



# 2012 Instructions for Schedule C

## Profit or Loss From Business

Use Schedule C (Form 1040) to report income or loss from a business you operated or a profession you practiced as a sole proprietor. An activity qualifies as a business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity with continuity and regularity. For example, a sporadic activity or a hobby does not qualify as a business. To report income from a nonbusiness activity, see the instructions for Form 1040, line 21, or Form 1040NR, line 21.

Also use Schedule C to report (a) wages and expenses you had as a statutory employee, (b) income and deductions of certain qualified joint ventures, and (c) certain income shown on Form 1099-MISC, Miscellaneous Income. See the *Instructions for Recipient* (back of Copy B of Form 1099-MISC) for the types of income to report on Schedule C.

Small businesses and statutory employees with business expenses of \$5,000 or less may be able to file Schedule C-EZ instead of Schedule C. See Schedule C-EZ for details.

You may be subject to state and local taxes and other requirements such as business licenses and fees. Check with your state and local governments for more information.

Section references are to the Internal Revenue Code unless otherwise noted.

### Future Developments

For the latest information about developments related to Schedule C (Form 1040) and its instructions, such as legislation enacted after they were published, go to [www.irs.gov/schedulec](http://www.irs.gov/schedulec).

### What's New

**No separate payment card reporting requirements.** Gross receipts received via payment card (credit and debit cards) and third party network payments are not separately reported on Schedule C.

**Standard mileage rate.** The business standard mileage rate for 2012 is 55.5 cents per mile.

**Heavy highway vehicle use tax.** This tax has been extended through September 30, 2017.

### General Instructions

#### Other Schedules and Forms You May Have To File

- Schedule A (Form 1040) to deduct interest, taxes, and casualty losses not related to your business.
- Schedule E (Form 1040) to report rental real estate and royalty income or

(loss) that is not subject to self-employment tax.

- Schedule F (Form 1040) to report profit or (loss) from farming.
- Schedule J (Form 1040) to figure your tax by averaging your farming or fishing income over the previous 3 years. Doing so may reduce your tax.
- Schedule SE (Form 1040) to pay self-employment tax on income from any trade or business.
- Form 3800 to claim any of the general business credits.
- Form 4562 to claim depreciation (including the special allowance) on assets placed in service in 2012, to claim amortization that began in 2012, to make an election under section 179 to expense certain property, or to report information on listed property.
- Form 4684 to report a casualty or theft gain or loss involving property used in your trade or business or income-producing property.
- Form 4797 to report sales, exchanges, and involuntary conversions (not from a casualty or theft) of trade or business property.
- Form 6198 to figure your allowable loss if you have a business loss and you have amounts invested in the business for which you are not at risk.
- Form 8582 to figure your allowable loss from passive activities.

- Form 8594 to report certain purchases or sales of groups of assets that constitute a trade or business.
- Form 8824 to report like-kind exchanges.
- Form 8829 to claim expenses for business use of your home.
- Form 8903 to take a deduction for income from domestic production activities.

**Single-member limited liability company (LLC).** Generally, a single-member domestic LLC is not treated as a separate entity for federal income tax purposes. If you are the sole member of a domestic LLC, file Schedule C or C-EZ (or Schedule E or F, if applicable). However, you can elect to treat a domestic LLC as a corporation. See Form 8832 for details on the election and the tax treatment of a foreign LLC.

**Single-member limited liability companies (LLCs) with employees.** Single-member LLCs that are disregarded as entities separate from their owner for federal income tax purposes are now required to file employment tax returns using the LLC's name and employer identification number (EIN) rather than the LLC owner's name and EIN. Single-member LLCs not previously needing an EIN may now need to obtain an EIN for the payment and reporting of those taxes. For more information, see the Instructions for Form SS-4.

**Heavy highway vehicle use tax.** If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a federal highway motor vehicle use tax. See the Instructions for Form 2290 to find out if you must pay this tax and visit [www.irs.gov/trucker](http://www.irs.gov/trucker) for the most recent developments.

**Information returns.** You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. See [Line I](#), later, and the 2012 General Instructions for Certain Information Returns for details and other payments that may require you to file a Form 1099.

If you received cash of more than \$10,000 in one or more related transactions in your trade or business, you may have to file Form 8300. For details, see Pub. 1544.

## Husband-Wife Qualified Joint Venture

If you and your spouse each materially participate (see [Material participation](#), later, in the instructions for line G) as the only members of a jointly owned and operated business and you file a joint return for the tax year, you can elect to be treated as a qualified joint venture instead of a partnership. This election, in most cases, will not increase the total tax owed on the joint return, but it does give each of you credit for social security earnings on which retirement benefits are based and for Medicare coverage. By making the election, you will not be required to file Form 1065 for any year the election is in effect and will instead report the income and deductions directly on your joint return. If you and your spouse filed a Form 1065 for the year prior to the election, the partnership terminates at the end of the tax year immediately preceding the year the election takes effect.

**Note.** Mere joint ownership of property that is not a trade or business does not qualify for the election.

**Making the election.** To make this election, you must divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse in accordance with your

respective interests in the venture. Each of you must file a separate Schedule C, C-EZ, or F. On each line of your separate Schedule C, C-EZ, or F, you must enter your share of the applicable income, deduction, or loss. Each of you must also file a separate Schedule SE to pay self-employment tax, as applicable.

Once made, the election can be revoked only with the permission of the IRS. However, the election technically remains in effect only for as long as the spouses filing as a qualified joint venture continue to meet the requirements for filing the election. If the spouses fail to meet the qualified joint venture requirements for a year, a new election will be necessary for any future year in which the spouses meet the requirements to be treated as a qualified joint venture.

The election generally does not require that you and your spouse obtain an employer identification number (EIN) since you and your spouse will file as sole proprietors. However, you may need an EIN to file other returns such as employment or excise tax returns. To apply for an EIN, see the Instructions for Form SS-4.

For more information on qualified joint ventures, go to IRS.gov. Enter “qualified joint venture” in the search box and select “Election for Husband and Wife Unincorporated Businesses.”

**Rental real estate business.** If you and your spouse make the election for your rental real estate business, you must each report your share of income and deductions on Schedule E. Rental real estate income generally is not included in net earnings from self-employment subject to self-employment tax and generally is subject to the passive loss limitation rules. Electing qualified joint venture status does not alter the application of the self-employment tax or the passive loss limitation rules.

## Husband-Wife Partnership

Generally, if you and your spouse jointly own and operate an unincorporated business and share in the profits and losses, you are partners in a partnership, whether or not you have a formal partnership agreement. You generally have to file Form 1065 instead of Schedule C or C-EZ for your joint business activity;

however, you may not have to file Form 1065 if either of the following applies.

- You and your spouse elect to be treated as a qualified joint venture. See [Husband-Wife Qualified Joint Venture](#), earlier.

- You and your spouse wholly own the unincorporated business as community property. See [Exception—community income](#) next.

Otherwise, use Form 1065. See Pub. 541 for more details.

**Exception—community income.** If you and your spouse wholly own an unincorporated business as community property under the community property laws of a state, foreign country, or U.S. possession, the income and deductions are reported as follows.

- If only one spouse participates in the business, all of the income from that business is the self-employment earnings of the spouse who carried on the business.

- If both spouses participate, the income and deductions are allocated to the spouses based on their distributive shares.

- If either or both you and your spouse are partners in a partnership, see Pub. 541.

- If you and your spouse elected to treat the business as a qualifying joint venture, see [Husband-Wife Qualified Joint Venture](#), earlier.

The only states with community property laws are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. A change in your reporting position will be treated as a conversion of the entity.

## Reportable Transaction Disclosure Statement

Use Form 8886 to disclose information for each reportable transaction in which you participated. Form 8886 must be filed for each tax year that your federal income tax liability is affected by your participation in the transaction. You may have to pay a penalty if you are required to file Form 8886 but do not do so. You may also have to pay interest and penalties on any reportable transaction understated. The following are reportable transactions.

- Any listed transaction that is the same as or substantially similar to tax

avoidance transactions identified by the IRS.

- Any transaction offered to you or a related party under conditions of confidentiality for which you paid an advisor a fee of at least \$50,000.

- Certain transactions for which you or a related party have contractual protection against disallowance of the tax benefits.

- Certain transactions resulting in a loss of at least \$2 million in any single tax year or \$4 million in any combination of tax years. (At least \$50,000 for a single tax year if the loss arose from a foreign currency transaction defined in section 988(c)(1), whether or not the loss flows through from an S corporation or partnership.)

- Certain transactions of interest entered into after November 1, 2006, that are the same or substantially similar to one of the types of transactions that the IRS has identified by published guidance as a transaction of interest.

See the Instructions for Form 8886 for more details.

## Capital Construction Fund

Do not claim on Schedule C or C-EZ the deduction for amounts contributed to a capital construction fund set up under chapter 535 of title 46 of the United States Code. Instead, reduce the amount you would otherwise enter on Form 1040, line 43, by the amount of the deduction. Next to line 43, enter “CCF” and the amount of the deduction. For details, see Pub. 595.

## Additional Information

See Pub. 334 for more information for small businesses.

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## Specific Instructions

**Filers of Form 1041.** Do not complete the block labeled “Social security number (SSN).” Instead, enter the employer identification number (EIN) issued to the estate or trust on line D.

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### Line A

Describe the business or professional activity that provided your principal source of income reported on line 1. If you owned more than one business, you must complete a separate Schedule C for

each business. Give the general field or activity and the type of product or service. If your general field or activity is wholesale or retail trade, or services connected with production services (mining, construction, or manufacturing), also give the type of customer or client. For example, “wholesale sale of hardware to retailers” or “appraisal of real estate for lending institutions.”

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### Line B

Enter on line B the six-digit code from the *Principal Business or Professional Activity Codes* chart at the end of these instructions.

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### Line D

Enter on line D the employer identification number (EIN) that was issued to you on Form SS-4. Do not enter your SSN on this line. Do not enter another taxpayer's EIN (for example, from any Forms 1099-MISC that you received). **If you do not have an EIN, leave line D blank.**

You need an EIN only if you have a qualified retirement plan or are required to file employment, excise, alcohol, tobacco, or firearms returns, or are a payer of gambling winnings. If you need an EIN, See the Instructions for Form SS-4.

**Single-member LLCs.** If you are the sole owner of an LLC that is not treated as a separate entity for federal income tax purposes, you may have an EIN that was issued to the LLC (and in the LLC's legal name) if you are required to file employment tax returns and certain excise tax returns. However, you should **enter on line D only the EIN issued to you and in your name as a sole proprietor.** If you do not have such an EIN, leave line D blank. Do not enter on line D the EIN issued to the LLC.

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### Line E

Enter your business address. Show a street address instead of a box number. Include the suite or room number, if any. If you conducted the business from your home located at the address shown on Form 1040, page 1, you do not have to complete this line.

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### Line F

Generally, you can use the cash method, accrual method, or any other method permitted by the Internal Revenue Code. In all cases, the method used must clearly reflect income. Unless you are a [qualifying taxpayer](#) or a [qualifying small business taxpayer](#) (see the Part III instructions), you must use the accrual method for sales and purchases of inventory items. Special rules apply to long-term contracts (see section 460 for details).

If you use the cash method, show all items of taxable income actually or constructively received during the year (in cash, property, or services). Income is constructively received when it is credited to your account or set aside for you to use. Also, show amounts actually paid during the year for deductible expenses. However, if the payment of an expenditure creates an asset having a useful life that extends substantially beyond the close of the year, it may not be deductible or may be deductible only in part for the year of the payment. See chapter 1 of Pub. 535.

If you use the accrual method, report income when you earn it and deduct expenses when you incur them even if you do not pay them during the tax year. Accrual-basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules determine the timing of deductions based on economic performance. See Pub. 538.

To change your accounting method, you generally must file Form 3115. You also may have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a section 481(a) adjustment.

**Example.** You change to the cash method of accounting and choose to account for inventoriable items in the same manner as materials and supplies that are not incidental. You accrued sales in 2011 for which you received payment in 2012. You must report those sales in both years as a result of changing your accounting method and must make a section 481(a) adjustment to prevent duplication of income.

A net negative section 481(a) adjustment is taken into account entirely in the year of the change. A net positive section 481(a) adjustment is generally taken into account over a period of 4 years. Include any net positive section 481(a) adjustments on line 6. If the net section 481(a) adjustment is negative, report it in Part V.

For details on figuring section 481(a) adjustments, see the Instructions for Form 3115, and Rev. Proc. 2006-12, 2006-3 I.R.B. 310, available at [www.irs.gov/irb/2006-03\\_IRB/ar14.html](http://www.irs.gov/irb/2006-03_IRB/ar14.html). Also see Rev. Proc. 2006-37, 2006-38 I.R.B. 499, available at [www.irs.gov/irb/2006-38\\_IRB/ar10.html](http://www.irs.gov/irb/2006-38_IRB/ar10.html).

## Line G

If your business activity was not a rental activity and you met any of the material participation tests, explained next, or the [exception for oil and gas](#) applies (explained later), check the “Yes” box. Otherwise, check the “No” box. If you check the “No” box, this business is a passive activity. If you have a loss from this business, see [Limit on losses](#), later. If you have a profit from this business activity but have current year losses from other passive activities or you have prior year unallowed passive activity losses, see the Instructions for Form 8582.

**Material participation.** For purposes of the seven material participation tests listed later, participation generally includes any work you did in connection with an activity if you owned an interest in the activity at the time you did the work. The capacity in which you did the work does not matter. However, work is not treated as participation if it is work that an owner would not customarily do in the same type of activity and one of your main reasons for doing the work was to avoid the disallowance of losses or credits from the activity under the passive activity rules.

Work you did as an investor in an activity is not treated as participation unless you were directly involved in the day-to-day management or operations of the activity. Work done as an investor includes:

- Studying and reviewing financial statements or reports on the activity,

- Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use, and

- Monitoring the finances or operations of the activity in a nonmanagerial capacity.

Participation by your spouse during the tax year in an activity you own can be counted as your participation in the activity. This rule applies even if your spouse did not own an interest in the activity and whether or not you and your spouse file a joint return. However, this rule does not apply for purposes of determining whether you and your spouse can elect to have your business treated as a qualified joint venture instead of a partnership (see [Husband-Wife Qualified Joint Venture](#), earlier).

For purposes of the passive activity rules, you materially participated in the operation of this trade or business activity during 2012 if you met any of the following seven tests.

1. You participated in the activity for more than 500 hours during the tax year.

2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals (including individuals who did not own any interest in the activity) for the tax year.

3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other person for the tax year. This includes individuals who did not own any interest in the activity.

4. The activity is a significant participation activity for the tax year, and you participated in all significant participation activities for more than 500 hours during the year. An activity is a “significant participation activity” if it involves the conduct of a trade or business, you participated in the activity for more than 100 hours during the tax year, and you did not materially participate under any of the material participation tests (other than this test 4).

5. You materially participated in the activity for any 5 of the prior 10 tax years.

6. The activity is a personal service activity in which you materially participated for any 3 prior tax years. A personal service activity is an activity that

involves performing personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis for more than 100 hours during the tax year. Your participation in managing the activity does not count in determining if you meet this test if any person (except you) (a) received compensation for performing management services in connection with the activity, or (b) spent more hours during the tax year than you spent performing management services in connection with the activity (regardless of whether the person was compensated for the services).

**Rental of property.** Generally, a rental activity (such as long-term equipment leasing or rental real estate) is a passive activity even if you materially participated in the activity. However, if you materially participated in a rental real estate activity as a real estate professional, it is not a passive activity. Also, if you met any of the five exceptions listed under *Rental Activities* in the Instructions for Form 8582, the rental of the property is not treated as a rental activity and the material participation rules earlier apply. See *Activities That Are Not Passive Activities* in the Instructions for Form 8582 for the definition of a real estate professional.

**Exception for oil and gas.** If you are filing Schedule C to report income and deductions from an oil or gas well in which you own a working interest directly or through an entity that does not limit your liability, check the “Yes” box. The activity of owning a working interest is not a passive activity, regardless of your participation.

**Limit on losses.** Your loss may be limited if you checked the “No” box on line G. In this case, you may have a loss from a passive activity, and you may have to use Form 8582 to figure your allowable loss, if any, to enter on Schedule C, line 31.

Generally, you can deduct losses from passive activities only to the extent of income from passive activities. For details, see Pub. 925.

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## Line H

If you started or acquired this business in 2012, check the box on line H. Also check the box if you are reopening or re-starting this business after temporarily closing it, and you did not file a 2011 Schedule C or C-EZ for this business.

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## Line I

If you made any payment in 2012 that would require you to file any Forms 1099, check the "Yes" box. Otherwise, check the "No" box.

You may have to file information returns for wages paid to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. You may also have to file an information return if you sold \$5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other similar basis for resale.



*The Guide to Information Returns in the 2012 General Instructions for Certain Information Returns identifies which Forms 1099 must be filed, the amounts to report, and the due dates for the required Forms 1099.*

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## Part I. Income

Except as otherwise provided in the Internal Revenue Code, gross income includes income from whatever source derived. In certain circumstances, however, gross income does not include extraterritorial income that is qualifying foreign trade income. Use Form 8873 to figure the extraterritorial income exclusion. Report it on Schedule C as explained in the Instructions for Form 8873.

If you were a debtor in a chapter 11 bankruptcy case during 2012, see *Chapter 11 Bankruptcy Cases under Income* in the Instructions for Form 1040 and the Instructions for Schedule SE (Form 1040).

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## Line 1

Enter gross receipts from your trade or business. Include amounts you received in your trade or business that were prop-

erly shown on Forms 1099-MISC. If the total amounts that were reported in box 7 of Forms 1099-MISC are more than the total you are reporting on line 1, attach a statement explaining the difference.

**Statutory employees.** If you received a Form W-2 and the "Statutory employee" box in box 13 of that form was checked, report your income and expenses related to that income on Schedule C or C-EZ. Enter your statutory employee income from box 1 of Form W-2 on line 1 of Schedule C or C-EZ and check the box on that line. Social security and Medicare tax should have been withheld from your earnings; as a result, you do not owe self-employment tax on these earnings. Statutory employees include full-time life insurance agents, certain agent or commission drivers and traveling salespersons, and certain homeworkers.

If you had both self-employment income and statutory employee income, you must file two Schedules C. You cannot use Schedule C-EZ or combine these amounts on a single Schedule C.



*Qualified joint ventures should report rental real estate income not subject to self-employment tax on Schedule E. See [Husband-Wife Qualified Joint Venture](#), earlier, and the Instructions for Schedule E.*

**Installment sales.** Generally, the installment method cannot be used to report income from the sale of (a) personal property regularly sold under the installment method, or (b) real property held for resale to customers. But the installment method can be used to report income from sales of certain residential lots and timeshares if you elect to pay interest on the tax due on that income after the year of sale. See section 453(1)(2)(B) for details. If you make this election, include the interest in the total on Form 1040, line 60. Also, enter "453(1)(3)" and the amount of the interest on the dotted line to the left of line 60.

If you use the installment method, attach a schedule to your return. Show separately for 2012 and the 3 preceding years: gross sales, cost of goods sold, gross profit, percentage of gross profit to gross sales, amounts collected, and gross profit on amounts collected.

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## Line 6

Report on line 6 amounts from finance reserve income, scrap sales, bad debts you recovered, interest (such as on notes and accounts receivable), state gasoline or fuel tax refunds you received in 2012, the amount of credit claimed on Form 6478 or Form 8864, credit for federal tax paid on fuels claimed on your 2011 Form 1040, prizes and awards related to your trade or business, and other kinds of miscellaneous business income. Include amounts you received in your trade or business as shown on Form 1099-PATR.

If the business use percentage of any listed property (defined in [Line 13](#), later) dropped to 50% or less in 2012, report on this line any recapture of excess depreciation, including any section 179 expense deduction. Use Part IV of Form 4797 to figure the recapture. Also, if the business use percentage drops to 50% or less on leased listed property (other than a vehicle), include on this line any inclusion amount. See chapter 5 of Pub. 946 to figure the amount.

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## Part II. Expenses

**Capitalizing costs of property.** If you produced real or tangible personal property or acquired property for resale, certain expenses attributable to the property generally must be included in inventory costs or capitalized. In addition to direct costs, producers of inventory property generally must also include part of certain indirect costs in their inventory. Purchasers of personal property acquired for resale must include part of certain indirect costs in inventory only if the average annual gross receipts for the 3 prior tax years exceed \$10 million. Also, you must capitalize part of the indirect costs that benefit real or tangible personal property constructed for use in a trade or business, or noninventory property produced for sale to customers. Reduce the amounts on lines 8 through 26 and Part V by amounts capitalized. See Pub. 538 for a discussion of uniform capitalization rules.

**Exception for certain producers.** Producers who account for inventoriable items in the same manner as materials and supplies that are not incidental can

currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See [Part III. Cost of Goods Sold](#) for more details.

**Exception for creative property.** If you are a freelance artist, author, or photographer, you may be exempt from the capitalization rules. However, your personal efforts must have created (or reasonably be expected to create) the property. This exception does not apply to any expense related to printing, photographic plates, motion picture films, video tapes, or similar items. These expenses are subject to the capitalization rules. For details, see *Uniform Capitalization Rules* in Pub. 538.

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## Line 9

You can deduct the actual expenses of operating your car or truck or take the standard mileage rate. This is true even if you used your vehicle for hire (such as a taxicab). You must use actual expenses if you used five or more vehicles simultaneously in your business (such as in fleet operations). You cannot use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can take the standard mileage rate for 2012 only if you:

- Owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service, or
- Leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you take the standard mileage rate:

- Multiply the number of business miles driven by 55.5 cents and
- Add to this amount your parking fees and tolls, and enter the total on line 9.

Do not deduct depreciation, rent or lease payments, or your actual operating expenses.

If you deduct actual expenses:

- Include on line 9 the business portion of expenses for gasoline, oil, repairs, insurance, tires, license plates, etc., and
- Show depreciation on line 13 and rent or lease payments on line 20a.

For details, see chapter 4 of Pub. 463.

**Information on your vehicle.** If you claim any car and truck expenses, you must provide certain information on the use of your vehicle by completing one of the following.

- Schedule C, Part IV, or Schedule C-EZ, Part III, if: (a) you are claiming the standard mileage rate, you lease your vehicle, or your vehicle is fully depreciated, and (b) you are not required to file Form 4562 for any other reason. If you used more than one vehicle during the year, attach your own schedule with the information requested in Schedule C, Part IV, or Schedule C-EZ, Part III, for each additional vehicle.

- Form 4562, Part V, if you are claiming depreciation on your vehicle or you are required to file Form 4562 for any other reason (see [Line 13](#), later).

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## Line 11

Enter the total cost of contract labor for the tax year. Contract labor includes payments to persons you do not treat as employees (for example, independent contractors) for services performed for your trade or business. Do not include contract labor deducted elsewhere on your return, such as contract labor includible on line 17, 21, 26, or 37. Also, do not include salaries and wages paid to your employees; instead, see [Line 26](#), later.

You must file Form 1099-MISC, Miscellaneous Income, to report contract labor payments of \$600 or more during the year. See the Instructions for Form 1099-MISC for details.

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## Line 12

Enter your deduction for depletion on this line. If you have timber depletion, attach Form T. See chapter 9 of Pub. 535 for details.

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## Line 13

**Depreciation and section 179 expense deduction.** Depreciation is the annual deduction allowed to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. You can also depreciate improvements made to leased business property. However, stock in trade, inventories, and land are not de-

preciable. Depreciation starts when you first use the property in your business or for the production of income. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business or for the production of income. You can also elect under section 179 to expense part or all of the cost of certain property you bought in 2012 for use in your business. See the Instructions for Form 4562 and Pub. 946 to figure the amount to enter on line 13.

**When to attach Form 4562.** You must complete and attach Form 4562 only if you are claiming:

- Depreciation on property placed in service during 2012;
- Depreciation on listed property (defined later), regardless of the date it was placed in service; or
- A section 179 expense deduction.

If you acquired depreciable property for the first time in 2012, see Pub. 946.

Listed property generally includes but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less;
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pickup trucks, etc.;
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment); and
- Computers or peripheral equipment.

**Exceptions.** Listed property does not include photographic, phonographic, communication, or video equipment used exclusively in your trade or business or at your regular business establishment. It also does not include any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment. For purposes of these exceptions, a portion of your home is treated as a regular business establishment only if that portion meets the requirements under section 280A(c)(1) for deducting expenses for the business use of your home.

See [Line 6](#), earlier, if the business use percentage of any listed property dropped to 50% or less in 2012.

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## Line 14

Deduct contributions to employee benefit programs that are not an incidental part of a pension or profit-sharing plan included on line 19. Examples are accident and health plans, group-term life insurance, and dependent care assistance programs. If you made contributions on your behalf as a self-employed person to a dependent care assistance program, complete Form 2441, Parts I and III, to figure your deductible contributions to that program.

You cannot deduct contributions you made on your behalf as a self-employed person for group-term life insurance.

Do not include on line 14 any contributions you made on your behalf as a self-employed person to an accident and health plan. However, you may be able to deduct on Form 1040, line 29, or Form 1040NR, line 29, the amount you paid for health insurance on behalf of yourself, your spouse, and dependents, even if you do not itemize your deductions. See the instructions for Form 1040, line 29, or Form 1040NR, line 29, for details.

You must reduce your line 14 deduction by the amount of any credit for small employer health insurance premiums determined on Form 8941. See Form 8941 and its instructions to determine which expenses are eligible for the credit.

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## Line 15

Deduct premiums paid for business insurance on line 15. Deduct on line 14 amounts paid for employee accident and health insurance. Do not deduct amounts credited to a reserve for self-insurance or premiums paid for a policy that pays for your lost earnings due to sickness or disability. For details, see chapter 6 of Pub. 535.

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## Lines 16a and 16b

**Interest allocation rules.** The tax treatment of interest expense differs depending on its type. For example, home mortgage interest and investment interest are treated differently. "Interest allocation" rules require you to allocate (classify) your interest expense so it is deducted (or capitalized) on the correct

line of your return and receives the right tax treatment. These rules could affect how much interest you are allowed to deduct on Schedule C or C-EZ.

Generally, you allocate interest expense by tracing how the proceeds of the loan were used. See chapter 4 of Pub. 535 for details.

If you paid interest on a debt secured by your main home and any of the proceeds from that debt were used in connection with your trade or business, see chapter 4 of Pub. 535 to figure the amount that is deductible on Schedule C or C-EZ.

**How to report.** If you have a mortgage on real property used in your business (other than your main home), enter on line 16a the interest you paid for 2012 to banks or other financial institutions for which you received a Form 1098 (or similar statement). If you did not receive a Form 1098, enter the interest on line 16b.

If you paid more mortgage interest than is shown on Form 1098, see chapter 4 of Pub. 535 to find out if you can deduct the additional interest. If you can, include the amount on line 16a. Attach a statement to your return explaining the difference and enter "See attached" in the margin next to line 16a.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage and the other person received the Form 1098, include your share of the interest on line 16b. Attach a statement to your return showing the name and address of the person who received the Form 1098. In the margin next to line 16b, enter "See attached."

If you paid interest in 2012 that also applies to future years, deduct only the part that applies to 2012.

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## Line 17

Include on this line fees charged by accountants and attorneys that are ordinary and necessary expenses directly related to operating your business.

Include fees for tax advice related to your business and for preparation of the tax forms related to your business. Also include expenses incurred in resolving asserted tax deficiencies relating to your business.

For more information, see Pub. 334 or 535.

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## Line 18

Include on this line your expenses for office supplies and postage.

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## Line 19

Enter your deduction for contributions to a pension, profit-sharing, or annuity plan, or plan for the benefit of your employees. If the plan included you as a self-employed person, enter contributions made as an employer on your behalf on Form 1040, line 28, or Form 1040NR, line 28, not on Schedule C.

In most cases, you must file the applicable form listed below if you maintain a pension, profit-sharing, or other funded-deferred compensation plan. The filing requirement is not affected by whether or not the plan qualified under the Internal Revenue Code, or whether or not you claim a deduction for the current tax year. There is a penalty for failure to timely file these forms.

**Form 5500-EZ.** File this form if you have a one-participant retirement plan that meets certain requirements. A one-participant plan is a plan that covers only you (or you and your spouse).

**Form 5500-SF.** File this form if you have a small plan (fewer than 100 participants in most cases) that meets certain requirements.

**Form 5500.** File this form for a plan that does not meet the requirements for filing Form 5500-EZ or Form 5500-SF.

For details, see Pub. 560.

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## Lines 20a and 20b

If you rented or leased vehicles, machinery, or equipment, enter on line 20a the business portion of your rental cost. But if you leased a vehicle for a term of 30 days or more, you may have to reduce your deduction by an amount called the inclusion amount. See *Leasing a Car* in chapter 4 of Pub. 463 to figure this amount.

Enter on line 20b amounts paid to rent or lease other property, such as office space in a building.

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## Line 21

Deduct the cost of incidental repairs and maintenance that do not add to the property's value or appreciably prolong its life. Do not deduct the value of your own labor. Do not deduct amounts spent to restore or replace property; they must be capitalized.

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## Line 22

In most cases, you can deduct the cost of materials and supplies only to the extent you actually consumed and used them in your business during the tax year (unless you deducted them in a prior tax year). However, if you had incidental materials and supplies on hand for which you kept no inventories or records of use, you can deduct the cost of those you actually purchased during the tax year, provided that method clearly reflects income.

You can also deduct the cost of books, professional instruments, equipment, etc., if you normally use them within a year. However, if their usefulness extends substantially beyond a year, you must generally recover their costs through depreciation.

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## Line 23

You can deduct the following taxes and licenses on this line.

- State and local sales taxes imposed on you as the seller of goods or services. If you collected this tax from the buyer, you must also include the amount collected in gross receipts or sales on line 1.
- Real estate and personal property taxes on business assets.
- Licenses and regulatory fees for your trade or business paid each year to state or local governments. But some licenses, such as liquor licenses, may have to be amortized. See chapter 8 of Pub. 535 for details.
- Social security and Medicare taxes paid to match required withholding from your employees' wages. Reduce your deduction by the amount shown on Form 8846, line 4.
- Federal unemployment tax paid.
- Federal highway use tax.
- Contributions to state unemployment insurance fund or disability benefit fund if they are considered taxes under state law.

Do not deduct the following.

- Federal income taxes, including your self-employment tax. However, you can deduct a portion of your self-employment tax on Form 1040, line 27, (or Form 1040NR, line 27, when covered under the U.S. social security system due to an international social security agreement).
  - Estate and gift taxes.
  - Taxes assessed to pay for improvements, such as paving and sewers.
  - Taxes on your home or personal use property.
  - State and local sales taxes on property purchased for use in your business. Instead, treat these taxes as part of the cost of the property.
  - State and local sales taxes imposed on the buyer that you were required to collect and pay over to state or local governments. These taxes are not included in gross receipts or sales nor are they a deductible expense. However, if the state or local government allowed you to retain any part of the sales tax you collected, you must include that amount as income on line 6.
  - Other taxes and license fees not related to your business.
- 

## Line 24a

Enter your expenses for lodging and transportation connected with overnight travel for business while away from your tax home. In most cases, your tax home is your main place of business, regardless of where you maintain your family home. You cannot deduct expenses paid or incurred in connection with employment away from home if that period of employment exceeds 1 year. Also, you cannot deduct travel expenses for your spouse, your dependent, or any other individual unless that person is your employee, the travel is for a *bona fide* business purpose, and the expenses would otherwise be deductible by that person.

Do not include expenses for meals and entertainment on this line. Instead, see [Line 24b](#), later.

Instead of keeping records of your actual incidental expenses, you can use an optional method for deducting incidental expenses only if you did not pay or incur meal expenses on a day you were traveling away from your tax

home. The amount of the deduction is \$5 a day. Incidental expenses include fees and tips given to porters, baggage carriers, bellhops, hotel maids, stewards or stewardesses and others on ships, and hotel servants in foreign countries. They do not include expenses for laundry, cleaning and pressing of clothing, lodging taxes, or the costs of telegrams or telephone calls. You cannot use this method on any day that you use the [standard meal allowance](#) (as explained in [Line 24b](#), later).

You cannot deduct expenses for attending a convention, seminar, or similar meeting held outside the North American area unless the meeting is directly related to your trade or business and it is as reasonable for the meeting to be held outside the North American area as within it. These rules apply to both employers and employees. Other rules apply to luxury water travel.

For details on travel expenses, see chapter 1 of Pub. 463.

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## Line 24b

Enter your total deductible business meal and entertainment expenses. This includes expenses for meals while traveling away from home for business and for meals that are business-related entertainment.

**Deductible expenses.** Business meal expenses are deductible only if they are (a) directly related to or associated with the active conduct of your trade or business, (b) not lavish or extravagant, and (c) incurred while you or your employee is present at the meal.

You cannot deduct any expense paid or incurred for a facility (such as a yacht or hunting lodge) used for any activity usually considered entertainment, amusement, or recreation.

Also, you cannot deduct membership dues for any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion. But it does not include civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and



real estate boards, unless a principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests.

There are exceptions to these rules as well as other rules that apply to skybox rentals and tickets to entertainment events. See chapters 1 and 2 of Pub. 463.

**Standard meal allowance.** Instead of deducting the actual cost of your meals while traveling away from home, you can use the standard meal allowance for your daily meals and incidental expenses. Under this method, you deduct a specified amount, depending on where you travel, instead of keeping records of your actual meal expenses. However, you must still keep records to prove the time, place, and business purpose of your travel.

The standard meal allowance is the federal M&IE rate. You can find these rates on the Internet at [www.gsa.gov](http://www.gsa.gov). Click on "Per Diem Rates" for links to locations inside and outside the continental United States.

See chapter 1 of Pub. 463 for details on how to figure your deduction using the standard meal allowance, including special rules for partial days of travel.

**Amount of deduction.** In most cases, you can deduct only 50% of your business meal and entertainment expenses, including meals incurred while away from home on business. However, for individuals subject to the Department of Transportation (DOT) hours of service limits, that percentage is increased to 80% for business meals consumed during, or incident to, any period of duty for which those limits are in effect. Individuals subject to the DOT hours of service limits include the following.

- Certain air transportation workers (such as pilots, crew, dispatchers, mechanics, and control tower operators) who are under Federal Aviation Administration regulations.

- Interstate truck operators who are under DOT regulations.

- Certain merchant mariners who are under Coast Guard regulations.

However, you can fully deduct meals, incidentals, and entertainment furnished or reimbursed to an employee if you properly treat the expense as wages subject to withholding. You can also fully

deduct meals, incidentals, and entertainment provided to a nonemployee to the extent the expenses are includible in the gross income of that person and reported on Form 1099-MISC. See Pub. 535 for details and other exceptions.

**Daycare providers.** 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. See Pub. 587 for details, including recordkeeping requirements.

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## Line 25

Deduct utility expenses only for your trade or business.


**Local telephone service.** If you used your home phone for business, do not deduct the base rate (including taxes) of the first phone line into your residence. But you can deduct any additional costs you incurred for business that are more than the base rate of the first phone line. For example, if you had a second line, you can deduct the business percentage of the charges for that line, including the base rate charges.

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## Line 26

Enter the total salaries and wages for the tax year. Do not include salaries and wages deducted elsewhere on your return or amounts paid to yourself. Reduce your deduction by the amounts claimed on:

- Form 5884, Work Opportunity Credit;
- Form 8844, Empowerment Zone Employment Credit;
- Form 8845, Indian Employment Credit and
- Form 8932, Credit for Employer Differential Wage Payments.

 *If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount applicable to depreciation and other expenses claimed elsewhere.*

In most cases, you are required to file Form W-2, Wage and Tax Statement, for each employee. See the General Instructions for Forms W-2 and W-3.

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## Line 30

**Business use of your home.** You may be able to deduct certain expenses for business use of your home, subject to limitations. You must attach Form 8829 if you claim this deduction. For details, see the Instructions for Form 8829 and Pub. 587.

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## Line 31

If you have a loss, the amount of loss you can deduct this year may be limited. Go to line 32 before entering your loss on line 31. If you answered "No" on line G or are a qualified joint venture reporting only rental real estate, also see the Instructions for Form 8582. Enter the net profit or deductible loss here. Combine this amount with any profit or loss from other businesses and enter the total on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13. Nonresident aliens using Form 1040NR should also enter the total on Schedule SE, line 2, if you are covered under the U.S. social security system due to an international social security agreement currently in effect. See the Schedule SE instructions for information on international social security agreements. Estates and trusts should enter the total on Form 1041, line 3.

**Excess farm loss rules.** If your Schedule C activity includes processing a farm commodity as part of your farming business, your deductible loss from that activity may be limited if you received certain subsidies. See the Instructions for Schedule F for a list of those subsidies. Use one of the worksheets in the Schedule F instructions to determine if you have an excess farm loss. See the Instructions for Schedule F for more details on how to complete the worksheets.

**Statutory employees.** Include your net profit or deductible loss from line 31 with other Schedule C amounts on Form 1040, line 12, or on Form 1040NR, line 13. However, do not report this amount on Schedule SE, line 2. If you were a statutory employee and are required to file Schedule SE because of other self-employment income, see the Instructions for Schedule SE.

**Rental real estate activity.** Unless you are a qualifying real estate professional, a rental real estate activity is a passive

activity, even if you materially participated in the activity. If you have a loss, you may need to file Form 8582 to figure your deductible loss to enter on line 31. See the Instructions for Form 8582.

**Notary public.** Do not enter your net profit from line 31 on Schedule SE, line 2, unless you are required to file Schedule SE because of other self-employment income. See the Instructions for Schedule SE.

**Community income.** If you and your spouse had community income and are filing separate returns, see the Instructions for Schedule SE before figuring self-employment tax.

**Earned income credit.** If you have a net profit on line 31, this amount is earned income and may qualify you for the earned income credit (EIC).



To figure your EIC, use the instructions for Form 1040, lines 64a and 64b. Complete all applicable steps plus Worksheet B. If you are required to file Schedule SE, remember to enter the deductible portion of your self-employment tax in Part I, line 1d, of Worksheet B.

## Line 32

**At-risk rules.** In most cases, if you have a business loss and amounts invested in the business for which you are not at risk, you must complete Form 6198 to figure your allowable loss. The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the business.

Check box 32b if you have amounts invested in this business for which you are not at risk, such as the following.

- Nonrecourse loans used to finance the business, to acquire property used in the business, or to acquire the business that are not secured by your own property (other than property used in the business). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property.

- Cash, property, or borrowed amounts used in the business (or contributed to the business, or used to acquire the business) that are protected against loss by a guarantee, stop-loss

agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the business from a person who has an interest in the business, other than as a creditor, or who is related under section 465(b)(3)(C) to a person (other than you) having such an interest.

**Figuring your deductible loss.** If all amounts are at risk in this business, check box 32a. If you answered “Yes” on line G, enter your loss on line 31. But if you answered “No” on line G, you may need to complete Form 8582 to figure your allowable loss to enter on line 31. See the Instructions for Form 8582 for details.

If you checked box 32b, first complete Form 6198 to determine the amount of your deductible loss. If you answered “Yes” on line G, enter that amount on line 31. But if you answered “No” on line G, your loss may be further limited. See the Instructions for Form 8582. If your at-risk amount is zero or less, enter -0- on line 31. Be sure to attach Form 6198 to your return. If you checked box 32b and you do not attach Form 6198, the processing of your tax return may be delayed.

Any loss from this business not allowed for 2012 only because of the at-risk rules is treated as a deduction allocable to the business in 2013.

For details, see the Instructions for Form 6198 and Pub. 925.

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## Part III. Cost of Goods Sold

In most cases, if you engaged in a trade or business in which the production, purchase, or sale of merchandise was an income-producing factor, you must take inventories into account at the beginning and end of your tax year.

**Exception for certain taxpayers.** If you are a qualifying taxpayer or a qualifying small business taxpayer (discussed next), you can account for inventoriable items in the same manner as materials and supplies that are not incidental. Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deduc-

tible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method). Enter amounts paid for all raw materials and merchandise during 2012 on line 36. The amount you can deduct for 2012 is figured on line 42.

**Qualifying taxpayer.** This is a taxpayer (a) whose average annual gross receipts for the 3 prior tax years are \$1 million or less, and (b) whose business is not a tax shelter (as defined in section 448(d)(3)).

**Qualifying small business taxpayer.** This is a taxpayer (a) whose average annual gross receipts for the 3 prior tax years are \$10 million or less, (b) whose business is not a tax shelter (as defined in section 448(d)(3)), and (c) whose principal business activity is not an ineligible activity as explained in Rev. Proc. 2002-28. You can find Rev. Proc. 2002-28 on page 815 of Internal Revenue Bulletin 2002-18 at [www.irs.gov/pub/irs-irbs/irb02-18.pdf](http://www.irs.gov/pub/irs-irbs/irb02-18.pdf).

**Changing accounting methods.** File Form 3115 if you are a qualifying taxpayer or qualifying small business taxpayer and want to change to the cash method or to account for inventoriable items as non-incidental materials and supplies.

**Additional information.** For additional guidance on this method of accounting for inventoriable items, see the following.

- Pub. 538 discusses both exceptions.

- If you are a qualifying taxpayer, see Rev. Proc. 2001-10, on page 272 of Internal Revenue Bulletin 2001-2 at [www.irs.gov/pub/irs-irbs/irb01-02.pdf](http://www.irs.gov/pub/irs-irbs/irb01-02.pdf).

- If you are a qualifying small business taxpayer, see Rev. Proc. 2002-28, on page 815 of Internal Revenue Bulletin 2002-18 at [www.irs.gov/pub/irs-irbs/irb02-18.pdf](http://www.irs.gov/pub/irs-irbs/irb02-18.pdf).



Certain direct and indirect expenses may have to be capitalized or included in inventory. See Part II, earlier. See Pub. 538 for additional information.

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## Line 33

Your inventories can be valued at cost, the lower of cost or market, or any other method approved by the IRS. However, you are required to use cost if you are using the cash method of accounting.

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## Line 35

If you are changing your method of accounting beginning with 2012, refigure last year's closing inventory using your new method of accounting and enter the result on line 35. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring your section 481(a) adjustment. For details, see the [example](#) under *Line F*, earlier.

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## Line 41

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, enter on line 41 the portion of your raw materials and merchandise purchased for resale that is included on line 40 and was not sold during the year.

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## Part IV. Information on Your Vehicle

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### Line 44b

In most cases, commuting is travel between your home and a work location. If you converted your vehicle during the year from personal to business use (or *vice versa*), enter your commuting miles only for the period you drove your vehicle for business. For information on certain travel that is considered a business expense rather than commuting, see the Instructions for Form 2106.

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## Part V. Other Expenses

Include all ordinary and necessary business expenses not deducted elsewhere on Schedule C. List the type and amount of each expense separately in the space provided. Enter the total on lines 48 and 27a. Do not include the cost of business

equipment or furniture, replacements or permanent improvements to property, or personal, living, and family expenses. Do not include charitable contributions. Also, you cannot deduct fines or penalties paid to a government for violating any law. For details on business expenses, see Pub. 535.

**Amortization.** Include amortization in this part. For amortization that begins in 2012, you must complete and attach Form 4562.

You can elect to amortize such costs as:

- The cost of pollution-control facilities;
- Amounts paid for research and experimentation;
- Qualified revitalization expenditures;
- Amounts paid to acquire, protect, expand, register, or defend trademarks or trade names; or
- Goodwill and certain other intangibles.

In most cases, you cannot amortize real property construction period interest and taxes. Special rules apply for allocating interest to real or personal property produced in your trade or business.

For a complete list, see the Instructions for Form 4562, Part VI.

**At-risk loss deduction.** Any loss from this business that was not allowed last year because of the at-risk rules is treated as a deduction allocable to this business in 2012.

**Bad debts.** Include debts and partial debts from sales or services that were included in income and are definitely known to be worthless. If you later collect a debt that you deducted as a bad debt, include it as income in the year collected. For details, see Pub. 535.

**Business start-up costs.** If your business began in 2012, you can elect to deduct up to \$5,000 of certain business start-up costs. The \$5,000 limit is reduced (but not below zero) by the amount by which your total start-up costs exceed \$50,000. Your remaining start-up costs can be amortized over a 180-month period, beginning with the month the business began.

For details, see chapters 7 and 8 of Pub. 535. For amortization that begins in

2012, you must complete and attach Form 4562.

**Costs of making commercial buildings energy efficient.** You may be able to deduct part or all of the cost of modifying existing commercial buildings to make them energy efficient. For details, see section 179D, Notice 2006-52, Notice 2008-40, and Notice 2012-26. Notice 2006-52, 2006-26 I.R.B. 1175, is available at

[www.irs.gov/irb/2006-26\\_IRB/ar11.html](http://www.irs.gov/irb/2006-26_IRB/ar11.html). Notice 2008-40, 2008-14

I.R.B. 725, is available at

[www.irs.gov/irb/2008-14\\_IRB/ar12.html](http://www.irs.gov/irb/2008-14_IRB/ar12.html). Notice 2012-26, 2012-17

I.R.B. 847, is available at [www.irs.gov/irb/2012-17\\_IRB/ar08.html](http://www.irs.gov/irb/2012-17_IRB/ar08.html).

**Deduction for removing barriers to individuals with disabilities and the elderly.** You may be able to deduct up to \$15,000 of costs paid or incurred in 2012 to remove architectural or transportation barriers to individuals with disabilities and the elderly. However, you cannot take both a credit (on Form 8826) and a deduction for the same expenditures.

**Excess farm loss deduction.** Any loss from this business activity, which includes processing a farm commodity as part of your farming business, that was not allowed last year because of the excess farm loss rules is treated as a deduction allocable to this business activity in 2012.

See the Instructions for Schedule F for a definition of farming business for this purpose and for more information about excess farm losses.

**Forestation and reforestation costs.** Reforestation costs are generally capital expenditures. However, for each qualified timber property, you can elect to expense up to \$10,000 (\$5,000 if married filing separately) of qualifying reforestation costs paid or incurred in 2012.

You can elect to amortize the remaining costs over 84 months. For amortization that begins in 2012, you must complete and attach Form 4562.

The amortization election does not apply to trusts, and the expense election does not apply to estates and trusts. For details on reforestation expenses, see chapters 7 and 8 of Pub. 535.

**Principal Business or Professional Activity Codes**

These codes for the Principal Business or Professional Activity classify sole proprietorships by the type of activity they are engaged in to facilitate the administration of the Internal Revenue Code. These

six-digit codes are based on the North American Industry Classification System (NAICS).

Select the category that best describes your primary business activity (for example, Real Estate). Then select the activity that best identifies the principal source of your sales or receipts (for example, real

estate agent). Now find the six-digit code assigned to this activity (for example, 531210, the code for offices of real estate agents and brokers) and enter it on Schedule C or C-EZ, line B.

**Note.** If your principal source of income is from farming activities, you should file Schedule F.

<p><b>Accommodation, Food Services, &amp; Drinking Places</b></p> <p><b>Accommodation</b></p> <p>721310 Rooming &amp; boarding houses</p> <p>721210 RV (recreational vehicle) parks &amp; recreational camps</p> <p>721100 Traveler accommodation (including hotels, motels, &amp; bed &amp; breakfast inns)</p> <p><b>Food Services &amp; Drinking Places</b></p> <p>722514 Cafeterias &amp; buffets</p> <p>722410 Drinking places (alcoholic beverages)</p> <p>722511 Full-service restaurants</p> <p>722513 Limited-service restaurants</p> <p>722515 Snack &amp; non-alcoholic beverage bars</p> <p>722300 Special food services (including food service contractors &amp; caterers)</p>	<p>115310 ginning, soil preparation, planting, &amp; cultivating Support activities for forestry</p> <p><b>Arts, Entertainment, &amp; Recreation</b></p> <p><b>Amusement, Gambling, &amp; Recreation Industries</b></p> <p>713100 Amusement parks &amp; arcades</p> <p>713200 Gambling industries</p> <p>713900 Other amusement &amp; recreation services (including golf courses, skiing facilities, marinas, fitness centers, bowling centers, skating rinks, miniature golf courses)</p> <p><b>Museums, Historical Sites, &amp; Similar Institutions</b></p> <p>712100 Museums, historical sites, &amp; similar institutions</p> <p><b>Performing Arts, Spectator Sports, &amp; Related Industries</b></p> <p>711410 Agents &amp; managers for artists, athletes, entertainers, &amp; other public figures</p> <p>711510 Independent artists, writers, &amp; performers</p> <p>711100 Performing arts companies</p> <p>711300 Promoters of performing arts, sports, &amp; similar events</p> <p>711210 Spectator sports (including professional sports clubs &amp; racetrack operations)</p>	<p><b>Educational Services</b></p> <p>611000 Educational services (including schools, colleges, &amp; universities)</p> <p><b>Finance &amp; Insurance</b></p> <p><b>Credit Intermediation &amp; Related Activities</b></p> <p>522100 Depository credit intermediation (including commercial banking, savings institutions, &amp; credit unions)</p> <p>522200 Nondepository credit intermediation (including sales financing &amp; consumer lending)</p> <p>522300 Activities related to credit intermediation (including loan brokers)</p> <p><b>Insurance Agents, Brokers, &amp; Related Activities</b></p> <p>524210 Insurance agencies &amp; brokerages</p> <p>524290 Other insurance related activities</p> <p><b>Securities, Commodity Contracts, &amp; Other Financial Investments &amp; Related Activities</b></p> <p>523140 Commodity contracts brokers</p> <p>523130 Commodity contracts dealers</p> <p>523110 Investment bankers &amp; securities dealers</p> <p>523210 Securities &amp; commodity exchanges</p> <p>523120 Securities brokers</p> <p>523900 Other financial investment activities (including investment advice)</p>	<p><b>Broadcasting (except Internet) &amp; Telecommunications</b></p> <p>515000 Broadcasting (except Internet)</p> <p>517000 Telecommunications &amp; Internet service providers</p> <p><b>Data Processing Services</b></p> <p>518210 Data processing, hosting, &amp; related services</p> <p>519100 Other information services (including news syndicates &amp; libraries, Internet publishing &amp; broadcasting)</p> <p><b>Motion Picture &amp; Sound Recording</b></p> <p>512100 Motion picture &amp; video industries (except video rental)</p> <p>512200 Sound recording industries</p>
<p><b>Administrative &amp; Support and Waste Management &amp; Remediation Services</b></p> <p><b>Administrative &amp; Support Services</b></p> <p>561430 Business service centers (including private mail centers &amp; copy shops)</p> <p>561740 Carpet &amp; upholstery cleaning services</p> <p>561440 Collection agencies</p> <p>561450 Credit bureaus</p> <p>561410 Document preparation services</p> <p>561300 Employment services</p> <p>561710 Exterminating &amp; pest control services</p> <p>561210 Facilities support (management) services</p> <p>561600 Investigation &amp; security services</p> <p>561720 Janitorial services</p> <p>561730 Landscaping services</p> <p>561110 Office administrative services</p> <p>561420 Telephone call centers (including telephone answering services &amp; telemarketing bureaus)</p> <p>561500 Travel arrangement &amp; reservation services</p> <p>561490 Other business support services (including repossession services, court reporting, &amp; stenotype services)</p> <p>561790 Other services to buildings &amp; dwellings</p> <p>561900 Other support services (including packaging &amp; labeling services, &amp; convention &amp; trade show organizers)</p> <p><b>Waste Management &amp; Remediation Services</b></p> <p>562000 Waste management &amp; remediation services</p>	<p><b>Construction of Buildings</b></p> <p>236200 Nonresidential building construction</p> <p>236100 Residential building construction</p> <p><b>Heavy and Civil Engineering Construction</b></p> <p>237310 Highway, street, &amp; bridge construction</p> <p>237210 Land subdivision</p> <p>237100 Utility system construction</p> <p>237990 Other heavy &amp; civil engineering construction</p> <p><b>Specialty Trade Contractors</b></p> <p>238310 Drywall &amp; insulation contractors</p> <p>238210 Electrical contractors</p> <p>238350 Finish carpentry contractors</p> <p>238330 Flooring contractors</p> <p>238130 Framing carpentry contractors</p> <p>238150 Glass &amp; glazing contractors</p> <p>238140 Masonry contractors</p> <p>238320 Painting &amp; wall covering contractors</p> <p>238220 Plumbing, heating &amp; air-conditioning contractors</p> <p>238110 Poured concrete foundation &amp; structure contractors</p> <p>238160 Roofing contractors</p> <p>238170 Siding contractors</p> <p>238910 Site preparation contractors</p> <p>238120 Structural steel &amp; precast concrete construction contractors</p> <p>238340 Tile &amp; terrazzo contractors</p> <p>238290 Other building equipment contractors</p> <p>238390 Other building finishing contractors</p> <p>238190 Other foundation, structure, &amp; building exterior contractors</p> <p>238990 All other specialty trade contractors</p>	<p><b>Health Care &amp; Social Assistance</b></p> <p><b>Ambulatory Health Care Services</b></p> <p>621610 Home health care services</p> <p>621510 Medical &amp; diagnostic laboratories</p> <p>621310 Offices of chiropractors</p> <p>621210 Offices of dentists</p> <p>621330 Offices of mental health practitioners (except physicians)</p> <p>621320 Offices of optometrists</p> <p>621340 Offices of physical, occupational &amp; speech therapists, &amp; audiologists</p> <p>621111 Offices of physicians (except mental health specialists)</p> <p>621112 Offices of physicians, mental health specialists</p> <p>621391 Offices of podiatrists</p> <p>621399 Offices of all other miscellaneous health practitioners</p> <p>621400 Outpatient care centers</p> <p>621900 Other ambulatory health care services (including ambulance services, blood, &amp; organ banks)</p> <p><b>Hospitals</b></p> <p>622000 Hospitals</p> <p><b>Nursing &amp; Residential Care Facilities</b></p> <p>623000 Nursing &amp; residential care facilities</p> <p><b>Social Assistance</b></p> <p>624410 Child day care services</p> <p>624200 Community food &amp; housing, &amp; emergency &amp; other relief services</p> <p>624100 Individual &amp; family services</p> <p>624310 Vocational rehabilitation services</p>	<p><b>Manufacturing</b></p> <p>315000 Apparel mfg.</p> <p>312000 Beverage &amp; tobacco product mfg.</p> <p>334000 Computer &amp; electronic product mfg.</p> <p>335000 Electrical equipment, appliance, &amp; component mfg.</p> <p>332000 Fabricated metal product mfg.</p> <p>337000 Furniture &amp; related product mfg.</p> <p>333000 Machinery mfg.</p> <p>339110 Medical equipment &amp; supplies mfg.</p> <p>322000 Paper mfg.</p> <p>324100 Petroleum &amp; coal products mfg.</p> <p>326000 Plastics &amp; rubber products mfg.</p> <p>331000 Primary metal mfg.</p> <p>323100 Printing &amp; related support activities</p> <p>313000 Textile mills</p> <p>314000 Textile product mills</p> <p>336000 Transportation equipment mfg.</p> <p>321000 Wood product mfg.</p> <p>339900 Other miscellaneous mfg.</p> <p><b>Chemical Manufacturing</b></p> <p>325100 Basic chemical mfg.</p> <p>325500 Paint, coating, &amp; adhesive mfg.</p> <p>325300 Pesticide, fertilizer, &amp; other agricultural chemical mfg.</p> <p>325410 Pharmaceutical &amp; medicine mfg.</p> <p>325200 Resin, synthetic rubber, &amp; artificial &amp; synthetic fibers &amp; filaments mfg.</p> <p>325600 Soap, cleaning compound, &amp; toilet preparation mfg.</p> <p>325900 Other chemical product &amp; preparation mfg.</p> <p><b>Food Manufacturing</b></p> <p>311110 Animal food mfg.</p> <p>311800 Bakeries, tortilla, &amp; dry pasta mfg.</p> <p>311500 Dairy product mfg.</p> <p>311400 Fruit &amp; vegetable preserving &amp; speciality food mfg.</p> <p>311200 Grain &amp; oilseed milling</p> <p>311610 Animal slaughtering &amp; processing</p> <p>311710 Seafood product preparation &amp; packaging</p> <p>311300 Sugar &amp; confectionery product mfg.</p> <p>311900 Other food mfg. (including coffee, tea, flavorings, &amp; seasonings)</p>
<p><b>Agriculture, Forestry, Hunting, &amp; Fishing</b></p> <p>112900 Animal production (including breeding of cats and dogs)</p> <p>114110 Fishing</p> <p>113000 Forestry &amp; logging (including forest nurseries &amp; timber tracts)</p> <p>114210 Hunting &amp; trapping</p> <p><b>Support Activities for Agriculture &amp; Forestry</b></p> <p>115210 Support activities for animal production (including farriers)</p> <p>115110 Support activities for crop production (including cotton</p>		<p><b>Information</b></p> <p>511000 Publishing industries (except Internet)</p>	<p><b>Leather &amp; Allied Product Manufacturing</b></p> <p>316210 Footwear mfg. (including leather, rubber, &amp; plastics)</p>

**Principal Business or Professional Activity Codes (Continued)**

316110	Leather & hide tanning & finishing	541320	Landscape architecture services	443141	Household appliance stores	486000	Pipeline transportation
316990	Other leather & allied product mfg.	541370	Surveying & mapping (except geophysical) services	<b>Food &amp; Beverage Stores</b>	445100	482110	Rail transportation
<b>Nonmetallic Mineral Product Manufacturing</b>		541380	Testing laboratories	445220	Beer, wine, & liquor stores	487000	Scenic & sightseeing transportation
327300	Cement & concrete product mfg.	<b>Computer Systems Design &amp; Related Services</b>		445230	Fruit & vegetable markets	485410	School & employee bus transportation
327100	Clay product & refractory mfg.	541510	Computer systems design & related services	445100	Grocery stores (including supermarkets & convenience stores without gas)	484200	Specialized freight trucking (including household moving vans)
327210	Glass & glass product mfg.	<b>Specialized Design Services</b>		445210	Meat markets	485300	Taxi & limousine service
327400	Lime & gypsum product mfg.	541400	Specialized design services (including interior, industrial, graphic, & fashion design)	445290	Other specialty food stores	485110	Urban transit systems
327900	Other nonmetallic mineral product mfg.	<b>Other Professional, Scientific, &amp; Technical Services</b>		<b>Furniture &amp; Home Furnishing Stores</b>	442110	483000	Water transportation
<b>Mining</b>		541800	Advertising & related services	442200	Furniture stores	485990	Other transit & ground passenger transportation
212110	Coal mining	541600	Management, scientific, & technical consulting services	<b>Gasoline Stations</b>	447100	488000	Support activities for transportation (including motor vehicle towing)
212200	Metal ore mining	541910	Market research & public opinion polling	447100	Gasoline stations (including convenience stores with gas)	<b>Couriers &amp; Messengers</b>	
212300	Nonmetallic mineral mining & quarrying	541920	Photographic services	<b>General Merchandise Stores</b>	452000	492000	Couriers & messengers
211110	Oil & gas extraction	541700	Scientific research & development services	<b>Health &amp; Personal Care Stores</b>	446120	<b>Warehousing &amp; Storage Facilities</b>	
213110	Support activities for mining	541930	Translation & interpretation services	446120	Cosmetics, beauty supplies, & perfume stores	493100	Warehousing & storage (except leases of miniwarehouses & self-storage units)
<b>Other Services</b>		541940	Veterinary services	446130	Optical goods stores	<b>Utilities</b>	
<b>Personal &amp; Laundry Services</b>		541990	All other professional, scientific, & technical services	446110	Pharmacies & drug stores	221000	Utilities
812111	Barber shops	<b>Real Estate &amp; Rental &amp; Leasing</b>		446190	Other health & personal care stores	<b>Wholesale Trade</b>	
812112	Beauty salons	<b>Real Estate</b>		<b>Motor Vehicle &amp; Parts Dealers</b>		<b>Merchant Wholesalers, Durable Goods</b>	
812220	Cemeteries & crematories	531100	Lessors of real estate (including miniwarehouses & self-storage units)	441300	Automotive parts, accessories, & tire stores	423200	Furniture & home furnishing
812310	Coin-operated laundries & drycleaners	531210	Offices of real estate agents & brokers	441222	Boat dealers	423700	Hardware, & plumbing & heating equipment & supplies
812320	Drycleaning & laundry services (except coin-operated) (including laundry & drycleaning dropoff & pickup sites)	531320	Offices of real estate appraisers	441228	Motorcycle, ATV, & all other motor vehicle dealers	423600	Household appliances & electrical & electronic goods
812210	Funeral homes & funeral services	531310	Real estate property managers	441110	New car dealers	423940	Jewelry, watch, precious stone, & precious metals
812330	Linen & uniform supply	531390	Other activities related to real estate	441210	Recreational vehicle dealers (including motor home & travel trailer dealers)	423300	Lumber & other construction materials
812113	Nail salons	<b>Rental &amp; Leasing Services</b>		441120	Used car dealers	423800	Machinery, equipment, & supplies
812930	Parking lots & garages	532100	Automotive equipment rental & leasing	<b>Sporting Goods, Hobby, Book, &amp; Music Stores</b>		423500	Metal & mineral (except petroleum)
812910	Pet care (except veterinary) services	532400	Commercial & industrial machinery & equipment rental & leasing	451211	Book stores	423100	Motor vehicle & motor vehicle parts & supplies
812920	Photofinishing	532210	Consumer electronics & appliances rental	451120	Hobby, toy, & game stores	423400	Professional & commercial equipment & supplies
812190	Other personal care services (including diet & weight reducing centers)	532220	Formal wear & costume rental	451140	Musical instrument & supplies stores	423930	Recyclable materials
812990	All other personal services	532310	General rental centers	451212	News dealers & newsstands	423910	Sporting & recreational goods & supplies
<b>Repair &amp; Maintenance</b>		532230	Video tape & disc rental	451130	Sewing, needlework, & piece goods stores	423920	Toy & hobby goods & supplies
811120	Automotive body, paint, interior, & glass repair	532290	Other consumer goods rental	<b>Miscellaneous Store Retailers</b>		423990	Other miscellaneous durable goods
811110	Automotive mechanical & electrical repair & maintenance	<b>Religious, Grantmaking, Civic, Professional, &amp; Similar Organizations</b>		453920	Art dealers	<b>Merchant Wholesalers, Nondurable Goods</b>	
811190	Other automotive repair & maintenance (including oil change & lubrication shops & car washes)	813000	Religious, grantmaking, civic, professional, & similar organizations	453110	Florists	424300	Apparel, piece goods, & notions
811310	Commercial & industrial machinery & equipment (except automotive & electronic) repair & maintenance	<b>Retail Trade</b>		453220	Gift, novelty, & souvenir stores	424800	Beer, wine, & distilled alcoholic beverage
811210	Electronic & precision equipment repair & maintenance	<b>Building Material &amp; Garden Equipment &amp; Supplies Dealers</b>		453930	Manufactured (mobile) home dealers	424920	Books, periodicals, & newspapers
811430	Footwear & leather goods repair	444130	Hardware stores	453210	Office supplies & stationery stores	424600	Chemical & allied products
811410	Home & garden equipment & appliance repair & maintenance	444110	Home centers	453910	Pet & pet supplies stores	424210	Drugs & druggists' sundries
811420	Reupholstery & furniture repair	444200	Lawn & garden equipment & supplies stores	453310	Used merchandise stores	424500	Farm product raw materials
811490	Other personal & household goods repair & maintenance	444120	Paint & wallpaper stores	453990	All other miscellaneous store retailers (including tobacco, candle, & trophy shops)	424910	Farm supplies
<b>Professional, Scientific, &amp; Technical Services</b>		444190	Other building materials dealers	<b>Nonstore Retailers</b>		424930	Flower, nursery stock, & florists' supplies
541100	Legal services	<b>Clothing &amp; Accessories Stores</b>		454112	Electronic auctions	424400	Grocery & related products
541211	Offices of certified public accountants	448130	Children's & infants' clothing stores	454111	Electronic shopping	424950	Paint, varnish, & supplies
541214	Payroll services	448150	Clothing accessories stores	454310	Fuel dealers (including heating oil & liquefied petroleum)	424100	Paper & paper products
541213	Tax preparation services	448140	Family clothing stores	454113	Mail-order houses	424700	Petroleum & petroleum products
541219	Other accounting services	448310	Jewelry stores	454210	Vending machine operators	424940	Tobacco & tobacco products
<b>Architectural, Engineering, &amp; Related Services</b>		448320	Luggage & leather goods stores	454390	Other direct selling establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)	424990	Other miscellaneous nondurable goods
541310	Architectural services	448110	Men's clothing stores	<b>Transportation &amp; Warehousing</b>		<b>Wholesale Electronic Markets and Agents &amp; Brokers</b>	
541350	Building inspection services	448210	Shoe stores	481000	Air transportation	425110	Business to business electronic markets
541340	Drafting services	448120	Women's clothing stores	485510	Charter bus industry	425120	Wholesale trade agents & brokers
541330	Engineering services	448190	Other clothing stores	484110	General freight trucking, local	<b>999999</b>	<b>Unclassified establishments (unable to classify)</b>
541360	Geophysical surveying & mapping services	<b>Electronic &amp; Appliance Stores</b>		484120	General freight trucking, long distance		
		443142	Electronics stores (including audio, video, computer, & camera stores)	485210	Interurban & rural bus transportation		