

# CULPEPPER & ASSOCIATES

## DISCLOSURE & ACKNOWLEDGMENT REGARDING SCHEDULE C

Dear Client,

This disclosure is provided for you in order to clarify what expenses may be taken on the IRS Form 1040 Schedule C. In the event of an audit, you will be required to provide support for all expenses listed.

### General Schedule C Overview

The Schedule C is for self-employed individuals who have not formed a legal entity separate from themselves.

### Record-Keeping and Transactions

In order to assist with record-keeping and IRS compliance, we recommend that Schedule C businesses have their own bank accounts and that all business-related transactions be run through said accounts. **As long as you use a credit/debit card, you will generally have proof of your expenditures.** We also recommend that there be no commingling of funds (in other words, don't pay for personal items with the business bank account). This helps to establish that the business is being run like a business, again in the event of an IRS audit, in order to minimize disallowed expenses.

### Hobby-Loss Rules

Generally, Schedule C businesses can show a loss for two years, but not for more than two years within a five year period, otherwise, the hobby loss rules apply and the business is considered to be run as not-for-profit, i.e. a hobby. If this is the case, then expenses must be claimed on Schedule A (not Schedule C) and are subject to the 2% income limitations.

### Auto Expenses

You may deduct automobile expenses under either one of two methods:

- Standard mileage rate (56.5 cents for 2013)
- Actual expenses (you must have documents such as receipts, etc.)

If you use the automobile for both personal and business use, you must adequately track mileage so that we can allocate the actual expenses between personal and business. Whatever method you use for auto expense, you must keep a mileage log which you can get at any office supply store. There must be a separate log in each automobile for which you are taking Schedule C expenses.

### Meals and Entertainment

There are two types of meals deductions. The first is meals 100%, which occurs when you eat food while you are working. An example would be ordering pizza to be delivered during a sales meeting OR picking up takeout food and bringing back to the home office. These expenditures are 100% deductible.

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The second is meals and entertainment, which is only 50% deductible. An example of this is a meeting with a potential client or a meeting with one of your business partners, in a restaurant.

In both cases, you need to have documentation of the expenditures. The easiest way to meet this requirement is:

1. to pay for all meals and entertainment with a credit/debit card
2. then at the end of each month print your bank/credit card statement
3. write on the statement who you met with and why (next to each expenditure) "John, biz meeting"
4. scan the entire statement into a pdf document and save to your computer
5. give us the statements when we work on your tax returns

## Other Business Expenses

You can deduct any expenses which are both ordinary and necessary. An expense does not need to be indispensable to be considered necessary.

Ordinary = common and accepted

Necessary = helpful and appropriate to your business

Other business expenses may include:

- Advertising
- Wages
- Meals & Entertainment
- Travel
- Equipment & Depreciation
- Interest
- Rent or Home Office
- Continuing Education
- Professional Consultations
- Insurance
- Business Licensing
- Taxes
- Pensions & Retirement Plans

## Summary

We recommend you always run your business – like a business. Keep adequate records and make sure any licensing requirements are kept current. Keep a separate bank account from personal and don't commingle funds. Have a business plan. And above all – have fun and be profitable.

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## Acknowledgement

I attest the following:

- ✓ I have read the information contained within this disclosure.
- ✓ I have read page 26 of the IRS Publication 463 Travel, Entertainment, Gift, and Car Expenses and understand the IRS's position in regards what constitutes adequate records.
- ✓ I understand that in the event of an IRS audit, investigation or request, I must be able to provide all supporting documentation for any expenses submitted by me and used by Culpepper & Associates for preparation of the Schedule C of my tax return.
- ✓ I understand that I am ultimately responsible for the Schedule C and I hold harmless Culpepper & Associates, its affiliates and assigns in regards the preparation of my Schedule C.

\_\_\_\_\_  
Client Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Client Signature