



Self-Employed Income 2011 Webinar



*Department of Health Care Services
Medi-Cal Eligibility Division
Financial Eligibility Unit*

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Training Agenda

- Self-Employment Indicators
- Net Profit From Self-Employment Overview
- Computing Net Profit from Self-Employment
- Different Methodologies
- Income/Expense Verification & Tax Forms
- Summary
- References
- Questions

Self-Employment Indicators

- Individual defines scope and nature of daily work activities.
- Others assume little or no liability.
- Does not work at another's facility or make use of another's capital.
- Income tax return indicates self-employment (1040 schedule C/E/F).
- Independent contractor – 1099 employee.

Ref: ACWDL 00-02

Net Profit From Self-Employment Overview

- Estimate the current year's annual net income based on previous year's federal tax return.
 - Estimated by subtracting allowable business expenses from gross business earnings, apportion over 12 months.
 - May use business records if federal return is inaccurate or not available.
- If evidence of business expense is not submitted, do not allow business expense deduction.
- Use your judgment, income reported on the tax return that is no longer received is not counted.

Net Income From Self-Employment

Allowable Expenses

- Material/supply cost
- Employee wage/benefits
- Interest on loans for assets or durable goods
 - Principal & interest 1931(b)
- Transportation
- Rental/lease costs
- Maintenance & repair
- Other costs
 - Advertising
 - Dues/publications
 - Insurance

Expenses Not Allowed

- Entertainment
- Depreciation
- Principal loan payments (MN only)
- Capital equipment expenditures
- Transportation to & from work
- Meals

Methodology

MN Program

- Net Business Income:
 - Start with gross business income Schedule C/E/F.
 - May use business records; 3 Mos. Profit & Loss or Books.
 - Subtract allowable business expenses (if provided).
 - Convert to monthly income.

1931(b) Program

- Net Business Income:
 - Start with gross business income Schedule C/E/F.
 - May use business records; 3 Mos. Profit & Loss or Books.
 - Subtract allowable business expenses (if provided), or; 40% expense deduction.
 - Convert to monthly income.

Ref: ACWDL 01-50 and MEPM, Section 10-M

Use of Tax Form

- Chapter S Corporations and C-Corporations.
- IRS form 1040 and/or 1040 EZ are acceptable verification of income if the tax return reflects the income on the application.
- Any negative amount reflected in lines 1 – 21 shall be treated as zero.
- Sum positive amounts (lines 1-21), then divide by 12 to obtain average monthly income.

Income/Expense Verification

Two Primary Methods

- Copy of previous year's 1040 Schedule:
 - C – profit/loss Sole Proprietorship.
 - F – profit/loss Farming.
 - E – profit/loss Partnership/S-Corp.
- Business records such as profit & loss statements, bookkeeping records for three months preceding month of application.
- County may request more information....

Name, Address, and SSN

See separate instructions.

PRINT CLEARLY

For the year Jan. 1–Dec. 31, 2010, or other tax year beginning _____, 2010, ending _____, 20

Your first name and initial _____

Last name _____

If a joint return, spouse's first name and initial _____

Last name _____

Home address (number and street). If you have a P.O. box, see instructions. _____

Apt. no. _____

City, town or post office, state, and ZIP code. If you have a foreign address, see instructions. _____

Your social security number _____

Spouse's social security number _____

▲ Make sure the SSN(s) above and on line 6c are correct.

Checking a box below will not change your tax or refund.

Presidential Election Campaign

▶ Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

Filing Status

Check only one box.

- 1 Single
- 2 Married filing jointly (even if only one had income)
- 3 Married filing separately. Enter spouse's SSN above and full name here. ▶ _____
- 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ _____
- 5 Qualifying widow(er) with dependent child

Exemptions

6a **Yourself.** If someone can claim you as a dependent, **do not** check box 6a

b **Spouse**

c Dependents:

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see page 15)
				<input type="checkbox"/>

If more than four dependents, see instructions and check here ▶

Boxes checked on 6a and 6b _____

No. of children on 6c who:

- lived with you _____
- did not live with you due to divorce or separation (see instructions) _____

Dependents on 6c not entered above _____

Add numbers on lines above ▶

d Total number of exemptions claimed _____

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 W-2, see page 20.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	
8a	Taxable interest. Attach Schedule B if required	8a	
b	Tax-exempt interest. Do not include on line 8a	8b	
9a	Ordinary dividends. Attach Schedule B if required	9a	
b	Qualified dividends	9b	
10	Taxable refunds, credits, or offsets of state and local income taxes	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ.	12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	IRA distributions	15a	
b	Taxable amount	15b	
16a	Pensions and annuities	16a	
b	Taxable amount	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	
20a	Social security benefits	20a	
b	Taxable amount	20b	
21	Other income. List type and amount _____	21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶	22	

**SCHEDULE C-EZ
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Name of proprietor

Net Profit From Business

(Sole Proprietorship)

► **Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.**
► **Attach to Form 1040, 1040NR, or 1041.** ► **See instructions on page 2.**

OMB No. 1545-0074

2010
Attachment
Sequence No. **09A**

Social security number (SSN)

Part I General Information

**You May Use
Schedule C-EZ
Instead of
Schedule C
Only If You:**

- Had business expenses of \$5,000 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as either a sole proprietor, qualified joint venture, or statutory employee.

And You:

- Had no employees during the year.
- Are not required to file **Form 4562**, Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service

B Enter business code (see page 2)

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

D Enter your EIN (see page 2)

E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.

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

Part II Figure Your Net Profit

1 Gross receipts. Caution. See the instructions for Schedule C, 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, or
- You are a member of a qualified joint venture reporting only rental real estate income not subject to self-employment tax.

... ►

1			
2			
3			

2 Total expenses (see page 2). If more than \$5,000, you must use Schedule C

3 Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on both **Form 1040, line 12**, and **Schedule SE, line 2**, or on **Form 1040NR, line 13**. (If you checked the box on line 1, do not report the amount from line 3 on Schedule SE, line 2.) Estates and trusts, enter on **Form 1041, line 3**

Part III Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ►

5 Of the total number of miles you drove your vehicle during 2010, enter the number of miles you used your vehicle for:

a Business **b** Commuting (see page 2) **c** Other

6 Was your vehicle available for personal use during off-duty hours? **Yes** **No**

7 Do you (or your spouse) have another vehicle available for personal use? **Yes** **No**

8a Do you have evidence to support your deduction? **Yes** **No**

**SCHEDULE C
(Form 1040)**

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074

2010
Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.
Attach to Form 1040, 1040NR, or 1041. See instructions for Schedule C (Form 1040).

Name of proprietor		Social security number (SSN)
A Principal business or profession, including product or service (see instructions)	B Enter code from pages C-9, 10, & 11	
C Business name. If no separate business name, leave blank.	D Employer ID number (EIN), if any	
E Business address (including suite or room no.) City, town or post office, state, and ZIP code		
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____		
G Did you "materially participate" in the operation of this business during 2010? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No		
H If you started or acquired this business during 2010, check here <input type="checkbox"/>		

Part I Income

1 Gross receipts or sales. Caution. See instructions and check the box if: <ul style="list-style-type: none"> This income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, or You are a member of a qualified joint venture reporting only rental real estate income not subject to self-employment tax. Also see instructions for limit on losses. 	<input type="checkbox"/>	1		
2 Returns and allowances		2		
3 Subtract line 2 from line 1		3		
4 Cost of goods sold (from line 42 on page 2)		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	18		
9 Car and truck expenses (see instructions)	9		19 Pension and profit-sharing plans	19		
10 Commissions and fees	10		20 Rent or lease (see instructions):			
11 Contract labor (see instructions)	11		a Vehicles, machinery, and equipment	20a		
12 Depletion	12		b Other business property	20b		
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21 Repairs and maintenance	21		
14 Employee benefit programs (other than on line 19)	14		22 Supplies (not included in Part III)	22		
15 Insurance (other than health)	15		23 Taxes and licenses	23		
16 Interest:			24 Travel, meals, and entertainment:			
a Mortgage (paid to banks, etc.)	16a		a Travel	24a		
b Other	16b		b Deductible meals and entertainment (see instructions)	24b		
17 Legal and professional services	17		25 Utilities	25		
26 Wages (less employment credits)			26 Wages (less employment credits)	26		
27 Other expenses (from line 48 on page 2)			27 Other expenses (from line 48 on page 2)	27		
28 Total expenses before expenses for business use of home. Add lines 8 through 27	28		28 Total expenses before expenses for business use of home. Add lines 8 through 27	28		
29 Tentative profit or (loss). Subtract line 28 from line 7	29		29 Tentative profit or (loss). Subtract line 28 from line 7	29		
30 Expenses for business use of your home. Attach Form 8829	30		30 Expenses for business use of your home. Attach Form 8829	30		
31 Net profit or (loss). Subtract line 30 from line 29. <ul style="list-style-type: none"> If a profit, enter on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13 (if you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. If a loss, you must go to line 32. 	31		31 Net profit or (loss). Subtract line 30 from line 29. <ul style="list-style-type: none"> If a profit, enter on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13 (if you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. If a loss, you must go to line 32. 	31		
32 If you have a loss, check the box that describes your investment in this activity (see instructions). <ul style="list-style-type: none"> If you checked 32a, enter the loss on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13 (if you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. 			32a <input type="checkbox"/> All investment is at risk.			
			32b <input type="checkbox"/> Some investment is not at risk.			

**SCHEDULE F
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Farming

▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B.
▶ See instructions for Schedule F (Form 1040).

OMB No. 1545-0074

2010
Attachment
Sequence No. **14**

Name of proprietor _____ Social security number (SSN) _____

A Principal product. Describe in one or two words your principal crop or activity for the current tax year. _____

B Enter code from Part IV _____

D Employer ID number (EIN), if any _____

C Accounting method: (1) Cash (2) Accrual

E Did you "materially participate" in the operation of this business during 2010? If "No," see instructions for limit on passive losses. Yes No

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 11.) Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797.

1	Sales of livestock and other items you bought for resale	1			
2	Cost or other basis of livestock and other items reported on line 1	2			
3	Subtract line 2 from line 1			3	
4	Sales of livestock, produce, grains, and other products you raised			4	
5a	Cooperative distributions (Form(s) 1099-PATR)	5a		5b	Taxable amount
5b				5b	
6a	Agricultural program payments (see instructions)	6a		6b	Taxable amount
6b				6b	
7	Commodity Credit Corporation (CCC) loans (see instructions):				
a	CCC loans reported under election			7a	
b	CCC loans forfeited	7b		7c	Taxable amount
7c				7c	
8	Crop insurance proceeds and federal crop disaster payments (see instructions):				
a	Amount received in 2010	8a		8b	Taxable amount
8b				8b	
c	If election to defer to 2011 is attached, check here <input type="checkbox"/>		8d	Amount deferred from 2009	8d
8d				8d	
9	Custom hire (machine work) income			9	
10	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)			10	
11	Gross income. Add amounts in the right column for lines 3 through 10. If you use the accrual method to figure your income, enter the amount from Part III, line 51			11	

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses such as taxes, insurance, or repairs on your home.

12	Car and truck expenses (see instructions). Also attach Form 4562	12		25	Pension and profit-sharing plans	25	
13	Chemicals	13		26	Rent or lease (see instructions):		
14	Conservation expenses (see instructions)	14		a	Vehicles, machinery, and equipment	26a	
15	Custom hire (machine work)	15		b	Other (land, animals, etc.)	26b	
16	Depreciation and section 179 expense deduction not claimed elsewhere (see instructions)	16		27	Repairs and maintenance	27	
17	Employee benefit programs other than on line 25	17		28	Seeds and plants	28	
18	Feed	18		29	Storage and warehousing	29	
19	Fertilizers and lime	19		30	Supplies	30	
20	Freight and trucking	20		31	Taxes	31	
21	Gasoline, fuel, and oil	21		32	Utilities	32	
22	Insurance (other than health)	22		33	Veterinary, breeding, and medicine	33	
23	Interest:			34	Other expenses (specify):		
a	Mortgage (paid to banks, etc.)	23a		a		34a	
b	Other	23b		b		34b	
24	Labor hired (less employment credits)	24		c		34c	
				d		34d	
				e		34e	
				f		34f	
35	Total expenses. Add lines 12 through 34f. If line 34f is negative, see instructions					35	
36	Net farm profit or (loss). Subtract line 35 from line 11. Partnerships, see instructions.					36	
	• If a profit, enter the profit on both Form 1040, line 18, and Schedule SE, line 1a; on Form 1040NR, line 19; or on Form 1041, line 6.						
	• If a loss, you must go to line 37.						
37	If you have a loss, you must check the box that describes your investment in this activity and whether you received any applicable subsidy (see instructions).					37a	<input type="checkbox"/> All investment is at risk and you did not receive a subsidy.
	• If you checked 37a, enter the loss on both Form 1040, line 18, and Schedule SE, line 1a; on Form						

**SCHEDULE E
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on return

Supplemental Income and Loss

(From rental real estate, royalties, partnerships,
S corporations, estates, trusts, REMICs, etc.)

▶ Attach to Form 1040, 1040NR, or Form 1041. ▶ See Instructions for Schedule E (Form 1040).

OMB No. 1545-0074

2010

Attachment
Sequence No. **13**

Your social security number

Part I **Income or Loss From Rental Real Estate and Royalties** **Note.** If you are in the business of renting personal property, use **Schedule C or C-EZ** (see page E-3). If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

1	List the type and address of each rental real estate property :	2 For each rental real estate property listed on line 1, did you or your family use it during the tax year for personal purposes for more than the greater of: • 14 days or • 10% of the total days rented at fair rental value? (See page E-4)	Yes No		
			A	<input type="checkbox"/>	<input type="checkbox"/>
			B	<input type="checkbox"/>	<input type="checkbox"/>
			C	<input type="checkbox"/>	<input type="checkbox"/>

		Properties			Totals (Add columns A, B, and C.)
		A	B	C	
3	Rents received				3
4	Royalties received				4
Expenses:					
5	Advertising				
6	Auto and travel (see page E-5)				
7	Cleaning and maintenance				
8	Commissions				
9	Insurance				
10	Legal and other professional fees				
11	Management fees				
12	Mortgage interest paid to banks, etc. (see page E-5)				12
13	Other interest				
14	Repairs				
15	Supplies				
16	Taxes				
17	Utilities				
18	Other (list) ▶				
19	Add lines 5 through 18.				19
20	Depreciation expense or depletion (see page E-5)				20
21	Total expenses. Add lines 19 and 20				21
22	Income or (loss) from rental real estate or royalty properties. Subtract line 21 from line 3 (rents) or line 4 (royalties). If the result is a (loss), see page E-6 to find out if you must file Form 6198				22
23	Deductible rental real estate loss. Caution. Your rental real estate loss on line 22 may be limited. See page E-6 to find out if you must file Form 8582 . Real estate professionals must complete line 43 on page 2				23
24	Income. Add positive amounts shown on line 22. Do not include any losses				24
25	Losses. Add royalty losses from line 22 and rental real estate losses from line 23. Enter total losses here				25
26	Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If				

Name(s) shown on return. Do not enter name and social security number if shown on other side.

Your social security number

Caution. The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.**Part II** **Income or Loss From Partnerships and S Corporations** **Note.** If you report a loss from an at-risk activity for which any amount is **not** at risk, you **must** check the box in column (e) on line 28 and attach **Form 6196**. See page E-2.27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed **Yes** **No** partnership expenses? If you answered "Yes," see page E-7 before completing this section.

28	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if any amount is not at risk
A			<input type="checkbox"/>		<input type="checkbox"/>
B			<input type="checkbox"/>		<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>

Passive Income and Loss		Nonpassive Income and Loss		
(f) Passive loss allowed (attach Form 8582 if required)	(g) Passive income from Schedule K-1	(h) Nonpassive loss from Schedule K-1	(i) Section 179 expense deduction from Form 4562	(j) Nonpassive income from Schedule K-1
A				
B				
C				
D				
29a	Totals			
b	Totals			
30	Add columns (g) and (j) of line 29a			30
31	Add columns (f), (h), and (i) of line 29b			31
32	Total partnership and S corporation income or (loss). Combine lines 30 and 31. Enter the result here and include in the total on line 41 below			32

Part III **Income or Loss From Estates and Trusts**

33	(a) Name	(b) Employer identification number
A		
B		

Passive Income and Loss		Nonpassive Income and Loss	
(c) Passive deduction or loss allowed (attach Form 8582 if required)	(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1	(f) Other income from Schedule K-1
A			
B			
34a	Totals		
b	Totals		
35	Add columns (d) and (f) of line 34a		35
36	Add columns (c) and (e) of line 34b		36
37	Total estate and trust income or (loss). Combine lines 35 and 36. Enter the result here and include in the total on line 41 below		37

Part IV **Income or Loss From Real Estate Mortgage Investment Conduits (REMICs) – Residual Holder**

38	(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules O, line 2c (see page E-8)	(d) Taxable income (net loss) from Schedules O, line 1b	(e) Income from Schedules O, line 3b
39	Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below				39

Part V **Summary**

40	Net farm rental income or (loss) from Form 4835. Also, complete line 42 below	40
41	Total income or (loss). Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Form 1040, line 17, or Form 1040NR, line 18	41
42	Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120S), box 17, code U; and Schedule K-1 (Form 1041), line 14, code F (see page E-8)	42
43	Reconciliation for real estate professionals. If you were a real estate professional (see page E-2), enter the net income or (loss) you reported anywhere on Form 1040 or Form 1040NR from all rental real estate activities	

**Schedule K-1
(Form 1065)**

Department of the Treasury
Internal Revenue Service

2010

For calendar year 2010, or tax
year beginning _____, 2010
ending _____, 20_____

**Partner's Share of Income, Deductions,
Credits, etc.**

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number _____

B Partnership's name, address, city, state, and ZIP code _____

C IRS Center where partnership filed return _____

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number _____

F Partner's name, address, city, state, and ZIP code _____

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I What type of entity is this partner? _____

J Partner's share of profit, loss, and capital (see instructions):

	Beginning		Ending	
Profit	____%	____%	____%	____%
Loss	____%	____%	____%	____%
Capital	____%	____%	____%	____%

K Partner's share of liabilities at year end:

Nonrecourse	\$	_____
Qualified nonrecourse financing	\$	_____
Recourse	\$	_____

L Partner's capital account analysis:

Beginning capital account	\$	_____
Capital contributed during the year	\$	_____
Current year increase (decrease)	\$	_____
Withdrawals & distributions	\$ (_____)
Ending capital account	\$	_____

Tax basis GAAP Section 704(b) book
 Other (explain) _____

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items			
1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)		
		19	Distributions
12	Section 179 deduction		
13	Other deductions		
		20	Other information
14	Self-employment earnings (loss)		

*See attached statement for additional information.

or IRS Use Only

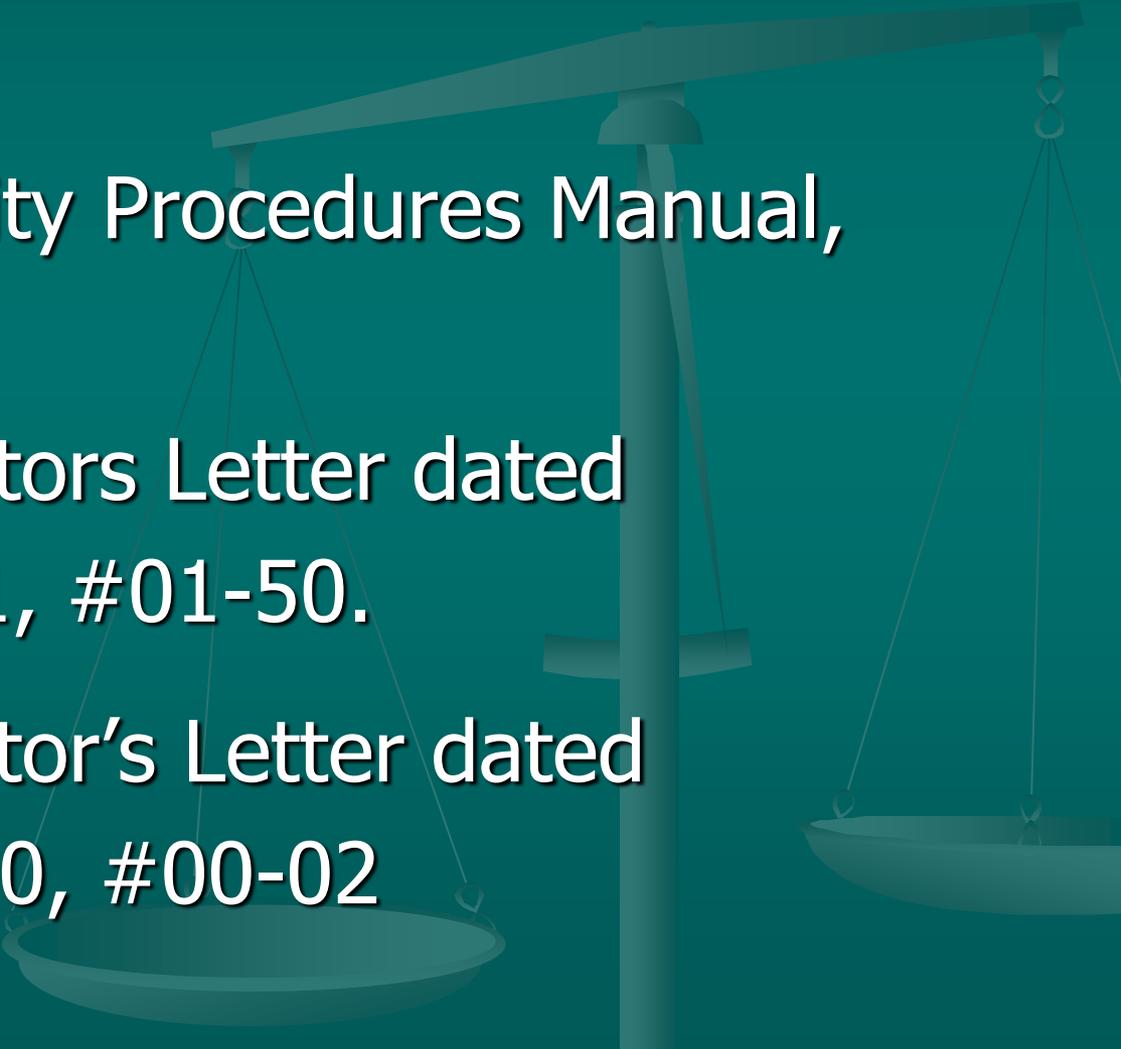
Sample Company
Profit & Loss Statement
 January 1, 2010 to December 31, 2011

Income		
Gross Sales	346,400	
Less returns and allowances	1,000	
Net Sales		345,400
Cost of Goods		
Merchandise Inventory, January 1	160,000	
Purchases	90,000	
Freight Charges	<u>2,000</u>	
Total Merchandise Handled	252,000	
Less Inventory, December 31	<u>100,000</u>	
Cost of Goods Sold		152,000
Gross Profit		193,400
Interest Income	<u>500</u>	
Total Income		193,900
Expenses		
Salaries	68,250	
Utilities	5,800	
Rent	23,000	
Office Supplies	2,250	
Insurance	3,900	
Advertising	8,650	
Telephone	2,700	
Travel and Entertainment	2,550	
Dues & Subscriptions	1,100	
Interest Paid	2,140	
Repairs & Maintenance	1,250	
Taxes & Licenses	11,700	
Total Expenses		133,290
Net Income		\$60,110

Summary

- Start with gross business income.
- Deduct allowable expenses.
- Apportion to monthly income.
- Zero out negative values 1040 items 1-21.
- Evaluate the need for more information.
- If itemized expenses are not provided do not deduct business expenses; exception is 1931(b) straight 40%.

References

- Title 22, California Code of Regulations (CCR) §50505.
 - Medi-Cal Eligibility Procedures Manual, Section 10-M.
 - All County Directors Letter dated August 27, 2001, #01-50.
 - All County Director's Letter dated January 12, 2000, #00-02
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Questions

