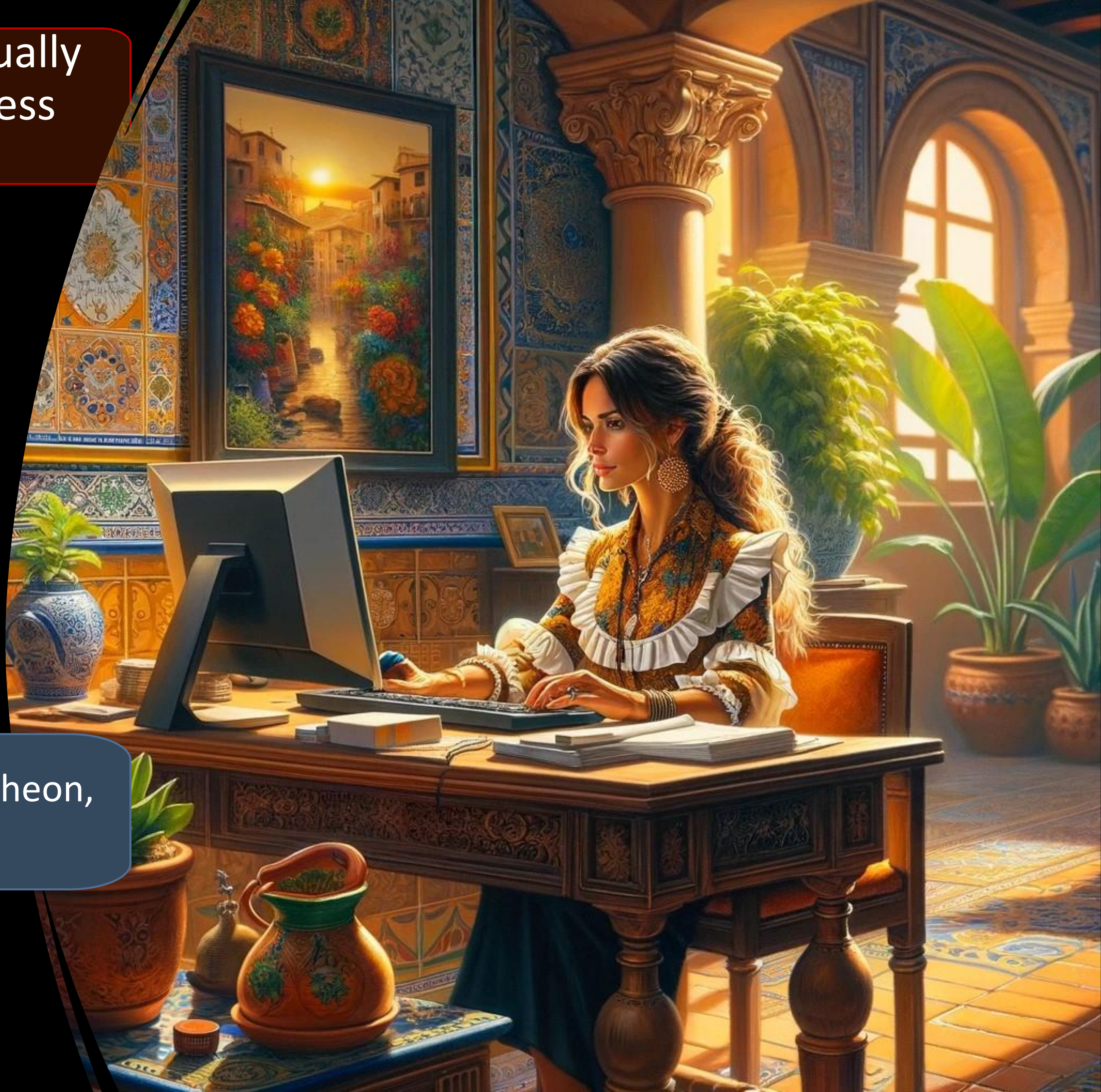

Improvements to real or tangible personal property. Improvements are amounts paid for betterments to your property, restorations of your property, or work that adapts your property to a new or different use.

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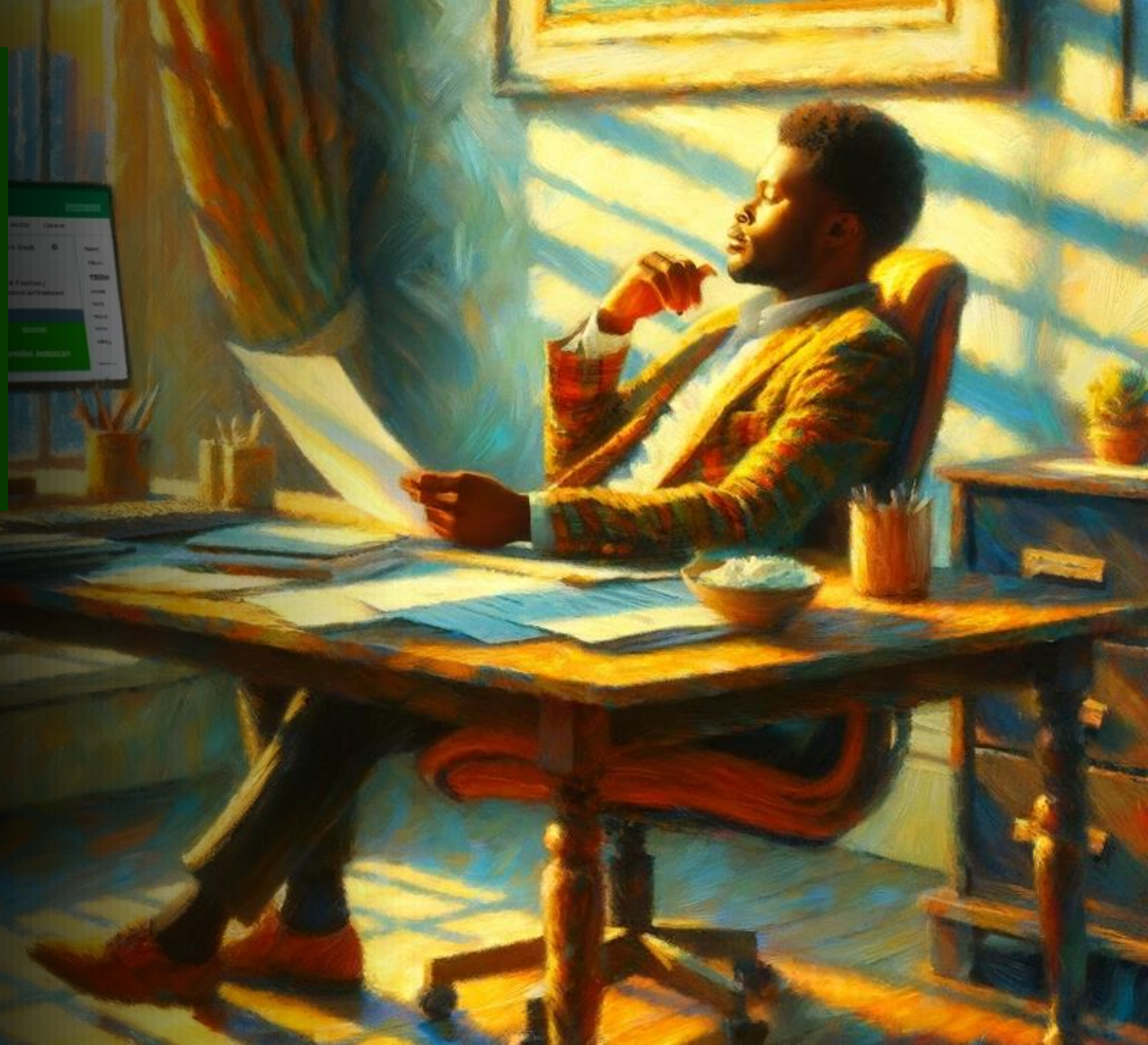
Other situations that may limit your loss are explained in the instructions for Schedule C, line G and line 32.



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- Moving expenses.
- Rental property.

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If you do not carry on your business to make a profit, there is a limit on the deductions you can take. You cannot use a loss from the activity to offset other income.

Activities you do as a hobby, or mainly for sport or recreation, come un-der this limit.

For details about not-for-profit activities, see *Hobby or business: here's what to know about that side hustle*.

Income Tax

2023-2024

Self-Employment (SE) Tax - Who Must Pay SE Tax Part 1

Publication 946
Cat. No. 13081F

How To Depreciate Property

- **Section 179 Deduction**
- **Special Depreciation Allowance**
- **MACRS**
- **Listed Property**

For use in preparing

2023 Returns

	Income
-	<u>Adjustments to Income</u>
=	Adjusted Gross Income (AGI)
-	Greater of:
	Standard Deduction or
	<u>Itemized Deduction</u>
=	Taxable Income
x	<u>Tax Rates (Tax Tables)</u>
=	Tax Before Credits & Other Taxes
- +	Tax Credits & Other Taxes
=	Total Tax
-	<u>Tax Payments & Refundable Credits</u>
=	<u>Tax Refund or Tax Due</u>

Income	1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	Household employee wages not reported on Form(s) W-2	1b	
If you did not get a Form W-2, see instructions.	c	Tip income not reported on line 1a (see instructions)	1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
	e	Taxable dependent care benefits from Form 2441, line 26	1e	
	f	Employer-provided adoption benefits from Form 8839, line 29	1f	
	g	Wages from Form 8919, line 6	1g	
	h	Other earned income (see instructions)	1h	
	i	Nontaxable combat pay election (see instructions) 1i		
	z	Add lines 1a through 1h	1z	
Attach Sch. B if required.	2a	Tax-exempt interest 2a	b Taxable interest	2b
	3a	Qualified dividends 3a	b Ordinary dividends	3b
Standard Deduction for—	4a	IRA distributions 4a	b Taxable amount	4b
• Single or Married filing separately, $13,850	5a	Pensions and annuities 5a	b Taxable amount	5b
• Married filing jointly or Qualifying surviving spouse, $27,700	6a	Social security benefits 6a	b Taxable amount	6b
• Head of household, $20,800	c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
• If you checked any box under *Standard Deduction*, see instructions.	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐	7	
	8	Additional income from Schedule 1, line 10	8	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**	9	
	10	Adjustments to income from Schedule 1, line 26	10	
	11	Subtract line 10 from line 9. This is your **adjusted gross income**	11	
	12	**Standard deduction or itemized deductions** (from Schedule A)	12	
	13	Qualified business income deduction from Form 8995 or Form 8995-A	13	
	14	Add lines 12 and 13	14	
	15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**	15	

SCHEDULE 1 (Form 1040)

Department of the Treasury Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	**1**	
2a	Alimony received	**2a**	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	**3**	
4	Other gains or (losses). Attach Form 4797	**4**	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E .	**5**	
6	Farm income or (loss). Attach Schedule F	**6**	
7	Unemployment compensation	**7**	
8	Other income:		
a	Net operating loss	**8a**	( )
b	Gambling	**8b**	
c	Cancellation of debt	**8c**	
d	Foreign earned income exclusion from Form 2555	**8d**	( )
e	Income from Form 8853	**8e**	
f	Income from Form 8889	**8f**	
g	Alaska Permanent Fund dividends	**8g**	
h	Jury duty pay	**8h**	

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **09**

Name of proprietor	**Social security number (SSN)**
A Principal business or profession, including product or service (see instructions)	**B Enter code from instructions**
C Business name. If no separate business name, leave blank.	**D Employer ID number (EIN)** (see instr.)

E Business address (including suite or room no.)

City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2023? If "No," see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2023, check here . . . . . ☐

I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions . . . . ☐ **Yes** ☐ **No**

J If "Yes," did you or will you file required Form(s) 1099? . . . . ☐ **Yes** ☐ **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . ☐	1	
2	Returns and allowances . . .	2	
3	Subtract line 2 from line 1 . . .	3	
4	Cost of goods sold (from line 42) . . .	4	
5	**Gross profit.** Subtract line 4 from line 3 . . .	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . .	6	
7	**Gross income.** Add lines 5 and 6 . . .	7	

Part II **Expenses.** Enter expenses for business use of your home **only** on line 30.

8	Advertising . . .	8		18	Office expense (see instructions) .	18	

Who Must Pay SE Tax?

- Generally, you must pay SE tax and file Schedule SE (Form 1040) if your net earnings from self-employment were $400 or more.
- Use Schedule SE to figure net earnings from self-employment.

Sole proprietor or independent contractor.

- If you are self-employed as a sole proprietor or independent con-tractor, you generally use Schedule C (Form 1040) to fig-ure your earnings subject to SE tax.

SE tax rate.

- The 2023 SE tax rate on net earnings is 15.3% (12.4% social security tax plus 2.9% Medicare tax).

Maximum earnings subject to SE tax.

Only the first $160,200 of your combined wages, tips, and net earnings in 2023 is subject to any combination of the 12.4% social security part of SE tax, social security tax, or the Tier 1 part of railroad retirement tax.

All of your combined wages, tips, and net earnings in 2023 are subject to any combination of the 2.9% Medicare part of SE tax, Medicare tax, or Medicare part of railroad retirement tax.

If your wages and tips are subject to either social security tax or the Tier 1 part of railroad retirement tax, or both, and total at least $160,200, do not pay the 12.4% social security part of the SE tax on any of your net earnings. However, you must pay the 2.9% Medicare part of the SE tax on all your net earnings.

Additional Medicare Tax.

A 0.9% Additional Medicare Tax may apply to you if your net earnings from self-employment exceed a threshold amount (based on your filing status).

For more information, see *Self-Employment (SE) Tax* in chapter 1, and Form 8959 and its instructions.

Special Rules and Exceptions

Aliens.

Generally, resident aliens must pay SE tax under the same rules that apply to U.S. citizens.

Nonresident aliens are not subject to SE tax unless an international social security agreement (also known as a totalization agreement) in effect determines that they are covered under the U.S. social security system.

However, residents of the U.S. Virgin Islands, Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, or American Samoa are subject to SE tax, as they are considered U.S. residents for SE tax purposes. For more information on aliens, see Pub. 519, U.S. Tax Guide for Aliens.

Child employed by parent.

You are not subject to SE tax if you are under age 18 and you are working for your father or mother.

Church employee.

If you work for a church or a qualified church-controlled organization (other than as a minister, member of a religious order, or Christian Science practitioner) that elected an exemption from social security and Medicare taxes, you are subject to SE tax if you receive $108.28 or more in wages from the church or organization.

For more information, see Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers.

Fishing crew member. - If you are a member of the crew on a boat that catches fish or other aquatic life, your earnings are subject to SE tax if all the following conditions ap-ply.

You do not get any pay for the work except your share of the catch or a share of the proceeds from the sale of the catch, unless the pay meets all the following conditions.

The pay is not more than $100 per trip.

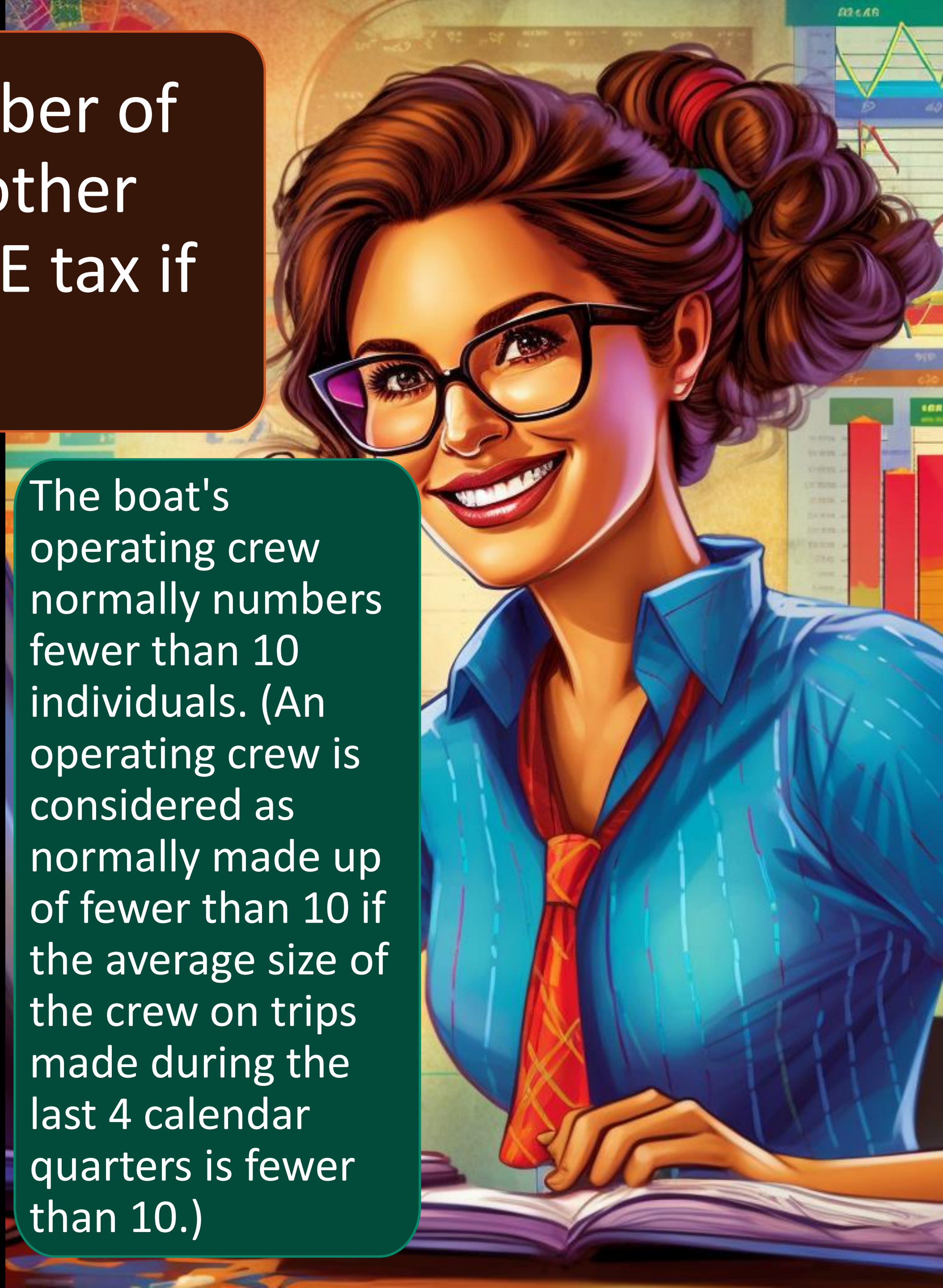
The pay is received only if there is a minimum catch.

The pay is solely for additional duties (such as mate, engineer, or cook) for which additional cash pay is traditional in the fishing industry.

You get a share of the catch or a share of the proceeds from the sale of the catch.

Your share depends on the amount of the catch.

The boat's operating crew normally numbers fewer than 10 individuals. (An operating crew is considered as normally made up of fewer than 10 if the average size of the crew on trips made during the last 4 calendar quarters is fewer than 10.)



Notary public.

Fees you receive for services you perform as a notary public are reported on Schedule C but are not subject to SE tax (see the Instructions for Schedule SE (Form 1040)).

State or local government employee.

You are subject to SE tax if you are an employee of a state or local government, are paid solely on a fee basis, and your services are not covered under a federal-state social security agreement.

Foreign government or international organization employee. You are subject to SE tax if both the following conditions are true.

You are a U.S. citizen employed in the United States, Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or the U.S. Virgin Islands by:

- A foreign government,
- A wholly owned agency of a foreign government, or
- An international organization.

Your employer is not required to withhold social security and Medicare taxes from your wages.

U.S. citizen or resident alien residing abroad.

U.S. citizen or resident alien living outside the United States, in most cases you must pay SE tax.

Foreign earnings from self-employment can't be reduced by your foreign earned income exclusion when computing self-employment tax.

Exception.

The United States has social security agreements with many countries to eliminate double taxation under two social security systems.

Under these agreements, you must generally only pay social security and Medicare taxes to the country in which you live.

The country to which you must pay the tax will issue a certificate that serves as proof of exemption from social security tax in the other country.

For more information, see the Instructions for Sched-ule SE (Form 1040).

More Than One Business

- If you have earnings subject to SE tax from more than one trade, business, or profession, you must combine the net profit (or loss) from each to determine your total earnings subject to SE tax. A loss from one business reduces your profit from another business.

Community Property Income

- If any of the income from a trade or business, other than a partnership, is community property income under state law, it is included in the earnings subject to SE tax of the spouse carrying on the trade or business.

Gain or Loss

- Do not include in earnings subject to SE tax a gain or loss from the disposition of property that is neither stock in trade nor held primarily for sale to customers.
- It does not matter whether the disposition is a sale, an exchange, or an involuntary conversion.

Lost Income Payments

If you are self-employed and reduce or stop your business activities, any payment you receive from insurance or other sources for the lost business income is included in earnings subject to SE tax.

If you are not working when you receive the payment, it still relates to your business and is included in earnings subject to SE tax, even though your business is temporarily inactive.

Figuring Earnings Subject to SE Tax - Methods for Figuring Net Earnings

There are three ways to figure net earnings from self-em-ployment.

- The regular method.
- The nonfarm optional method.
- The farm optional method.

You must use the regular method to the extent you do not use one or both of the optional methods.

Why use an optional method? You may want to use the optional methods (discussed later) when you have a loss or a small net profit and any one of the following applies.

- You want to receive credit for social security benefit coverage.
- You incurred child or dependent care expenses for which you could claim a credit. (An optional method may increase your earned income, which could increase your credit.)
- You are entitled to the earned income credit. (An optional method may increase your earned income, which could increase your credit.)
- You are entitled to the additional child tax credit. (An optional method may increase your earned income, which could increase your credit.)

Effects of using an optional method.

Using an optional method could increase your SE tax. Paying more SE tax could result in your getting higher benefits when you retire.

Using the optional methods may also decrease your AGI due to the deduction for one-half of SE tax on Form 1040 or 1040-SR, which may affect your eligibility for cred-its, deductions, or other items that are subject to an AGI limit. Figure your AGI with and without using the optional methods to see if the optional methods will benefit you.

If you use either or both optional methods, you must figure and pay the SE tax due under these methods even if you would have had a smaller tax or no tax using the regular method.

The optional methods may be used only to figure your SE tax. To figure your income tax, include your actual earnings in gross income,

Regular Method

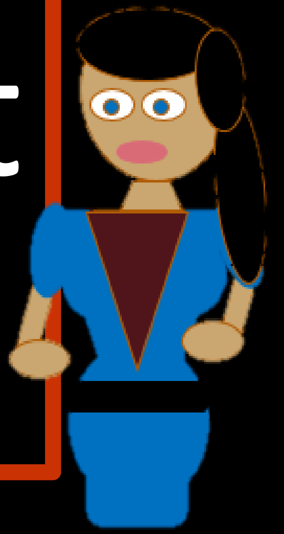
To figure net earnings using the regular method, multiply your self-employment earnings by 92.35% (0.9235). For your net earnings figured using the regular method, see line 4a of your Schedule SE (Form 1040).

Net earnings figured using the regular method are also called actual net earnings.

Income Tax

2023-2024

Self-Employment (SE) Tax - Who Must Pay SE Tax Part 2



Publication 946

Cat. No. 13081F

How To Depreciate Property

- **Section 179 Deduction**
- **Special Depreciation Allowance**
- **MACRS**
- **Listed Property**

For use in preparing

2023 Returns

	Income
-	Adjustments to Income
=	Adjusted Gross Income (AGI)
-	Greater of:
	Standard Deduction or
	Itemized Deduction
=	Taxable Income
x	Tax Rates (Tax Tables)
=	Tax Before Credits & Other Taxes
- +	Tax Credits & Other Taxes
=	Total Tax
-	Tax Payments & Refundable Credits
=	Tax Refund or Tax Due

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)				1a
b	Household employee wages not reported on Form(s) W-2				1b
c	Tip income not reported on line 1a (see instructions)				1c
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)				1d
e	Taxable dependent care benefits from Form 2441, line 26				1e
f	Employer-provided adoption benefits from Form 8839, line 29				1f
g	Wages from Form 8919, line 6				1g
h	Other earned income (see instructions)				1h
i	Nontaxable combat pay election (see instructions)	1i			
z	Add lines 1a through 1h				1z
2a	Tax-exempt interest	2a		b Taxable interest	2b
3a	Qualified dividends	3a		b Ordinary dividends	3b
4a	IRA distributions	4a		b Taxable amount	4b
5a	Pensions and annuities	5a		b Taxable amount	5b
6a	Social security benefits	6a		b Taxable amount	6b
c	If you elect to use the lump-sum election method, check here (see instructions) ☐				
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐				7
8	Additional income from Schedule 1, line 10				8
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**				9
10	Adjustments to income from Schedule 1, line 26				10
11	Subtract line 10 from line 9. This is your **adjusted gross income**				11
12	**Standard deduction or itemized deductions** (from Schedule A)				12
13	Qualified business income deduction from Form 8995 or Form 8995-A				13
14	Add lines 12 and 13				14
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**				15

Attach Sch. B if required.

Standard Deduction for—

- Single or Married filing separately, $13,850
- Married filing jointly or Qualifying surviving spouse, $27,700
- Head of household, $20,800
- If you checked any box under *Standard Deduction*, see instructions.

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR	**Your social security number**

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			1	
2a	Alimony received			2a	
b	Date of original divorce or separation agreement (see instructions):				
3	Business income or (loss). Attach Schedule C			3	
4	Other gains or (losses). Attach Form 4797			4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			5	
6	Farm income or (loss). Attach Schedule F			6	
7	Unemployment compensation			7	
8	Other income:				
a	Net operating loss	8a	( )		
b	Gambling	8b			
c	Cancellation of debt	8c			
d	Foreign earned income exclusion from Form 2555	8d	( )		
e	Income from Form 8853	8e			
f	Income from Form 8889	8f			
g	Alaska Permanent Fund dividends	8g			
h	Jury duty pay	8h			

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business
(Sole Proprietorship)

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **09**

Name of proprietor	**Social security number (SSN)**

A	Principal business or profession, including product or service (see instructions)	**B Enter code from instructions**
C	Business name. If no separate business name, leave blank.	**D Employer ID number (EIN)** (see instr.)

E Business address (including suite or room no.)

City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2023? If "No," see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2023, check here . . . . ☐

I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions . . . ☐ **Yes** ☐ **No**

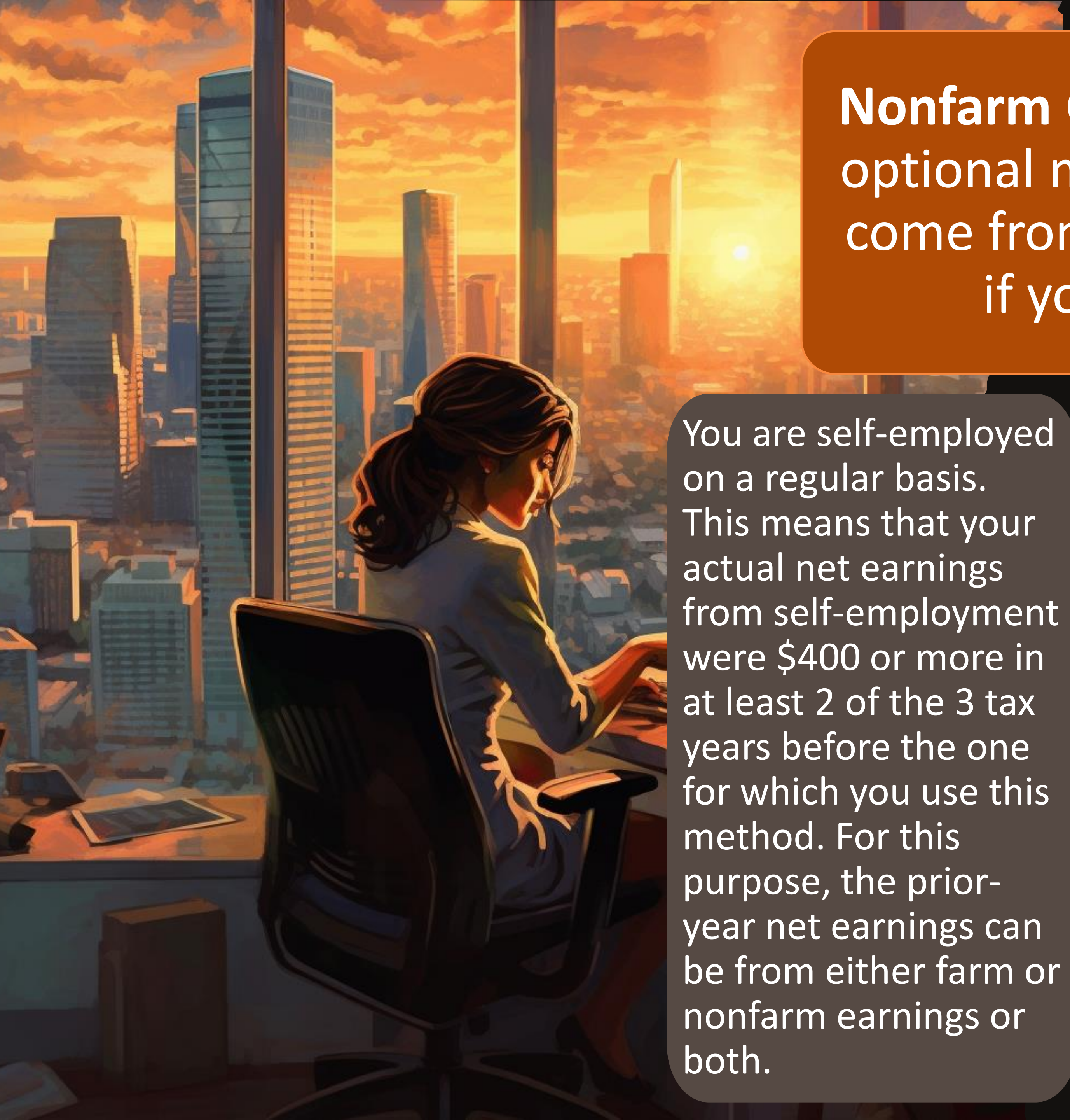
J If "Yes," did you or will you file required Form(s) 1099? . . . ☐ **Yes** ☐ **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . ☐	1	
2	Returns and allowances . . .	2	
3	Subtract line 2 from line 1 . . .	3	
4	Cost of goods sold (from line 42) . . .	4	
5	**Gross profit.** Subtract line 4 from line 3 . . .	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . .	6	
7	**Gross income.** Add lines 5 and 6 . . .	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising . . .	8		18	Office expense (see instructions) .	18	



Nonfarm Optional Method - Use the nonfarm optional method only for earnings that do not come from farming. You may use this method if you meet all the following tests.

You are self-employed on a regular basis. This means that your actual net earnings from self-employment were $400 or more in at least 2 of the 3 tax years before the one for which you use this method. For this purpose, the prior-year net earnings can be from either farm or nonfarm earnings or both.

You have used this method less than 5 years. (There is a 5-year lifetime limit.) The years do not have to be one after another.

Your net nonfarm profits were:

Less than $7,103, and

Less than 72.189% of your gross nonfarm income.

Net nonfarm profit. Net nonfarm profit is generally the total of the amounts from:

Line 31 of Schedule C (Form 1040); and

Box 14, code A, of Schedule K-1 (Form 1065) (from nonfarm partnerships).

However, you may need to adjust the amount reported on Schedule K-1 if you are a general partner or if it is a loss.

Gross nonfarm income. Your gross nonfarm income is generally the total of the amounts from:

Line 7 of Schedule C (Form 1040); and

Box 14, code C, of Schedule K-1 (Form 1065) (from nonfarm partnerships)

Figuring Nonfarm Net Earnings

- If you meet the three tests explained earlier, use the following table to figure your nonfarm net earnings from self-employment under the nonfarm optional method.

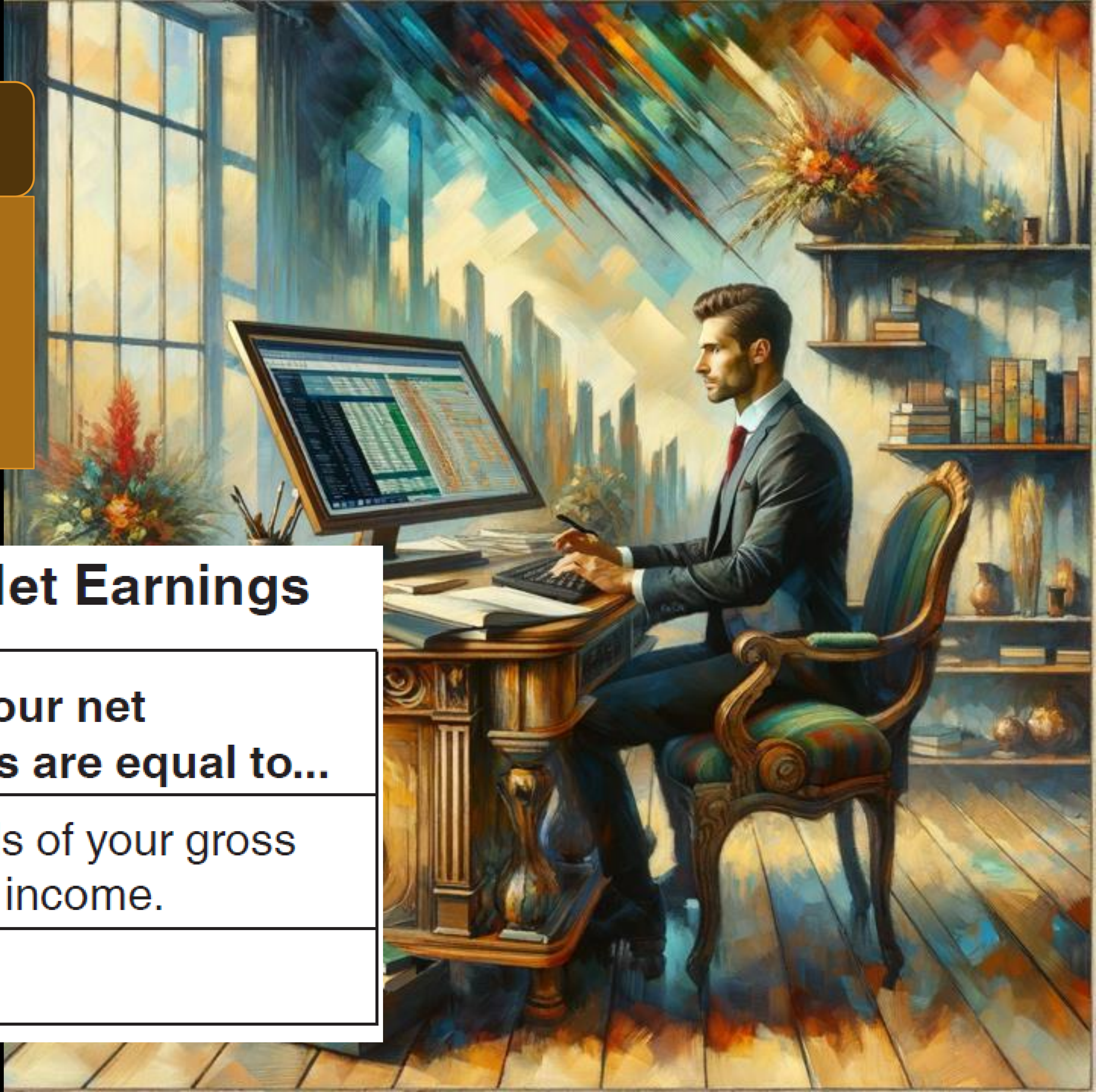


Table 10-1. **Figuring Nonfarm Net Earnings**

IF your gross nonfarm income is...	THEN your net earnings are equal to...
$9,840 or less	two-thirds of your gross nonfarm income.
more than $9,840	$7,103.

Optional net earnings less than actual net earnings.

You cannot use this method to report an amount less than your actual nonfarm net earnings from self-employment. Your actual nonfarm net earnings are your nonfarm net earnings figured using the regular method, explained earlier.

Gross nonfarm income of $9,840 or less.

The following examples illustrate how to figure net earnings when gross nonfarm income is $9,840 or less.

Example 1. Net nonfarm profit less than $7,103 and less than 72.189% of gross nonfarm income.

You run a craft business. Your actual net earnings from self-employment were $800 in 2021 and $900 in 2022.

You meet the test for being self-employed on a regular basis. You have used the nonfarm optional method less than 5 years.

Your gross income and net profit in 2023 are as follows.

Gross nonfarm income	$5,400
Net nonfarm profit	$1,200

Your actual net earnings for 2023 are $1,108 ($1,200 × 0.9235). Because your net profit is less than $7,103 and less than 72.189% of your gross income, you can use the nonfarm optional method to figure net earnings of $3,600 (2/3 × $5,400).

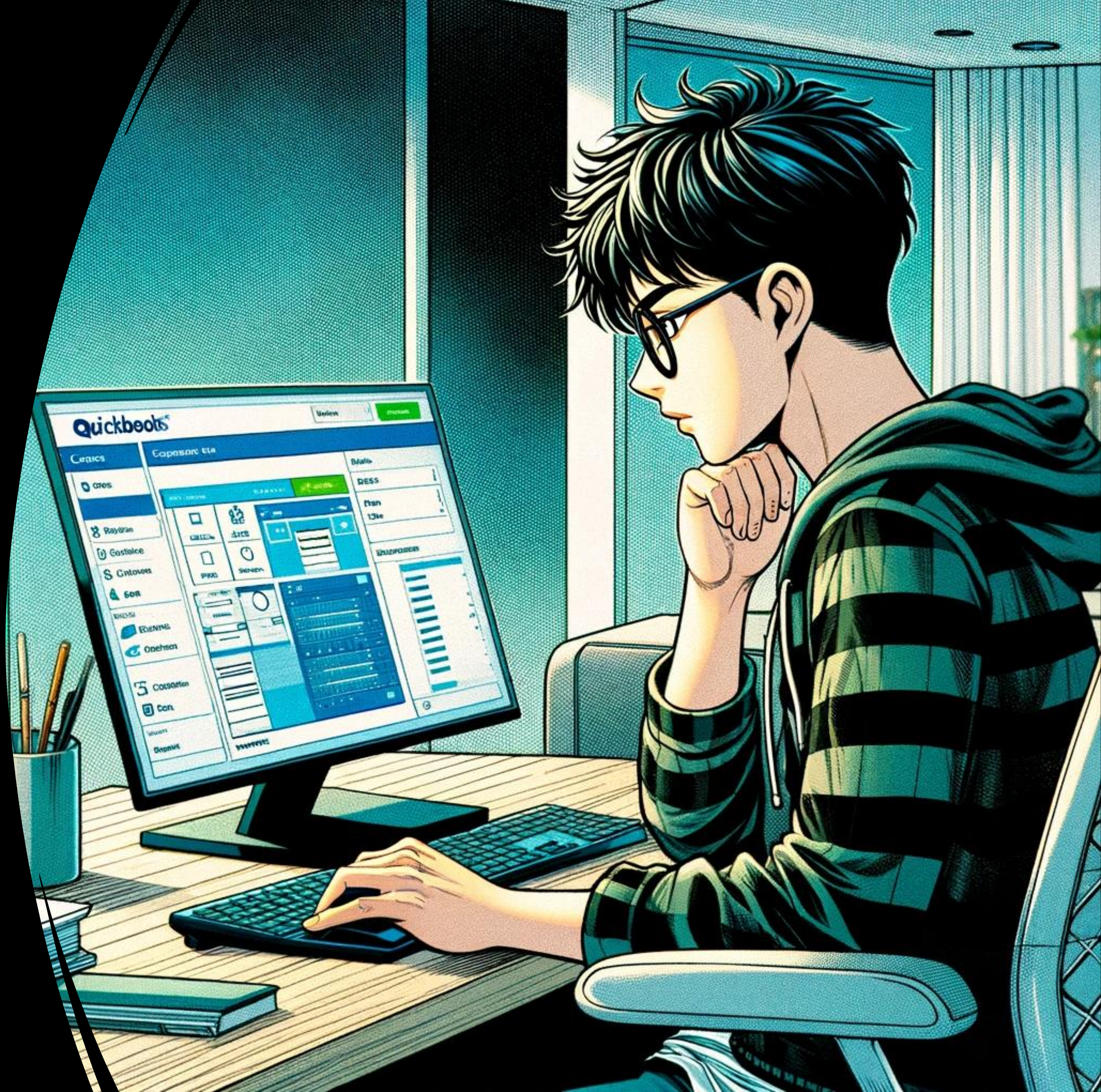
Because these net earnings are higher than your actual net earnings, you can report net earnings of $3,600 for 2023.

- Assume that in *Example 1* your gross income is $1,200 and your net profit is $900. You must use the regular method to figure your net earnings.
- You cannot use the nonfarm optional method because your net profit is not less than 72.189% of your gross income.

Example 2. Net nonfarm profit less than $7,103 but not less than 72.189% of gross nonfarm income.

- Assume that in *Example 1* you have a net loss of $700. You can use the nonfarm optional method and report $3,600 (2/3 × $5,400) as your net earnings.

Example 3. Net loss from a nonfarm business.



Example 4. Nonfarm net earnings less than $400.

- Assume that in *Example 1* you have gross income of $525 and a net profit of $175. In this situation, you would not pay any SE tax under either the regular method or the nonfarm optional method because your net earnings under both methods are less than $400.

Gross nonfarm income of more than $9,840.

- The following examples illustrate how to figure net earnings when gross nonfarm income is more than $9,840.

Example 1. Net nonfarm profit less than $7,103 and less than 72.189% of gross nonfarm income.

- You run an appliance repair shop. Your actual net earnings from self-employment were $10,500 in 2021 and $9,500 in 2022. You meet the test for being self-employed on a regular basis.
- You have used the nonfarm optional method less than 5 years. Your gross income and net profit in 2023 are as follows.

Gross nonfarm income	$12,000
Net nonfarm profit	$1,200

Your actual net earnings for 2023 are \$1,108 (\$1,200 × 0.9235). Because your net profit is less than \$7,103 and less than 72.189% of your gross income, you can use the nonfarm optional method to figure net earnings of \$6,560.

Because these net earnings are higher than your actual net earnings, you can report net earnings of \$6,560 for 2023.

Example 2. Net nonfarm profit not less than $7,103.

- Assume that in *Example 1* your net profit is $8,900. You must use the regular method. You cannot use the nonfarm optional method because your net nonfarm profit is not less than $7,103.

Example 3. Net loss from a nonfarm business.

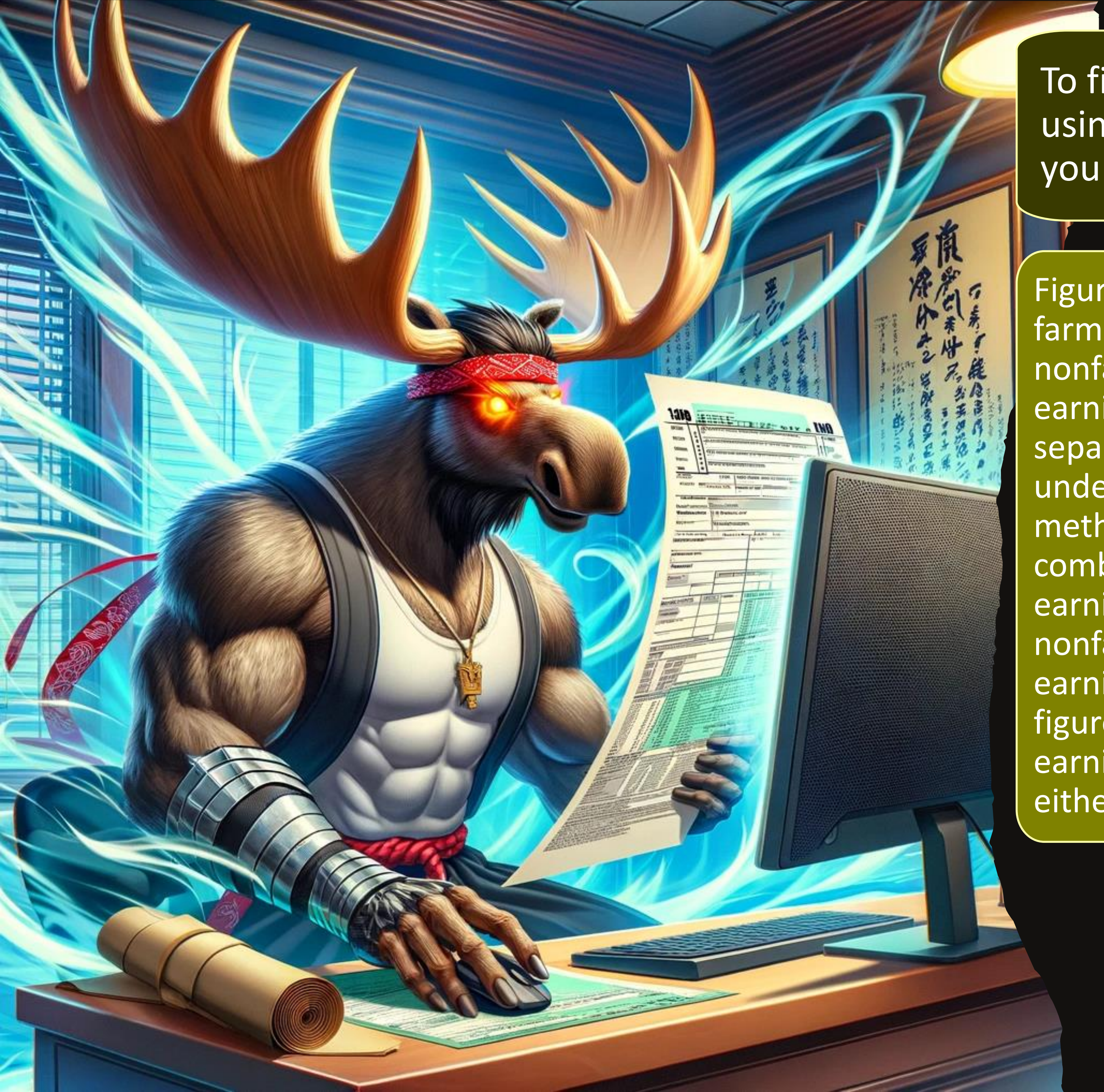
- Assume that in *Example 1* you have a net loss of $700. You can use the nonfarm optional method and report $6,560 as your net earnings from self-employment.

Farm Optional Method

- Use the farm optional method only for earnings from a farming business.
- See Pub. 225 for information about this method.

Using Both Optional Methods

If you have both farm and nonfarm earnings, you may be able to use both optional methods to determine your net earnings from self-employment.



To figure your net earnings using both optional methods, you must do the following.

Figure your farm and nonfarm net earnings separately under each method. Do not combine farm earnings with nonfarm earnings to figure your net earnings under either method.

Add the net earnings figured under each method to arrive at your total net earnings from self-employment.

You can report less than your total actual farm and non-farm net earnings but not less than actual nonfarm net earnings. If you use both optional methods, you can report no more than $6,560 as your combined net earnings from self-employment.

Table 10-2. **Example—Farm and Nonfarm Earnings**

Income and Earnings	**Farm**	**Nonfarm**
Gross income	$4,500	$6,000
Actual net earnings	$900	$500
Optional net earnings (2/3 of gross income)	$3,000	$4,000

Table 10-3 shows four methods or combinations of methods you can use to figure net earnings from self-employment using the farm and nonfarm gross income and actual net earnings shown in Table 10-2.

Method 1. Using the regular method for both farm and nonfarm income.

Method 2. Using the optional method for farm income and the regular method for nonfarm income.

Method 3. Using the regular method for farm income and the optional method for nonfarm income.

Method 4. Using the optional method for both farm and nonfarm income.

Table 10-3. **Example—Net Earnings**

Net Earnings	**1**	**2**	**3**	**4**
Actual farm	$ 900		$ 900	
Optional farm		$ 3,000		$ 3,000
Actual nonfarm	$ 500	$ 500		
Optional nonfarm			$4,000	$4,000
Amount you can report:	**$1,400**	**$3,500**	**$4,900**	**$6,560***

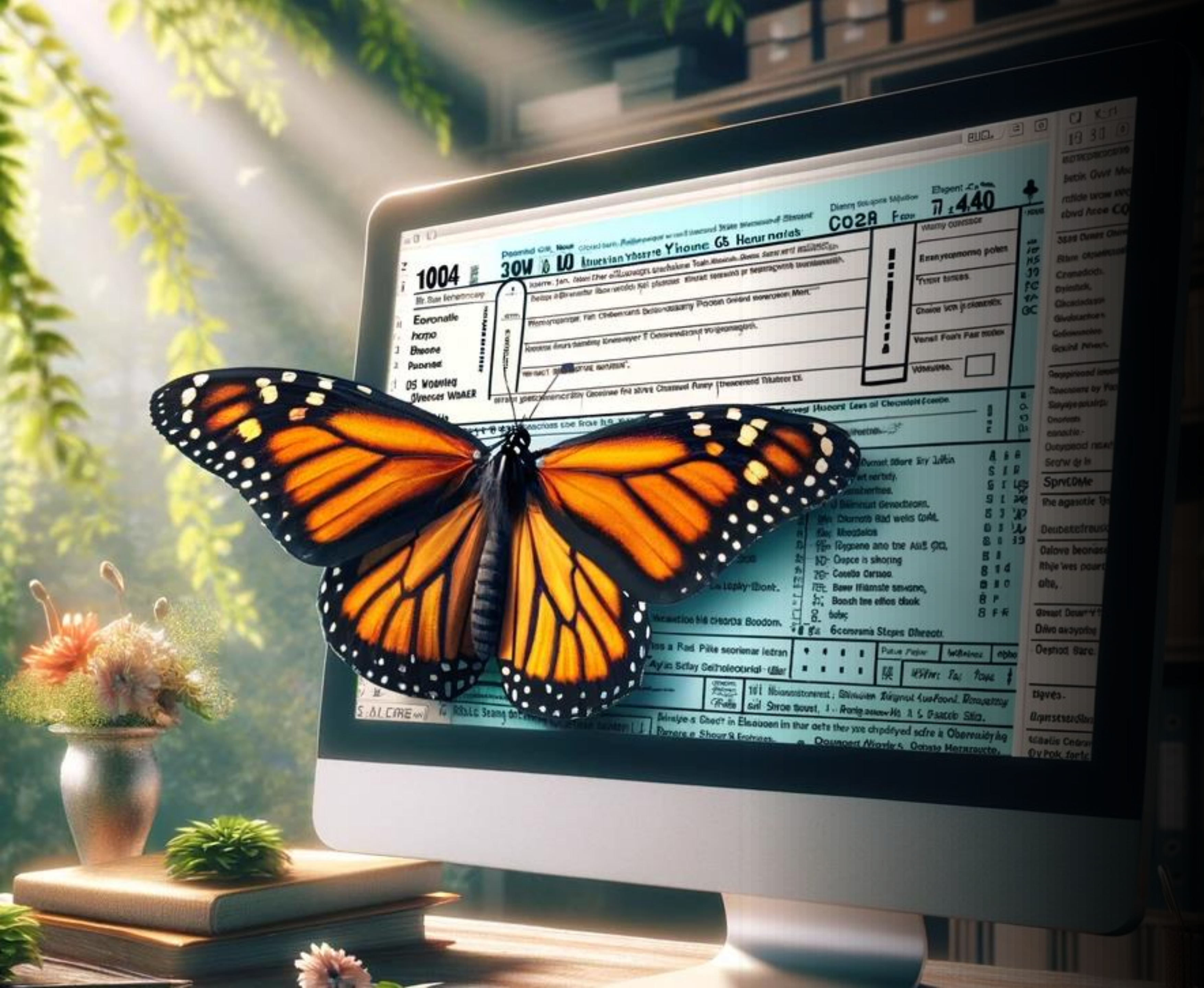
Fiscal Year Filer

If you use a tax year other than the calendar year, you must use the tax rate and maximum earnings limit in effect at the beginning of your tax year.

Even if the tax rate or maximum earnings limit changes during your tax year, continue to use the same rate and limit throughout your tax year.

- Use Schedule SE (Form 1040) to figure and report your SE tax. If you file Form 1040 or 1040-SR, enter the SE tax on line 4 of Schedule 2 and attach Schedule SE to your form.
- If you file Form 1040-SS, enter the SE tax on line 3, and attach Schedule SE to your form.

Reporting SE Tax



Caution

- *If you need to pay SE tax, you must file Form 1040, 1040-SR, or 1040-SS, as applicable (with Schedule SE attached) even if you do not otherwise have to file a federal income tax return.*

Joint return.

Even if you file a joint return, you cannot file a joint Schedule SE. This is true whether one spouse or both spouses have earnings subject to SE tax.

If both of you have earnings subject to SE tax, each of you must complete a separate Schedule SE. Attach both schedules to the joint return.

More than one business.

If you have more than one trade or business, you must combine the net profit (or loss) from each business to figure your SE tax.

A loss from one business will reduce your profit from another business. File one Schedule SE showing the earnings from self-employment, but file a separate Schedule C or F for each business.

Example.

You are the sole proprietor of two separate businesses. You operate a restaurant that made a net profit of $25,000. You also have a cabinetmaking business that had a net loss of $500.

You must file a Schedule C for the restaurant showing your net profit of $25,000 and another Schedule C for the cabinet making business showing your net loss of $500. You file one Schedule SE showing total earnings subject to SE tax of $24,500.

Income Tax

2023-2024

Reporting Self-Employment Tax

Example

Income Tax 2022-2023

Reporting Self-Employment Tax Example

Department of the Treasury
Internal Revenue Service

Tax Guide for Small Business

(For Individuals Who Use Schedule C)

Publication 334
Catalog Number 11063P

For use in preparing
2022 Returns

	Income
-	<u>Adjustments to Income</u>
=	Adjusted Gross Income (AGI)
-	Greater of:
	Standard Deduction or
	<u>Itemized Deduction</u>
=	Taxable Income
x	<u>Tax Rates (Tax Tables)</u>
=	Tax Before Credits & Other Taxes
- +	Tax Credits & Other Taxes
=	Total Tax
-	<u>Tax Payments & Refundable Credits</u>
=	<u>Tax Refund or Tax Due</u>

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1 a	Total amount from Form(s) W-2, box 1 (see instructions)			1a	
b	Household employee wages not reported on Form(s) W-2			1b	
c	Tip income not reported on line 1a (see instructions)			1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)			1d	
e	Taxable dependent care benefits from Form 2441, line 26			1e	
f	Employer-provided adoption benefits from Form 8839, line 29			1f	
g	Wages from Form 8919, line 6			1g	
h	Other earned income (see instructions)			1h	
i	Nontaxable combat pay election (see instructions)	1i			
z	Add lines 1a through 1h			1z	
2 a	Tax-exempt interest	2a	b Taxable interest	2b	
3 a	Qualified dividends	3a	b Ordinary dividends	3b	
4 a	IRA distributions	4a	b Taxable amount	4b	
5 a	Pensions and annuities	5a	b Taxable amount	5b	
6 a	Social security benefits	6a	b Taxable amount	6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐				
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐			7	
8	Other income from Schedule 1, line 10			8	100,000.
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**			9	100,000.
10	Adjustments to income from Schedule 1, line 26			10	7,065.
11	Subtract line 10 from line 9. This is your **adjusted gross income**			11	92,935.
12	**Standard deduction or itemized deductions** (from Schedule A)			12	12,950.
13	Qualified business income deduction from Form 8995 or Form 8995-A WKS			13	15,997.
14	Add lines 12 and 13			14	28,947.
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**			15	63,988.

Attach Sch. B if required.

Standard Deduction for —
- Single or Married filing separately, $12,950
- Married filing jointly or Qualifying surviving spouse, $25,900
- Head of household, $19,400
- If you checked any box under *Standard Deduction*, see instructions.

SCHEDULE C (Form 1040)

Department of the Treasury Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Go to *www.irs.gov/ScheduleC* for instructions and the latest information.
Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

OMB No. 1545-0074

2022

Attachment Sequence No. **09**

Name of proprietor	Social security number (SSN)
Neo Anderson	545-34-1474
A Principal business or profession, including product or service (see instructions): Misc	**B** Enter code from instructions: 561900
C Business name. If no separate business name, leave blank.	**D** Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.)

City, town or post office, state, and ZIP code

F Accounting method: **(1)** [X] Cash **(2)** [ ] Accrual **(3)** [ ] Other (specify)

G Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses [X] **Yes** [ ] **No**

H If you started or acquired this business during 2022, check here [ ]

I Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions [X] **Yes** [ ] **No**

J If "Yes," did you or will you file required Form(s) 1099? [X] **Yes** [ ] **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked [ ]	1	120,000.
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	120,000.
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	120,000.
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6	7	120,000.

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	

Self-Employment (SE) Tax

Caution

The SE tax rules apply no matter how old you are and even if you are already receiving social security and Medicare benefits.

Who Must Pay SE Tax?

Generally, you must pay SE tax and file Schedule SE (Form 1040) if your net earnings from self-employment were $400 or more. Use Schedule SE to figure net earn-ings from self-employment.

Sole proprietor or independent contractor.

If you are self-employed as a sole proprietor or independent contractor, you generally use Schedule C (Form 1040) to figure your earnings subject to SE tax.

SE tax rate.

The 2022 SE tax rate on net earnings is 15.3% (12.4% social security tax plus 2.9% Medicare tax).

Maximum earnings subject to SE tax.

Only the first $147,000 of your combined wages, tips, and net earnings in 2022 is subject to any combination of the 12.4% social security part of SE tax, social security tax, or the Tier 1 part of railroad retirement tax.

All of your combined wages, tips, and net earnings in 2022 are subject to any combination of the 2.9% Medicare part of SE tax, Medicare tax, or Medicare part of railroad retirement tax.

If your wages and tips are subject to either social secur-ity tax or the Tier 1 part of railroad retirement tax, or both, and total at least $147,000, do not pay the 12.4% social security part of the SE tax on any of your net earnings. However, you must pay the 2.9% Medicare part of the SE tax on all your net earnings.

Additional Medicare Tax.

A 0.9% Additional Medicare Tax may apply to you if your net earnings from self-employment exceed a threshold amount (based on your filing status).

For more information, see *Self-Employment (SE) Tax* in chapter 1, and Form 8959 and its instructions.

Special Rules and Exceptions

Aliens.

Generally, resident aliens must pay SE tax under the same rules that apply to U.S. citizens. Nonresident aliens are not subject to SE tax unless an international social security agreement (also known as a totalization agreement) in effect determines that they are covered under the U.S. social security system.

However, residents of the U.S. Virgin Islands, Puerto Rico, Guam, the Common-wealth of the Northern Mariana Islands, or American Sa-moa are subject to SE tax, as they are considered U.S. residents for SE tax purposes. For more information on aliens, see Pub. 519, U.S. Tax Guide for Aliens.

Child employed by parent.

You are not subject to SE tax if you are under age 18 and you are working for your father or mother.

Church employee.

If you work for a church or a qualified church-controlled organization (other than as a minister, member of a religious order, or Christian Science practitioner) that elected an exemption from social security and Medicare taxes, you are subject to SE tax if you receive $108.28 or more in wages from the church or organization. For more information, see Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers.

Fishing crew member. If you are a member of the crew on a boat that catches fish or other aquatic life, your earn-ings are subject to SE tax if all the following conditions ap-ply.

1. You do not get any pay for the work except your share of the catch or a share of the proceeds from the sale of the catch, unless the pay meets all the following conditions.

a. The pay is not more than $100 per trip.

b. The pay is received only if there is a minimum catch.

c. The pay is solely for additional duties (such as mate, engineer, or cook) for which additional cash pay is traditional in the fishing industry.

2. You get a share of the catch or a share of the proceeds from the sale of the catch.

3. Your share depends on the amount of the catch.

4. The boat's operating crew normally numbers fewer than 10 individuals. (An operating crew is considered as normally made up of fewer than 10 if the average size of the crew on trips made during the last 4 calendar quarters is fewer than 10.)

Fees you receive for services you per-form as a notary public are reported on Schedule C but are not subject to SE tax (see the Instructions for Sched-ule SE (Form 1040)).

Notary public.

You are subject to SE tax if you are an employee of a state or local government, are paid solely on a fee basis, and your services are not covered under a federal-state social security agreement.

State or local government employee.

Foreign government or international organization employee. You are subject to SE tax if both the following conditions are true.

1. You are a U.S. citizen employed in the United States, Puerto Rico, Guam, American Samoa, the Common-wealth of the Northern Mariana Islands, or the U.S. Virgin Islands by:

a. A foreign government,

b. A wholly owned agency of a foreign government, or

c. An international organization.

2. Your employer is not required to withhold social security and Medicare taxes from your wages.

U.S. citizen or resident alien residing abroad.

If you are a self-employed U.S. citizen or resident alien living outside the United States, in most cases you must pay SE tax. Foreign earnings from self-employment can’t be reduced by your foreign earned income exclusion when computing self-employment tax.

Exception.

The United States has social security agreements with many countries to eliminate double taxation under two social security systems. Under these agreements, you must generally only pay social security and Medicare taxes to the country in which you live. The country to which you must pay the tax will issue a certificate that serves as proof of exemption from social security tax in the other country.

For more information, see the Instructions for Sched-ule SE (Form 1040).

More Than One Business

- If you have earnings subject to SE tax from more than one trade, business, or profession, you must combine the net profit (or loss) from each to determine your total earnings subject to SE tax. A loss from one business reduces your profit from another business.

Community Property Income

- If any of the income from a trade or business, other than a partnership, is community property income under state law, it is included in the earnings subject to SE tax of the spouse carrying on the trade or business.

Gain or Loss

- Do not include in earnings subject to SE tax a gain or loss from the disposition of property that is neither stock in trade nor held primarily for sale to customers.
- It does not matter whether the disposition is a sale, an exchange, or an involuntary conversion.

Lost Income Payments

- If you are self-employed and reduce or stop your business activities, any payment you receive from insurance or other sources for the lost business income is included in earnings subject to SE tax.
- If you are not working when you receive the payment, it still relates to your business and is included in earnings subject to SE tax, even though your business is temporarily inactive.

Figuring Earnings Subject to SE Tax Methods for Figuring Net Earnings

There are three ways to figure net earnings from self-employment.

1. The regular method.
2. The nonfarm optional method.
3. The farm optional method.

You must use the regular method to the extent you do not use one or both of the optional methods.

Why use an optional method? You may want to use the optional methods (discussed later) when you have a loss or a small net profit and any one of the following ap-plies.

- You want to receive credit for social security benefit coverage.
- You incurred child or dependent care expenses for which you could claim a credit. (An optional method may increase your earned income, which could in-crease your credit.)
- You are entitled to the earned income credit. (An op-tional method may increase your earned income, which could increase your credit.)
- You are entitled to the additional child tax credit. (An optional method may increase your earned income, which could increase your credit.)

Effects of using an optional method.

Using an optional method could increase your SE tax. Paying more SE tax could result in your getting higher benefits when you re-tire.

Using the optional methods may also decrease your AGI due to the deduction for one-half of SE tax on Form 1040 or 1040-SR, which may affect your eligibility for credits, deductions, or other items that are subject to an AGI limit. Figure your AGI with and without using the op-tional methods to see if the optional methods will benefit you.

If you use either or both optional methods, you must fig-ure and pay the SE tax due under these methods even if you would have had a smaller tax or no tax using the regular method.

The optional methods may be used only to figure your SE tax. To figure your income tax, include your actual earnings in gross income, regardless of which method you use to determine SE tax.

Regular Method

To figure net earnings using the regular method, multiply your self-employment earnings by 92.35% (0.9235). For your net earnings figured using the regular method, see line 4a of your Schedule SE (Form 1040).

Net earnings figured using the regular method are also called actual net earnings.

Nonfarm Optional Method

Use the nonfarm optional method only for earnings that do not come from farming. You may use this method if you meet all the following tests.

1. You are self-employed on a regular basis. This means that your actual net earnings from self-employment were $400 or more in at least 2 of the 3 tax years be-fore the one for which you use this method. For this purpose, the prior-year net earnings can be from either farm or nonfarm earnings or both.

2. You have used this method less than 5 years. (There is a 5-year lifetime limit.) The years do not have to be one after another.

3. Your net nonfarm profits were:

a. Less than $6,540, and

b. Less than 72.189% of your gross nonfarm income.

Net nonfarm profit.

Net nonfarm profit is generally the total of the amounts from:

Line 31 of Schedule C (Form 1040); and

Box 14, code A, of Schedule K-1 (Form 1065) (from nonfarm partnerships).

However, you may need to adjust the amount reported on Schedule K-1 if you are a general partner or if it is a loss.

Gross nonfarm income. Your gross nonfarm income is generally the total of the amounts from:

- Line 7 of Schedule C (Form 1040); and
- Box 14, code C, of Schedule K-1 (Form 1065) (from nonfarm partnerships).

Figuring Nonfarm Net Earnings

- If you meet the three tests explained earlier, use the following table to figure your nonfarm net earnings from self-employment under the nonfarm optional method.

Table 10-1. **Figuring Nonfarm Net Earnings**

IF your gross nonfarm income is...	**THEN your net earnings are equal to...**
$9,060 or less	two-thirds of your gross nonfarm income.
more than $9,060	$6,040.

Optional net earnings less than actual net earnings.

You cannot use this method to report an amount less than your actual nonfarm net earnings from self-employment.

Your actual nonfarm net earnings are your nonfarm net earnings figured using the regular method, explained earlier.

Gross nonfarm income of $9,060 or less.

The following examples illustrate how to figure net earnings when gross nonfarm income is $9,060 or less.

Example 1.

- Net nonfarm profit less than $6,540 and less than 72.189% of gross nonfarm income. Ann Green runs a craft business. Her actual net earnings from self-employment were $800 in 2020 and $900 in 2021.
- She meets the test for being self-employed on a regular basis. She has used the nonfarm optional method less than 5 years. Her gross income and net profit in 2022 are as follows.

Gross nonfarm income	$5,400
Net nonfarm profit	$1,200

Ann's actual net earnings for 2022 are $1,108 ($1,200 × 0.9235). Because her net profit is less than $6,540 and less than 72.189% of her gross income, she can use the nonfarm optional method to figure net earnings of $3,600 (2/3 × $5,400). Because these net earnings are higher than her actual net earnings, she can report net earnings of $3,600 for 2022.

Example 2. Net nonfarm profit less than $6,540 but not less than 72.189% of gross nonfarm income.

Assume that in *Example 1* Ann's gross income is $1,200 and her net profit is $900. She must use the regular method to figure her net earnings. She cannot use the nonfarm optional method because her net profit is not less than 72.189% of her gross income.

Example 3.

Net loss from a nonfarm business. Assume that in *Example 1* Ann has a net loss of $700. She can use the nonfarm optional method and report $3,600 (2/3 × $5,400) as her net earnings.

Example 4.

Nonfarm net earnings less than $400. Assume that in *Example 1* Ann has gross income of $525 and a net profit of $175. In this situation, she would not pay any SE tax under either the regular method or the nonfarm optional method because her net earnings under both methods are less than $400.

Gross nonfarm income of more than $9,060.

The following examples illustrate how to figure net earnings when gross nonfarm income is more than $9,060.

Example 1. Net nonfarm profit less than $6,540 and less than 72.189% of gross nonfarm income.

- John White runs an appliance repair shop.
- His actual net earnings from self-employment were $10,500 in 2020 and $9,500 in 2021. He meets the test for being self-employed on a regular basis.
- He has used the nonfarm optional method less than 5 years. His gross income and net profit in 2022 are as follows.

Gross nonfarm income	$12,000
Net nonfarm profit	$1,200

John's actual net earnings for 2022 are $1,108 ($1,200 × 0.9235). Because his net profit is less than $6,540 and less than 72.189% of his gross income, he can use the nonfarm optional method to figure net earnings of $6,040. Because these net earnings are higher than his actual net earnings, he can report net earnings of $6,040 for 2022.

Example 2.

- ***Net nonfarm profit not less than $6,540.*** Assume that in *Example 1* John's net profit is $6,900.
- He must use the regular method. He cannot use the nonfarm optional method because his net nonfarm profit is not less than $6,540.

Example 3.

- ***Net loss from a nonfarm business.*** Assume that in *Example 1* John has a net loss of $700.
- He can use the nonfarm optional method and report $6,040 as his net earnings from self-employment.

Farm Optional Method

Use the farm optional method only for earnings from a farming business. See Pub. 225 for information about this method.

Using Both Optional Methods

If you have both farm and nonfarm earnings, you may be able to use both optional methods to determine your net earnings from self-employment.

To figure your net earnings using both optional methods, you must do the following.

Figure your farm and nonfarm net earnings separately under each method. Do not combine farm earnings with nonfarm earnings to figure your net earnings un-der either method.

Add the net earnings figured under each method to arrive at your total net earnings from self-employment.

You can report less than your total actual farm and non-farm net earnings but not less than actual nonfarm net earnings. If you use both optional methods, you can report no more than $6,040 as your combined net earnings from self-employment.

Example

You are a self-employed farmer. You also operate a retail grocery store. Your gross income, actual net earnings from self-employment, and optional farm and optional nonfarm net earnings from self-employment are shown in Table 10-2.

Table 10-2. **Example—Farm and Nonfarm Earnings**

Income and Earnings	Farm	Nonfarm
Gross income	$4,500	$6,000
Actual net earnings	$900	$500
Optional net earnings (2/3 of gross income)	$3,000	$4,000

Table 10-3 shows four methods or combinations of methods you can use to figure net earnings from self-employment using the farm and nonfarm gross income and actual net earnings shown in Table 10-2.

- Method 1. Using the regular method for both farm and nonfarm income.
- Method 2. Using the optional method for farm income and the regular method for nonfarm income.
- Method 3. Using the regular method for farm income and the optional method for nonfarm income.
- Method 4. Using the optional method for both farm and nonfarm income.

Table 10-3. **Example—Net Earnings**

Net Earnings	**1**	**2**	**3**	**4**
Actual farm	$ 900		$ 900	
Optional farm		$ 3,000		$ 3,000
Actual nonfarm	$ 500	$ 500		
Optional nonfarm			$4,000	$4,000
Amount you can report:	**$1,400**	**$3,500**	**$4,900**	**$6,040***

* Limited to $6,040 because you used both optional methods.

Fiscal Year Filer

If you use a tax year other than the calendar year, you must use the tax rate and maximum earnings limit in effect at the beginning of your tax year.

Even if the tax rate or maximum earnings limit changes during your tax year, continue to use the same rate and limit throughout your tax year.

Fiscal Year Filer

If you use a tax year other than the calendar year, you must use the tax rate and maximum earnings limit in effect at the beginning of your tax year.

Even if the tax rate or maximum earnings limit changes during your tax year, continue to use the same rate and limit throughout your tax year.

Joint return.

- Even if you file a joint return, you cannot file a joint Schedule SE.
- This is true whether one spouse or both spouses have earnings subject to SE tax.
- If both of you have earnings subject to SE tax, each of you must complete a separate Schedule SE. Attach both schedules to the joint return.

More than one business.

- If you have more than one trade or business, you must combine the net profit (or loss) from each business to figure your SE tax.
- A loss from one business will reduce your profit from another business.
- File one Schedule SE showing the earnings from self-employment, but file a separate Schedule C or F for each business.

Example.

You are the sole proprietor of two separate businesses. You operate a restaurant that made a net profit of $25,000.

You also have a cabinetmaking business that had a net loss of $500. You must file a Sched-ule C for the restaurant showing your net profit of $25,000 and another Schedule C for the cabinetmaking business showing your net loss of $500.

You file one Schedule SE showing total earnings subject to SE tax of $24,500.

Income Tax

2023-2024

Qualified Business Income Deduction Simplified

2023

Department of the Treasury
Internal Revenue Service

Instructions for Form 8995

Qualified Business Income Deduction Simplified Computation

	Income
-	<u>Adjustments to Income</u>
=	Adjusted Gross Income (AGI)
-	Greater of:
	Standard Deduction or
	<u>Itemized Deduction</u>
=	Taxable Income
x	<u>Tax Rates (Tax Tables)</u>
=	Tax Before Credits & Other Taxes
- +	Tax Credits & Other Taxes
=	Total Tax
-	<u>Tax Payments & Refundable Credits</u>
=	<u>Tax Refund or Tax Due</u>

Income					
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	Total amount from Form(s) W-2, box 1 (see instructions)		1a	
	b	Household employee wages not reported on Form(s) W-2		1b	
	c	Tip income not reported on line 1a (see instructions)		1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d	
	e	Taxable dependent care benefits from Form 2441, line 26		1e	
	f	Employer-provided adoption benefits from Form 8839, line 29		1f	
	g	Wages from Form 8919, line 6		1g	
	h	Other earned income (see instructions)		1h	
	i	Nontaxable combat pay election (see instructions)	1i		
	z	Add lines 1a through 1h		1z	
Attach Sch. B if required.	2a	Tax-exempt interest	2a	b Taxable interest	2b
	3a	Qualified dividends	3a	b Ordinary dividends	3b
Standard Deduction for—	4a	IRA distributions	4a	b Taxable amount	4b
• Single or Married filing separately, $13,850	5a	Pensions and annuities	5a	b Taxable amount	5b
• Married filing jointly or Qualifying surviving spouse, $27,700	6a	Social security benefits	6a	b Taxable amount	6b
• Head of household, $20,800	c	If you elect to use the lump-sum election method, check here (see instructions) ☐			
• If you checked any box under *Standard Deduction*, see instructions.	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐		7	
	8	Additional income from Schedule 1, line 10		8	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**		9	
	10	Adjustments to income from Schedule 1, line 26		10	
	11	Subtract line 10 from line 9. This is your **adjusted gross income**		11	
	12	**Standard deduction or itemized deductions** (from Schedule A)		12	
	13	Qualified business income deduction from Form 8995 or Form 8995-A		13	
	14	Add lines 12 and 13		14	
	15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**		15	

SCHEDULE 1
(Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR	**Your social security number**

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			**1**	
2a	Alimony received			**2a**	
b	Date of original divorce or separation agreement (see instructions):				
3	Business income or (loss). Attach Schedule C			**3**	
4	Other gains or (losses). Attach Form 4797			**4**	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			**5**	
6	Farm income or (loss). Attach Schedule F			**6**	
7	Unemployment compensation			**7**	
8	Other income:				
a	Net operating loss	**8a**	( )		
b	Gambling	**8b**			
c	Cancellation of debt	**8c**			
d	Foreign earned income exclusion from Form 2555	**8d**	( )		
e	Income from Form 8853	**8e**			
f	Income from Form 8889	**8f**			
g	Alaska Permanent Fund dividends	**8g**			
h	Jury duty pay	**8h**			

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.

Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074

2023

Attachment Sequence No. **09**

Name of proprietor	**Social security number (SSN)**
A Principal business or profession, including product or service (see instructions)	**B Enter code from instructions**
C Business name. If no separate business name, leave blank.	**D Employer ID number (EIN)** (see instr.)

E Business address (including suite or room no.)

City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)

G Did you “materially participate” in the operation of this business during 2023? If “No,” see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2023, check here . . . . ☐

I Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions . . . . ☐ **Yes** ☐ **No**

J If “Yes,” did you or will you file required Form(s) 1099? . . . . ☐ **Yes** ☐ **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the “Statutory employee” box on that form was checked . . . . ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions) .	18	

Form 8995 Qualified Business Income Deduction Simplified Computation

Use Form 8995 to figure your qualified business income (QBI) deduction. Individual taxpayers and some trusts and estates may be entitled to a deduction of up to 20% of their net QBI from a trade or business, including income from a pass-through entity, but not from a C corporation, plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income.

However, your total QBI deduction is limited to 20% of your taxable income, calculated before the QBI deduction, minus net capital gain (increased by any qualified dividends).

Who Can Take the Deduction

Individuals and eligible estates and trusts that have QBI use Form 8995 to figure the QBI deduction if:

You have QBI, qualified REIT dividends, or qualified PTP income or loss (all defined later); and

Your 2023 taxable income before your QBI deduction is less than or equal to $182,100 if single, married filing separately, head of household, qualifying surviving spouse, or are a trust or estate, or $364,200 if married filing jointly; and

You aren’t a patron in a specified agricultural or horticultural cooperative.

Otherwise, use Form 8995-A, Qualified Business Income Deduction, to figure your QBI deduction.

S corporations and partnerships.

S corporations and partnerships aren’t eligible for the deduction, but must pass through to their shareholders or partners the necessary information on an attachment to Schedule K-1.

See the Instructions for Form 1120-S, U.S. Income Tax Return for an S Corporation, and Form 1065, U.S. Return of Partnership Income.

Cooperatives.

Cooperatives aren't eligible for the deduction. Instead, cooperatives must provide the necessary information to their patrons on Form 1099-PATR or an attachment to help eligible patrons figure their deduction.

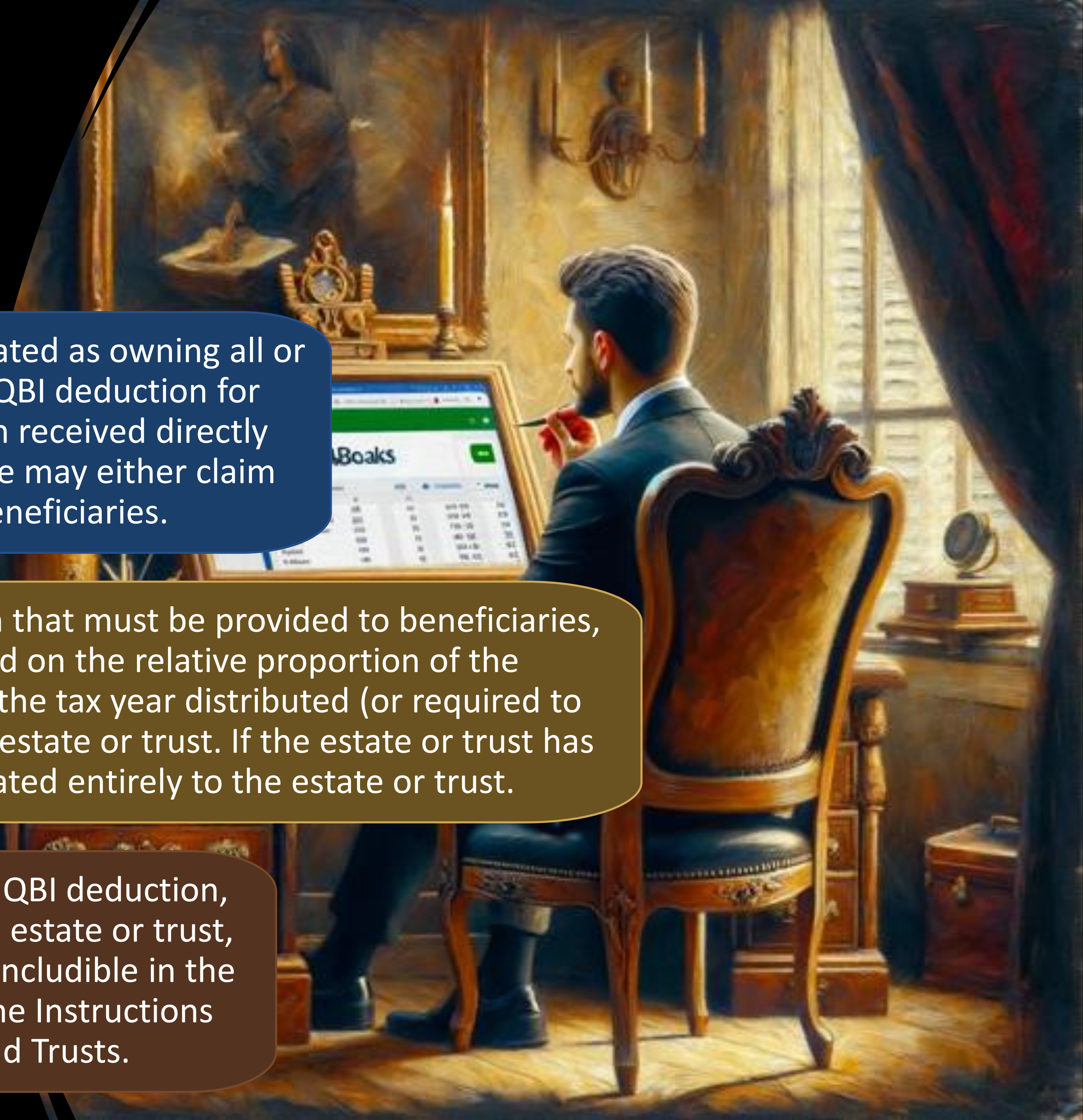
Certain agricultural or horticultural cooperatives may qualify for a deduction under section 199A(g). See the Instructions for Form 1120-C, U.S. Income Tax Return for Cooperative Associations, for rules applicable to agricultural and horticultural cooperatives.

Estates and trusts.

To the extent that a grantor or another person is treated as owning all or part of a trust or estate, the owner will compute its QBI deduction for the portion owned as if section 199A items had been received directly by the owner. Generally, a non-grantor trust or estate may either claim the QBI deduction or provide information to their beneficiaries.

In determining the QBI deduction or the information that must be provided to beneficiaries, the estate or trust allocates section 199A items based on the relative proportion of the estate's or trust's distributable net income (DNI) for the tax year distributed (or required to be distributed) to the beneficiary or retained by the estate or trust. If the estate or trust has no DNI for the tax year, section 199A items are allocated entirely to the estate or trust.

Although estates and trusts may compute their own QBI deduction, to the extent section 199A items are allocable to the estate or trust, section 199A items allocated to beneficiaries aren't includible in the estate's or trust's QBI deduction computation. See the Instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts.



Electing Small Business Trusts (ESBT).

An ESBT must compute the QBI deduction separately for the S and non-S portions of the trust. The Form 8995 used to compute the S portion's QBI deduction must be attached as a PDF to the ESBT tax worksheet filed with Form 1041.

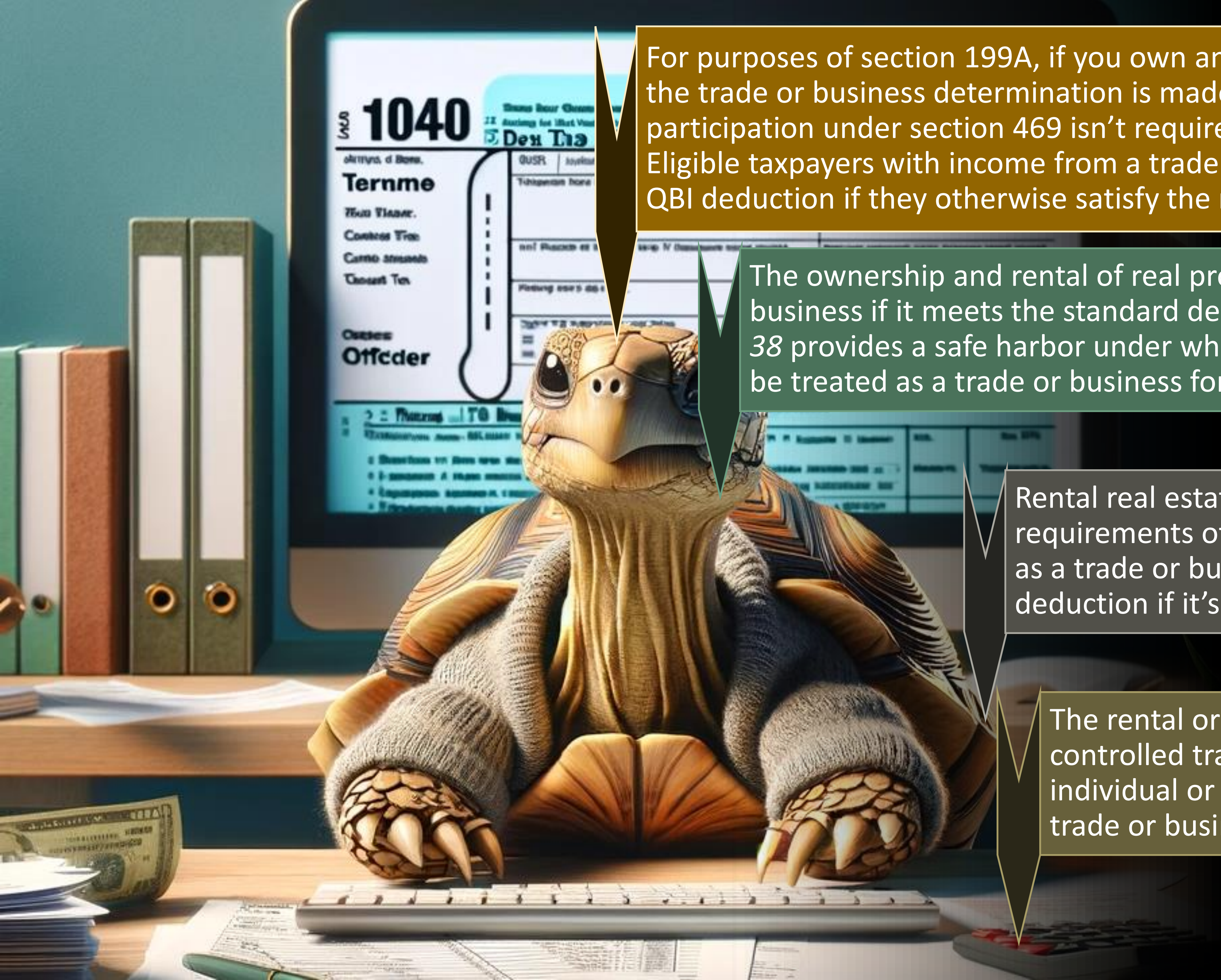
When attached to the ESBT tax worksheet, the trust must show that the information is applicable to the S portion only, by writing "ESBT" in the top margin of the Form 8995. See the Instructions for Form 1041.

Determining Your Qualified Trades or Businesses

Your qualified trades and businesses include your domestic trades or businesses for which you're allowed a deduction for ordinary and necessary business expenses under section 162. However, trades or businesses conducted by corporations and the performance of services as an employee aren't qualified trades or businesses.

Generally, specified service trades or businesses (SSTBs) aren't qualified trades or businesses. However, all or a part of the SSTB may be a qualified trade or business if your taxable income is at or below the threshold or within the phase-in range.

As provided in section 162, an activity qualifies as a trade or business if your primary purpose for engaging in the activity is for income or profit and you're involved in the activity with continuity and regularity.



For purposes of section 199A, if you own an interest in a pass-through entity, the trade or business determination is made at the entity level. Material participation under section 469 isn't required to qualify for the QBI deduction. Eligible taxpayers with income from a trade or business may be entitled to the QBI deduction if they otherwise satisfy the requirements of section 199A.

The ownership and rental of real property may constitute a trade or business if it meets the standard described above. Also, *Rev. Proc. 2019-38* provides a safe harbor under which a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction.

Rental real estate that doesn't meet the requirements of the safe harbor may still be treated as a trade or business for purposes of the QBI deduction if it's a section 162 trade or business.

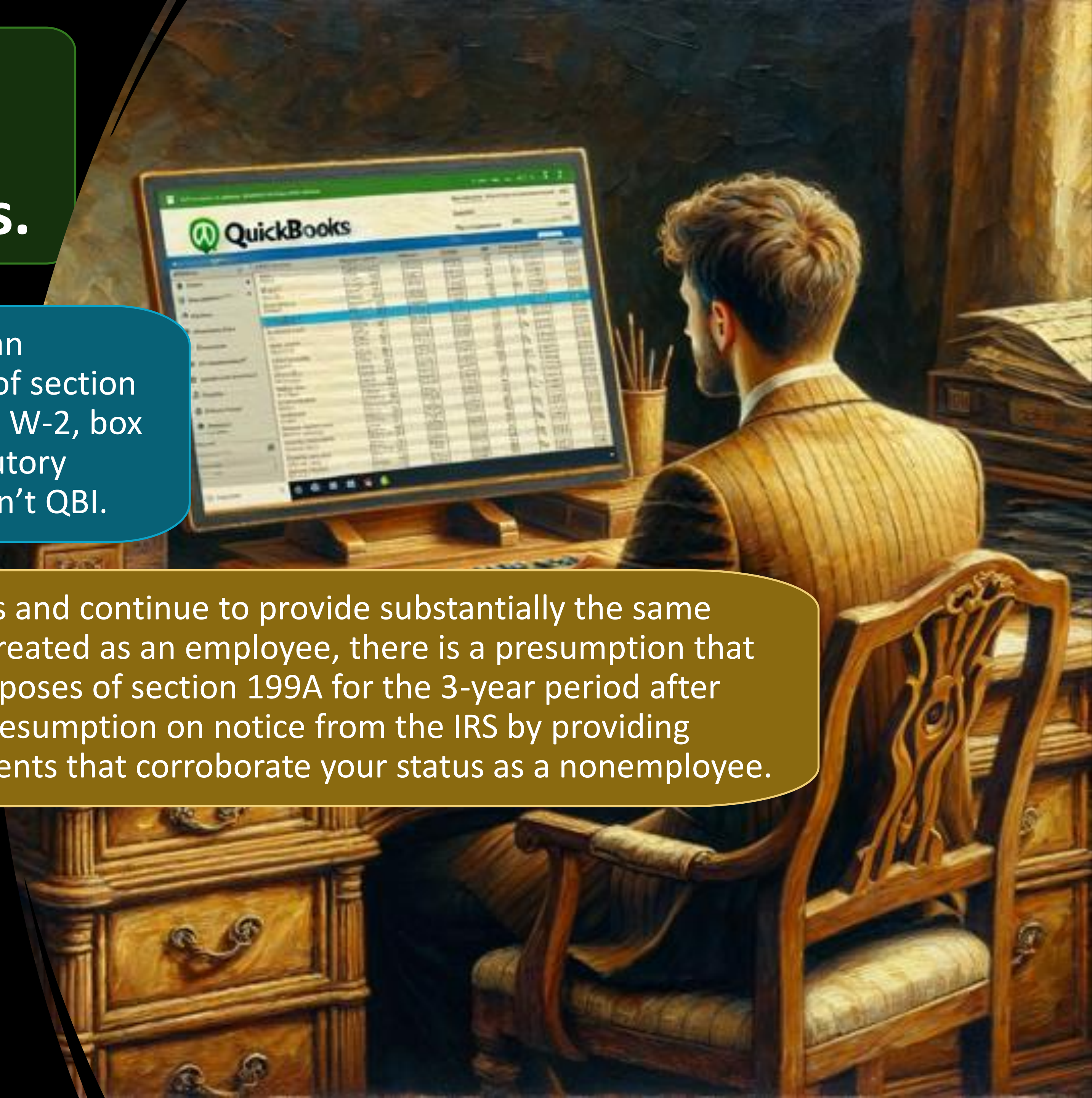
The rental or licensing of property to a commonly controlled trade or business operated by an individual or a pass-through entity is considered a trade or business under section 199A.

Services performed as an employee excluded from qualified trades or businesses.

The trade or business of performing services as an employee isn't a trade or business for purposes of section 199A. Therefore, any amounts reported on Form W-2, box 1, other than amounts reported in box 1 if "Statutory Employee" on Form W-2, box 13, is checked, aren't QBI.

If you were previously an employee of a business and continue to provide substantially the same services to that business after you're no longer treated as an employee, there is a presumption that you're providing services as an employee for purposes of section 199A for the 3-year period after ceasing to be an employee. You can rebut this presumption on notice from the IRS by providing records such as contracts or partnership agreements that corroborate your status as a nonemployee.

For more information on if you're an employee or an independent contractor, see Pub. 15-A, Employer's Supplemental Tax Guide, and Pub. 1779, Independent Contractor or Employee.



SSTBs excluded from your qualified trades or businesses. An SSTB is generally excluded from the definition of qualified trade or business. An SSTB is any trade or business providing services in the fields of:

- Health
- Law
- Accounting
- Actuarial science
- Performing arts
- Consulting
- Athletics
- Financial services
- Brokerage services
- Investing and investment management
- Trading or dealing in securities, partnership interests, commodities; or

Any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners, as demonstrated by:

–Receiving fees, compensation, or other income for endorsing products or services;

–Licensing or receiving fees, compensation or other income for the use of taxpayer’s image, likeness, name, signature, voice, trademark, or any other symbols associated with the individual’s identity; or

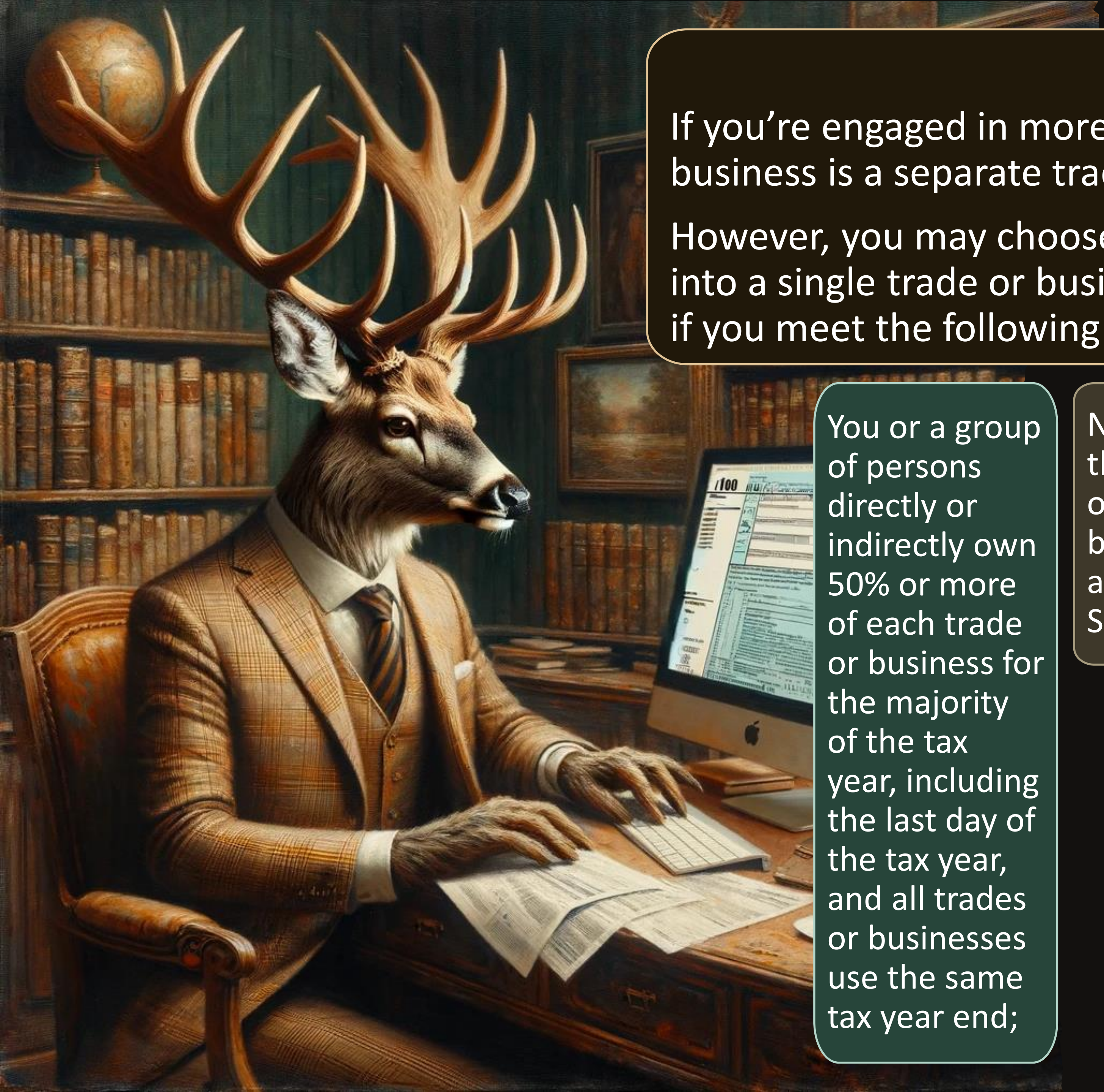
–Receiving fees, compensation, or other income for appearing at an event or on radio, television, or another media format.

Exception 1:

- If your 2023 taxable income before the QBI deduction is less than or equal to $182,100 if single, head of household, qualifying surviving spouse, or are a trust or estate, or $364,200 if married filing jointly, your SSTB is treated as a qualified trade or business.

Exception 2:

- If your taxable income before the QBI deduction is more than $182,100 but not more than $232,100 if single, head of household, qualifying surviving spouse, or are a trust or estate, and is more than $364,200 but not more than $464,200 if married filing jointly, an applicable percentage of your SSTB is treated as a qualified trade or business, you must complete Schedule A (Form 8995-A).



Aggregation.

If you're engaged in more than one trade or business, each trade or business is a separate trade or business for purposes of section 199A.

However, you may choose to aggregate multiple trades or businesses into a single trade or business for purposes of figuring your deduction, if you meet the following requirements.

You or a group of persons directly or indirectly own 50% or more of each trade or business for the majority of the tax year, including the last day of the tax year, and all trades or businesses use the same tax year end;

None of the trades or businesses are an SSTB; and

The trades or businesses meet at least two of the following factors:

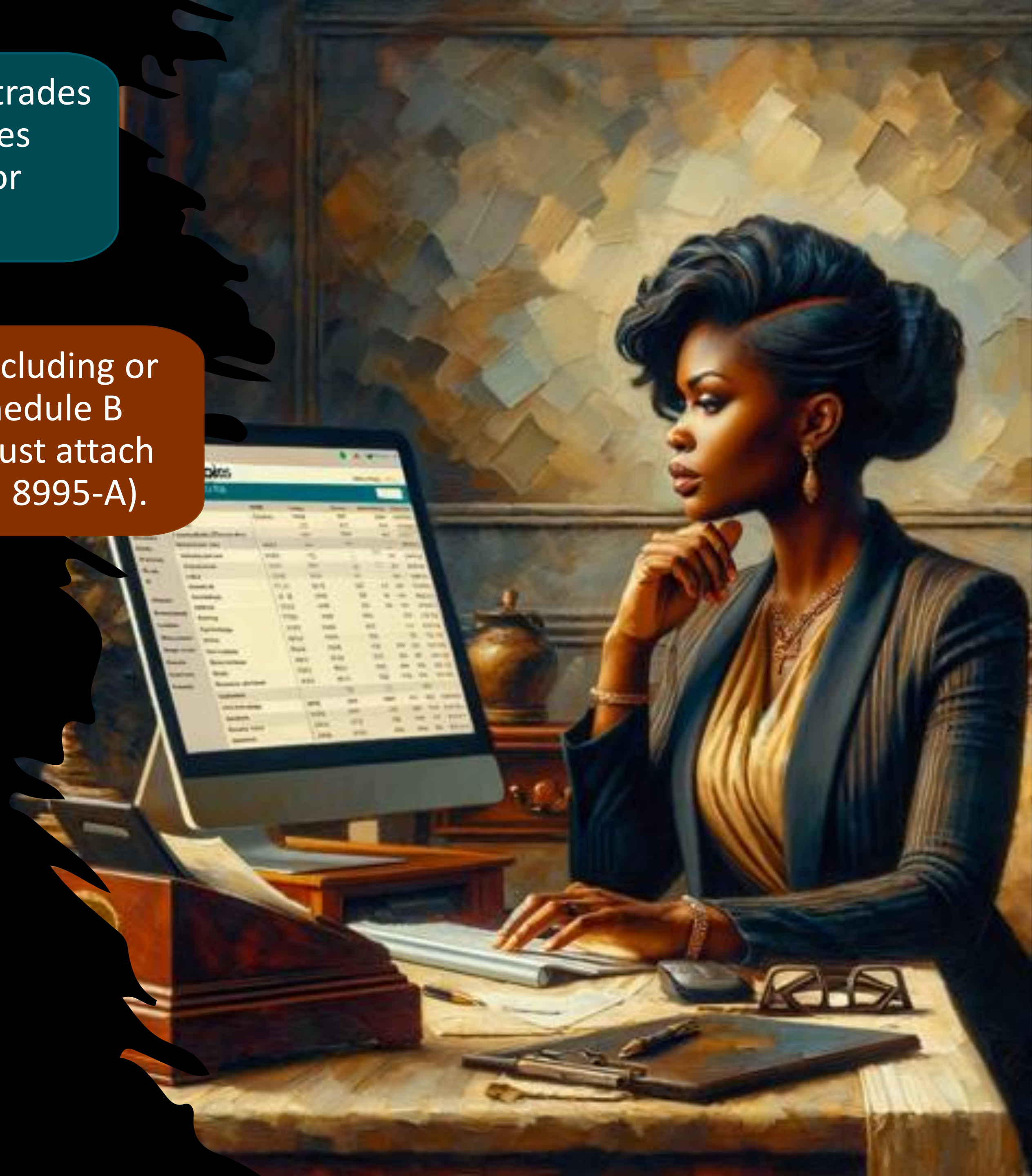
- They provide products, property, or services that are the same or that are customarily offered together.
- They share facilities or share significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.
- They are operated in coordination with, or reliance on, one or more of the businesses in the aggregated group.

If a relevant pass-through entity (RPE) aggregates multiple trades or businesses, you may not separate the trades or businesses aggregated by the RPE, but you may add additional trades or businesses to the aggregation, if the rules above are met.

If you choose to aggregate multiple trades or businesses, including or apart from any aggregations made by an RPE, complete Schedule B (Form 8995-A) before starting Part I of Form 8995-A. You must attach any RPE aggregation statement(s) to your Schedule B (Form 8995-A).

If you're not making an aggregation election and are therefore not required to file a Schedule B (Form 8995-A), attach your RPE's aggregation statement(s) to your Form 8995-A.

Your aggregations must be reported consistently for all subsequent years, unless there is a significant change in facts and circumstances that disqualify the aggregation.



Note.

You must combine the QBI, W-2 wages, and Unadjusted Basis Immediately after Acquisition (UBIA) of qualified property for all aggregated trades or businesses, for purposes of applying the W-2 wages and UBIA of qualified property limits.

However, these limits won't apply until your income, before the QBI deduction, is more than the threshold. If your income is more than the threshold, you must use Form 8995-A.

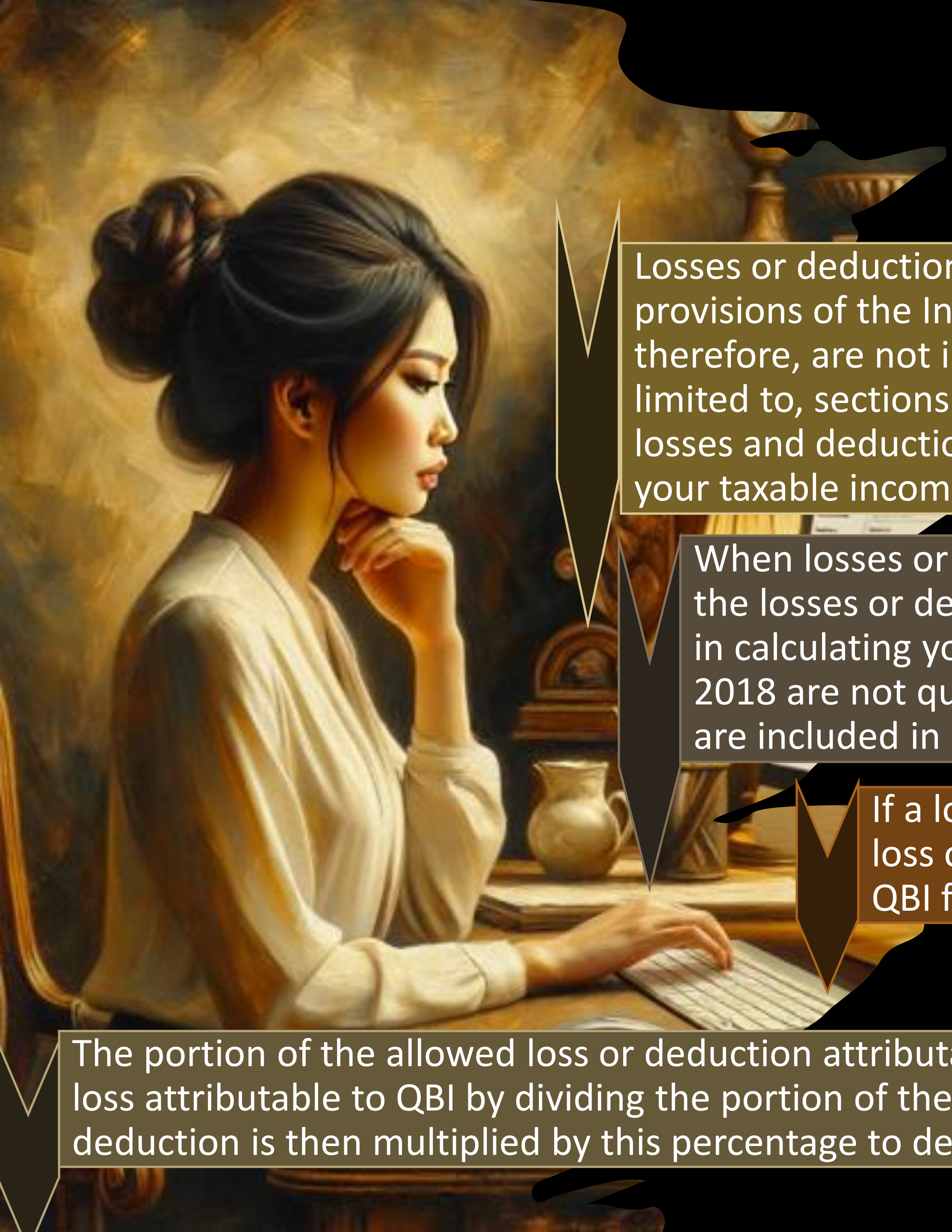
Determining Your Qualified Business Income

Your QBI includes qualified items of income, gain, deduction, and loss from your trades or businesses that are effectively connected with the conduct of a trade or business in the United States.

This includes qualified items from partnerships (other than PTPs), S corporations, sole proprietorships, and certain estates and trusts that are allowed in calculating your taxable income for the year.

To figure the total amount of QBI, you must consider all items that are attributable to the trade or business. This includes, but isn't limited to, unreimbursed partnership expenses, business interest expense, deductible part of self-employment tax, self-employment health insurance deduction, and contributions to qualified retirement plans. QBI doesn't include any of the following:

- Items that aren't properly included in income.
- Income that isn't effectively connected with the conduct of a trade or business within the United States (go to *IRS.gov/ECI*).
- Wage income (except "Statutory Employees" where Form W-2, box 13, is checked).
- Amounts received as reasonable compensation from an S corporation.
- Amounts received as guaranteed payments.
- Amounts received as payments by a partner for services other than in a capacity as a partner.
- Items treated as capital gains or losses under any provision of the Internal Revenue Code (Code).
- Dividends and dividend equivalents.
- Interest income not properly allocable to a trade or business.
- Commodities transactions or foreign currency gains or losses.
- Income, loss, or deductions from notional principal contracts.
- Annuities (unless received in connection with the trade or business).
- Qualified REIT dividends.
- Qualified PTP income.



See the QBI Flow Chart, later, to figure if an item of income, gain, deduction, or loss is included in QBI.

Losses or deductions from a qualified trade or business that are suspended by other provisions of the Internal Revenue Code are not qualified losses or deductions and, therefore, are not included in your QBI for the year. Such Code provisions include, but aren't limited to, sections 163(j), 179, 461(l), 465, 469, 704(d), and 1366(d). Instead, qualified losses and deductions are taken into account in the tax year they're included in calculating your taxable income.

When losses or deductions are suspended, you must determine the qualified portion of the losses or deductions that must be included in QBI in subsequent years when allowed in calculating your taxable income. In general, losses and deductions incurred prior to 2018 are not qualified losses or deductions and are not included in QBI in the year they are included in calculating taxable income.

If a loss or deduction is partially suspended, only the portion of the allowed loss or deduction attributable to QBI must be considered when determining QBI from the trade or business in the year the loss or deduction is incurred.

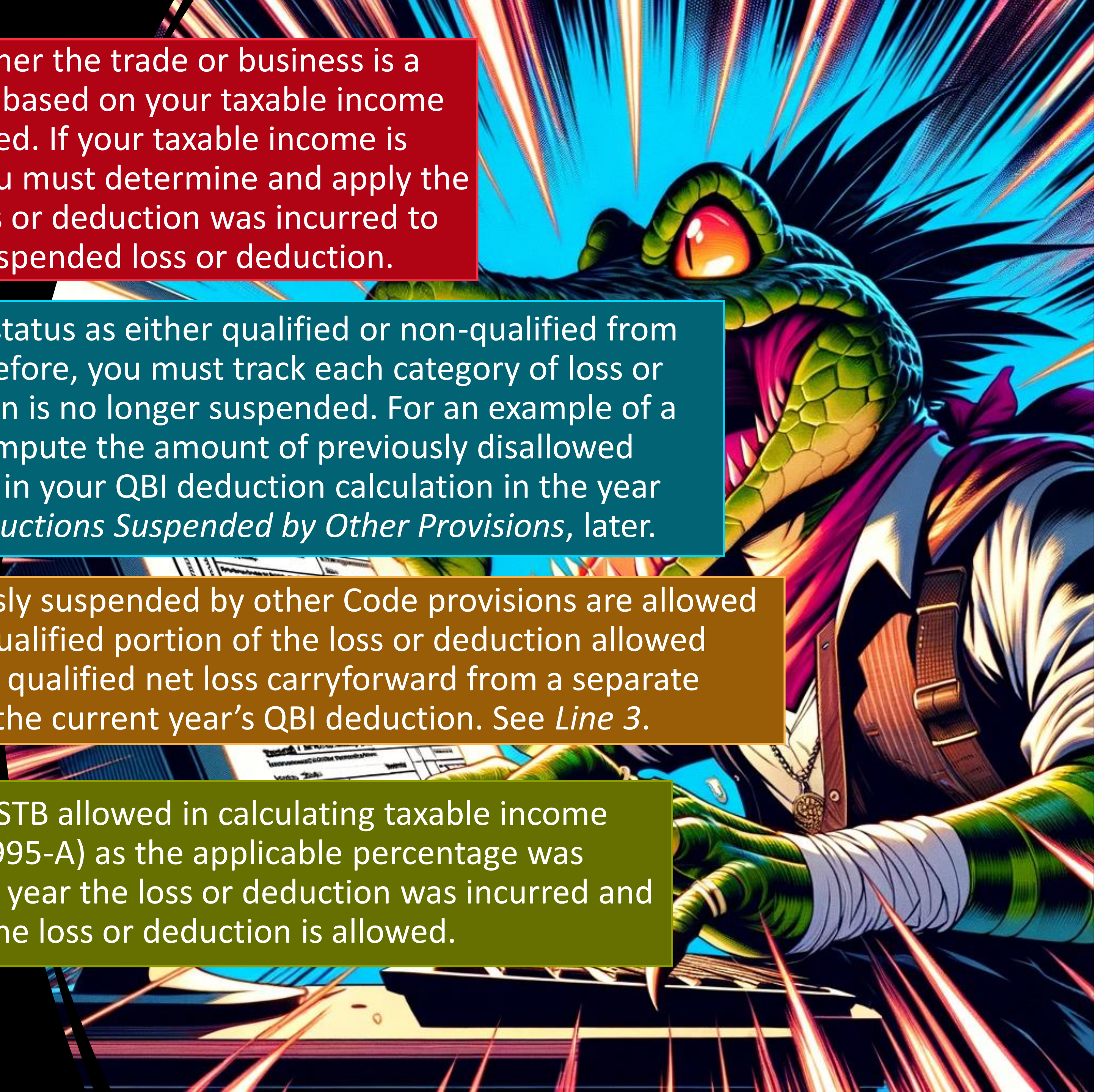
The portion of the allowed loss or deduction attributable to QBI is determined by first calculating the percentage of the total loss attributable to QBI by dividing the portion of the total loss attributable to QBI by the overall total loss. The allowed loss or deduction is then multiplied by this percentage to determine the portion of the allowed loss or deduction attributable to QBI.

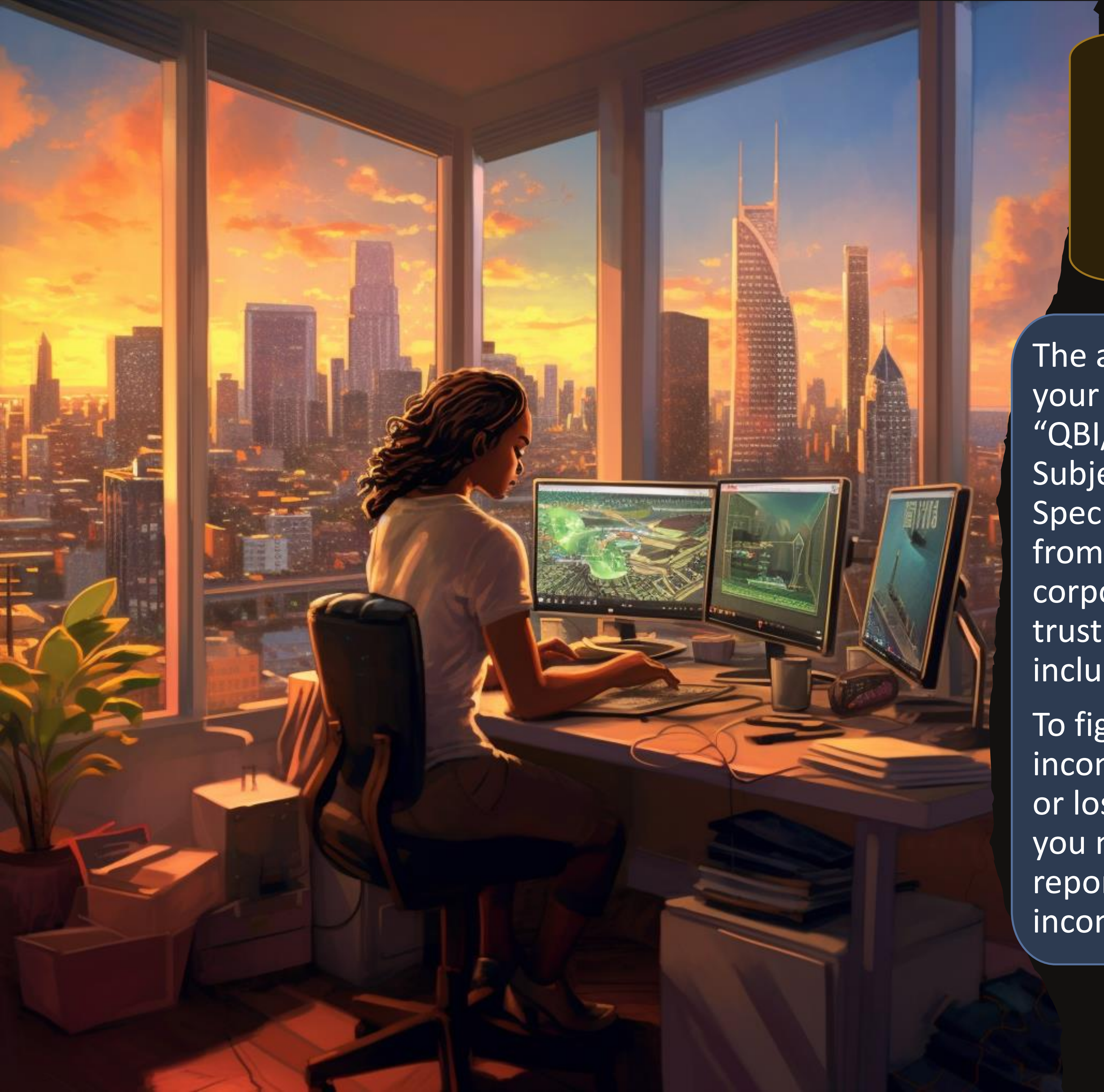
If your trade or business is an SSTB, whether the trade or business is a qualified trade or business is determined based on your taxable income in the year the loss or deduction is incurred. If your taxable income is within the phase-in range in that year, you must determine and apply the applicable percentage in the year the loss or deduction was incurred to determine the qualified portion of the suspended loss or deduction.

Losses and deductions retain their status as either qualified or non-qualified from year to year while suspended. Therefore, you must track each category of loss or deduction until the loss or deduction is no longer suspended. For an example of a reasonable method to track and compute the amount of previously disallowed losses or deductions to be included in your QBI deduction calculation in the year allowed, see *Tracking Losses or Deductions Suspended by Other Provisions*, later.

When losses or deductions previously suspended by other Code provisions are allowed in calculating taxable income, the qualified portion of the loss or deduction allowed under each provision is treated as a qualified net loss carryforward from a separate trade or business when calculating the current year's QBI deduction. See *Line 3*.

Any qualified loss or deduction from an SSTB allowed in calculating taxable income isn't included on the Schedule A (Form 8995-A) as the applicable percentage was previously determined and applied in the year the loss or deduction was incurred and should not be redetermined in the year the loss or deduction is allowed.





Determining if items included on Schedule K-1 are included in QBI.

The amounts reported on your Schedule K-1 as “QBI/Qualified PTP Items Subject to Taxpayer-Specific Determinations” from a partnership, S corporation, estate, or trust aren’t automatically included in your QBI.

To figure if the item of income, gain, deduction, or loss is included in QBI, you must look to how it’s reported on your federal income tax return.

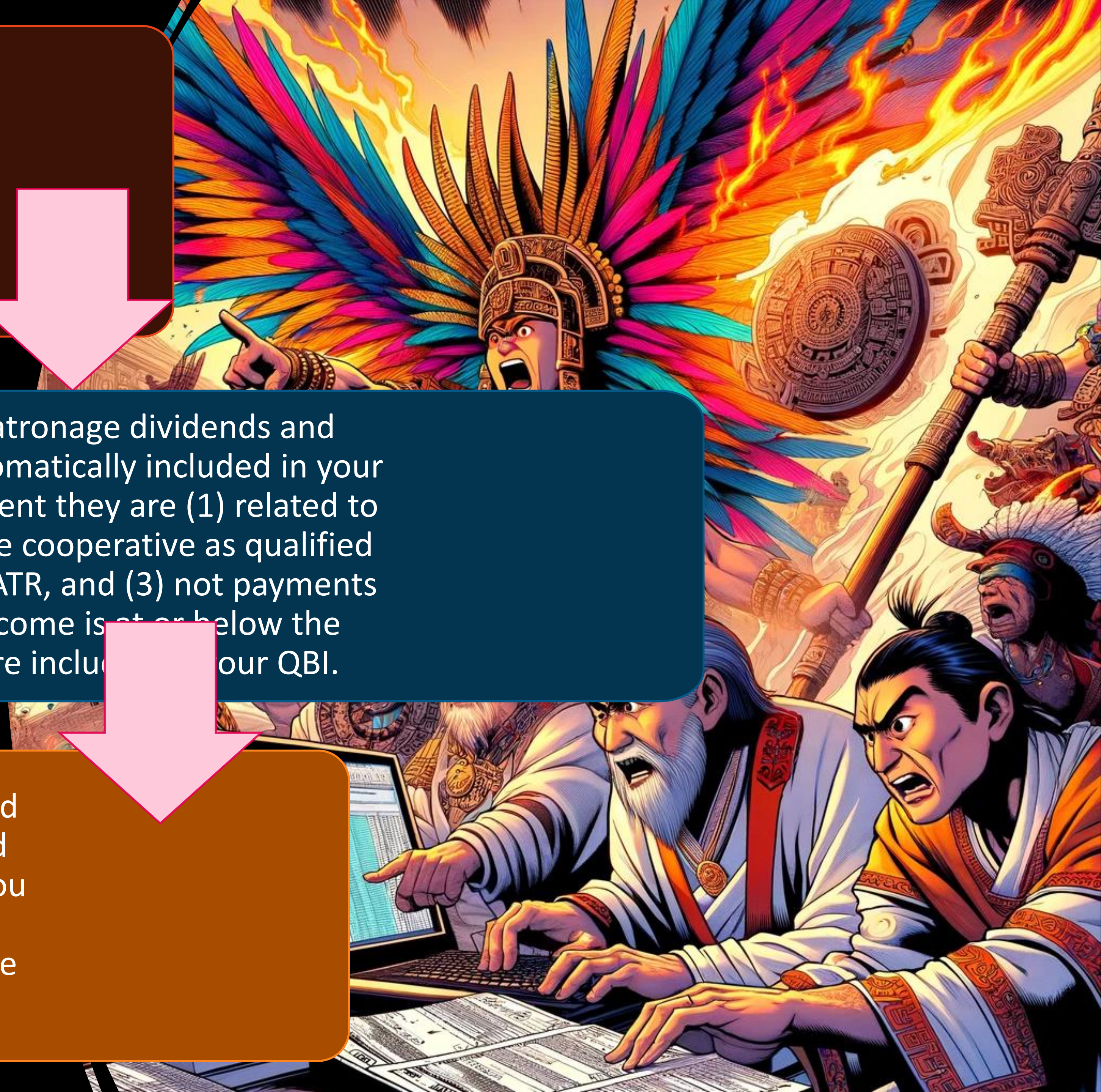
For example, ordinary business income or loss is generally included in QBI if it was used in computing your taxable income, not excluded, suspended, or disallowed under any other section of the Code.

Also, a section 1231 gain or loss is only includible in QBI if it isn’t capital gain or loss. See the QBI Flow Chart, later, to figure if an item of income, gain, deduction, or loss is included in QBI.

Determining if information reported on your Form 1099-PATR is included in QBI.

The amounts reported to you as your share of patronage dividends and similar payments on Form 1099-PATR aren't automatically included in your QBI. Payments may be included in QBI to the extent they are (1) related to your trade or business, (2) reported to you by the cooperative as qualified income items on an attachment to Form 1099-PATR, and (3) not payments reported as from an SSTB, unless your taxable income is at or below the threshold, in which case payments from SSTBs are inclu[illegible]our QBI.

If you received qualified payments reported to you on Form 1099-PATR from a specified agricultural or horticultural cooperative, you must reduce your QBI by the patron reduction and use Form 8995-A to compute your QBI deduction.



Determining if items on Schedule C (Form 1040) are included in QBI.

- The net gain or loss reported on your Schedule C (Form 1040) isn’t automatically included in your QBI. See the QBI Flow Chart, later, to figure if an item of income, gain, deduction, or loss is included in QBI.