

## 2009 Instructions for Schedule C (Form 1040), Profit or Loss From Business

**Purpose:** This is the first circulated draft of the 2009 Instructions for Schedule C (Form 1040) for your review and comments. Changes are listed below.

**TPCC Meeting:** None, but one can be arranged if requested.

**Form:** The 2009 Schedule C (Form 1040) was circulated on May 13, 2009, and can be viewed by clicking on the following link:

[http://linprod1.publish.no.irs.gov/tfpcirc/circ/2009/circ\\_09f1040\(schc\)\\_20090513140135.pdf](http://linprod1.publish.no.irs.gov/tfpcirc/circ/2009/circ_09f1040(schc)_20090513140135.pdf)

**Prior Revisions:** The 2008 Instructions for Schedule C (Form 1040) can be viewed by clicking on the following link: <http://www.irs.gov/pub/irs-pdf/i1040sc.pdf>

**Other Products:** Circulations of draft tax forms, instructions, notices, and publications are posted at: <http://taxforms.web.irs.gov/Circulations/index.htm>

**Comments:** Please email, fax, call, or mail any comments by **August 7, 2009**.

### Major Changes to the 2009 Instructions for Schedule C (Form 1040)

All applicable dates, Schedule C line references, and instruction page references are updated.

#### Page C-1

- We removed all prior year “**What’s New**” items.
- We added the following “**What’s New**” items.
  1. Certain single member LLCs are required to obtain an EIN issued to the LLC (instead of the LLC’s owner) in order to file employment or certain excise tax returns. Treas. Reg. 301.7701-2(c)(2)(iv) & (v).
  2. The increased section 179 deduction is extended through 2009. PL 111-5, section 1202. **I.P. Action Number 65.00433.**
  3. The special bonus depreciation is extended through 2009. PL 111-5, section 1201. **I.P. Action Number 65.00188.**
- Under “**Other Schedules and Forms You May Have to File**,” we removed the list items for the 3 credit forms (8826, 8910, and 8911) and replaced them with a list item for Form 3800. Historically, the Schedule C instructions did not mention any of the many credits available to business taxpayers in this list of schedules and forms. Rather than add list items for certain new credit forms that are added each year, we thought it better to mention the Form 3800, which also provides a list of many of the business credits that may apply to Schedule C filers. We also added list items for Forms 6198 and 8582, because these forms are more directly related to the Schedule C and are actually discussed in these instructions.

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- Under “**Capital Construction Fund**,” we replaced “the Merchant Marine Act, 1936” with “Chapter 535 of title 46 of the United States Code.” PL 109-304, Sec. 17(e)(6)(A).
- We revised the instructions for “**Line D**” to clarify the proper EIN to enter. Request from SE:S:E:EP. Some taxpayers have been entering on line D the EINs from Forms 1099-MISC that they received. We also added instructions for “**Single member LLCs**,” to clarify which EIN to enter on line D, in cases where these entities have been issued two EINs (one issued to the LLC, to be used when filing employment and certain excise tax returns, and one issued to the LLC owner, to be used when filing all other tax and information returns). Email request received from [\\*Taxforms@irs.gov](mailto:Taxforms@irs.gov).

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Under “**Line 9**,” we updated the standard mileage rate for 2009. Rev. Proc. 2008-72, Section 5.

**Page C-7**

We made the following changes under “**Line 26**.”

1. In the second bullet, we deleted the reference to line 2 of Form 5884-A. The employee retention credit does not apply for 2009. PL 110-343, Div. C, Sec. 702.
2. We deleted the bullet for Form 8861. The welfare to work credit on Form 8861 is only available for two years of wages for employees hired before January 1, 2007. PL 109-432, Sec. 105.
3. We added a bullet for new Form 8932. PL 110-245, Sec. 111.

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Under “**Part V. Other Expenses**,” we replaced the paragraph on “**Disaster demolition and clean-up costs**” (IRC 1400N(f)) with a paragraph on “**Qualified disaster expenses**” (IRC 198A), a discussion of which was added to Publication 535 in 2008. PL 110-343, Div. C, Sec. 707. Discussions on disaster demolition and clean-up costs can be found in Publications 4492-A (Kansas) and 4492-B (Midwest) and were mentioned under “What’s New” in the 2008 Instructions for Schedule C.

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# 2009 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, and (b) certain income shown on Form 1099-MISC, Miscellaneous Income. See the *Instructions for Recipients* (back of Copy B of Form 1099-MISC) for the types of income to report on Schedule C.

Small businesses and statutory employees with 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.

### What's New

**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 (effective for wages paid on or after January 1, 2009) using the LLC's name and employer identification number (EIN) rather than the LLC owner's name and EIN. This new requirement to use the LLC's name and EIN also went into effect for certain excise tax returns beginning in 2008. Single-member LLCs not previously needing an EIN now need to obtain an EIN for the payment and reporting of these taxes. For more information, see the Instructions for Form SS-4 (Rev. January 2009).

**Section 179 deduction.** The dollar limit for the section 179 deduction to expense certain depreciable business property is \$250,000 for property placed in service in 2009. This limit will be reduced when the total cost of section 179 property placed in service during the tax year exceeds \$800,000. For more information, see Pub. 946.

**Special depreciation allowance.** For qualifying property acquired and placed in service in 2009, you may be able to take a depreciation deduction equal to 50% of the adjusted basis of the property. Qualifying property includes certain property with a recovery period of 20 years or less, certain computer software, water utility property, or qualified leasehold improvements. For more information, see Pub. 946.

### General Instructions

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

- Schedule A to deduct interest, taxes, and casualty losses not related to your business.
- Schedule E to report rental real estate and royalty income or (loss) that is not subject to self-employment tax.
- Schedule F to report profit or (loss) from farming.
- Schedule J to figure your tax by averaging your farming or fishing income over the previous 3 years. Doing so may reduce your tax.
- Schedule SE 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 2009, to claim amortization that began in 2009, 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 deductible 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.

**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.

**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. 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. For details, see the 2009 General Instructions for Forms 1099, 1098, 3921, 3922, 5498, and W-2G.

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 Business

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. Do not use Schedule C or C-EZ. Instead, file Form 1065. See Pub. 541 for more details.

## Exception—Qualified Joint Venture

If you and your spouse each materially participate (see *Material participation* on page C-3) as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make a joint election to be treated as a qualified joint venture instead of a partnership. 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.

If you have employees or otherwise need an employer identification number (EIN) for the business, see [www.irs.gov](http://www.irs.gov), keyword “qualified joint venture,” for more information.

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.

**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 C or C-EZ instead of 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 and using the Schedule C or C-EZ does not alter the application of the self-employment tax or the passive loss limitation rules.

## 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 *Exception—Qualified Joint Venture* on this page.

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 understatements. 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.

## Specific Instructions

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

## 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.”

## 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. 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.

## 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.

## Line F

Generally, you can use the cash method, accrual method, or any other method per-



mitted 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 on page C-8), 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 may also 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 2008 for which you received payment in 2009. 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 on this page), 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 on this

page. 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 below, 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 *Exception-Qualified Joint Venture* under *Husband-Wife Business* on page C-2).

For purposes of the passive activity rules, you materially participated in the operation of this trade or business activity during 2009 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 above 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, or
- You are a qualified joint venture reporting only rental real estate income, but not as a real estate professional. In these situations 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.

## Line H

If you started or acquired this business in 2009, check the box on line H. Also check the box if you are reopening or restarting this business after temporarily closing it, and you did not file a 2008 Schedule C or C-EZ for this business.

## 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 2009, see page 20 of the instructions for Form 1040 and page SE-2 of the instructions for Schedule SE (Form 1040).

### Line 1

Enter gross receipts from your trade or business. Include amounts you received in your trade or business that were properly 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; therefore, 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 home-workers.

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 reporting only rental real estate income.** See the instructions under *Rental real estate business* on page C-2.

**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(l)(2)(B) for details. If you make this election, include the interest in the total on Form 1040, line 60. Also, enter "453(l)(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 2009 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.

### 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), gasoline or fuel tax refunds you got in 2009, credit for biodiesel and renewable diesel fuels claimed on line 10 of Form 8864, credit for alcohol and cellulosic biofuel fuels claimed on line 6 of Form 6478, credit for federal tax paid on gasoline or other fuels claimed on your 2008 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. Also, include any recapture of the deduction for clean-fuel vehicles and clean-fuel vehicle refueling property used in your business. See Regulations section 1.179A-1 for details.

If the business use percentage of any listed property (defined in the instructions for line 13) dropped to 50% or less in 2009, 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 Pub. 946 to figure the amount.

## 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* on page C-8 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.

### Line 9

You can deduct the actual expenses of operating your car or truck or take the standard mileage rate. You must use actual expenses if you used your vehicle for hire (such as a taxicab) or 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 2009 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 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 the instructions for line 13).

### 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 that is includible on line 17, 21, 26, or 37. Also, do not include salaries and wages paid to your employees, instead see line 26.



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.

## 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.

## 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 depreciable. 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 2009 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 2009;
- Depreciation on listed property (defined below), 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 2009, 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);
- Cellular telephones or other similar telecommunications 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 regu-

lar 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 the instructions for line 6 on page C-4 if the business use percentage of any listed property dropped to 50% or less in 2009.

## 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 28, 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 28, for details.

## 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.

## 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 2009 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 2009 that also applies to future years, deduct only the part that applies to 2009.

## 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.

## Line 18

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

## 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 27, not on Schedule C.

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

For details, see Pub. 560.

## 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.

## 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.

## Line 22

Generally, 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.

## 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 one-half of your self-employment tax on Form 1040, line 27.
- 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. Generally, 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 the instructions for line 24b.

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 \$3 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 the instructions for line 24b).

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.

## 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 sky-box rentals and tickets to entertainment events. See Pub. 463, chapters 1 and 2.

**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.** Generally, 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 con-



sumed 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.

## 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.

## 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, line 2;
- Form 5884-A, Credits for Affected Midwestern Disaster Area Employers, line 6;
- Form 8844, Empowerment Zone and Renewal Community Employment Credit, line 2;
- Form 8845, Indian Employment Credit, line 4; and
- Form 8932, Credit for Employer Differential Wage Payments, line 2.



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.

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

## 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.

## 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 Schedule C, 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. Estates and trusts should enter the total on Form 1041, line 3.

**Statutory employees and qualified joint ventures reporting only rental real estate income not subject to self-employment tax.** 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 are required to file Schedule SE because of other self-employment income, see page SE-4 of 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 page SE-3 of the instructions for Schedule SE.

**Community income.** If you and your spouse had community income and are filing separate returns, see page SE-2 of 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 subtract one-half of your self-employment tax in Part 1, line 1d, of Worksheet B.

## Line 32

**At-risk rules.** Generally, 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 non-recourse 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 or are a qualified joint venture reporting only rental real estate, 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 or are a qualified joint venture reporting only rental real estate, 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 2009 only because of the at-risk rules is treated as a deduction allocable to the business in 2010.

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

## Part III. Cost of Goods Sold

Generally, 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 deductible 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 2009 on line 36. The amount you can deduct for 2009 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 the instructions for Part II on page C-4. See Pub. 538 for additional information.*

## 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.

## Line 35

If you are changing your method of accounting beginning with 2009, 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 on page C-3 under *Line F*.

## 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.

## Part IV. Information on Your Vehicle

### Line 44b

Generally, 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.

## 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 27. 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 2009, 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;

- Goodwill and certain other intangibles; or

- Certain expenses paid or incurred to create or acquire a musical composition or its copyright.

In general, 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 as a deduction last year only because of the at-risk rules is treated as a deduction allocable to this business in 2009. For the loss to be deductible, the amount that is "at risk" must be increased.

**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 2009, you can elect to deduct up to \$5,000 of certain business start-up costs. This 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 2009, 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, and Notice 2008-40. 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. is available at [www.irs.gov/irb/2008-14\\_IRB/ar12.html](http://www.irs.gov/irb/2008-14_IRB/ar12.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 2009 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.

**Qualified disaster expenses.** You can elect to deduct certain expenses you paid or incurred as a result of a federally declared disaster occurring before January 1, 2010. For more information, see chapter 7 of Pub. 535.

**Film and television production expenses.** You can elect to deduct costs of certain qualified film and television productions. For details, see Pub. 535.

**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 separ-

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rately) of qualifying reforestation costs paid or incurred in 2009.

You can elect to amortize the remaining costs over 84 months. For amortization that begins in 2009, 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.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is approved

under OMB control number 1545-1974 and is shown below.

<b>Recordkeeping</b> . . . . .	1 hr., 18 min.
<b>Learning about the law or the form</b> . . . . .	24 min.
<b>Preparing the form</b> . . . . .	1 hr.
<b>Copying, assembling, and sending the form to the IRS</b> . . . . .	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

## 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>722410 Drinking places (alcoholic beverages)</p> <p>722110 Full-service restaurants</p> <p>722210 Limited-service eating places</p> <p>722300 Special food services (including food service contractors &amp; caterers)</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>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 ginning, soil preparation, planting, &amp; cultivating)</p> <p>115310 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>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>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>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>
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**Principal Business or Professional Activity Codes (continued)**

<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>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 &amp; tortilla 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>Leather &amp; Allied Product Manufacturing</b></p> <p>316210 Footwear mfg. (including leather, rubber, &amp; plastics)</p> <p>316110 Leather &amp; hide tanning &amp; finishing</p> <p>316990 Other leather &amp; allied product mfg.</p> <p><b>Nonmetallic Mineral Product Manufacturing</b></p> <p>327300 Cement &amp; concrete product mfg.</p> <p>327100 Clay product &amp; refractory mfg.</p> <p>327210 Glass &amp; glass product mfg.</p> <p>327400 Lime &amp; gypsum product mfg.</p> <p>327900 Other nonmetallic mineral product mfg.</p>	<p><b>Repair &amp; Maintenance</b></p> <p>811120 Automotive body, paint, interior, &amp; glass repair</p> <p>811110 Automotive mechanical &amp; electrical repair &amp; maintenance</p> <p>811190 Other automotive repair &amp; maintenance (including oil change &amp; lubrication shops &amp; car washes)</p> <p>811310 Commercial &amp; industrial machinery &amp; equipment (except automotive &amp; electronic) repair &amp; maintenance</p> <p>811210 Electronic &amp; precision equipment repair &amp; maintenance</p> <p>811430 Footwear &amp; leather goods repair</p> <p>811410 Home &amp; garden equipment &amp; appliance repair &amp; maintenance</p> <p>811420 Reupholstery &amp; furniture repair</p> <p>811490 Other personal &amp; household goods repair &amp; maintenance</p> <p><b>Professional, Scientific, &amp; Technical Services</b></p> <p>541100 Legal services</p> <p>541211 Offices of certified public accountants</p> <p>541214 Payroll services</p> <p>541213 Tax preparation services</p> <p>541219 Other accounting services</p> <p><b>Architectural, Engineering, &amp; Related Services</b></p> <p>541310 Architectural services</p> <p>541350 Building inspection services</p> <p>541340 Drafting services</p> <p>541330 Engineering services</p> <p>541360 Geophysical surveying &amp; mapping services</p> <p>541320 Landscape architecture services</p> <p>541370 Surveying &amp; mapping (except geophysical) services</p> <p>541380 Testing laboratories</p> <p><b>Computer Systems Design &amp; Related Services</b></p> <p>541510 Computer systems design &amp; related services</p> <p><b>Specialized Design Services</b></p> <p>541400 Specialized design services (including interior, industrial, graphic, &amp; fashion design)</p> <p><b>Other Professional, Scientific, &amp; Technical Services</b></p> <p>541800 Advertising &amp; related services</p> <p>541600 Management, scientific, &amp; technical consulting services</p> <p>541910 Market research &amp; public opinion polling</p> <p>541920 Photographic services</p> <p>541700 Scientific research &amp; development services</p> <p>541930 Translation &amp; interpretation services</p> <p>541940 Veterinary services</p> <p>541990 All other professional, scientific, &amp; technical services</p>	<p>531320 Offices of real estate appraisers</p> <p>531310 Real estate property managers</p> <p>531390 Other activities related to real estate</p> <p><b>Rental &amp; Leasing Services</b></p> <p>532100 Automotive equipment rental &amp; leasing</p> <p>532400 Commercial &amp; industrial machinery &amp; equipment rental &amp; leasing</p> <p>532210 Consumer electronics &amp; appliances rental</p> <p>532220 Formal wear &amp; costume rental</p> <p>532310 General rental centers</p> <p>532230 Video tape &amp; disc rental</p> <p>532290 Other consumer goods rental</p> <p><b>Religious, Grantmaking, Civic, Professional, &amp; Similar Organizations</b></p> <p>813000 Religious, grantmaking, civic, professional, &amp; similar organizations</p>
<p><b>Information</b></p> <p>511000 Publishing industries (except Internet)</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>Mining</b></p> <p>212110 Coal mining</p> <p>212200 Metal ore mining</p> <p>212300 Nonmetallic mineral mining &amp; quarrying</p> <p>211110 Oil &amp; gas extraction</p> <p>213110 Support activities for mining</p>	<p><b>Other Services</b></p> <p><b>Personal &amp; Laundry Services</b></p> <p>812111 Barber shops</p> <p>812112 Beauty salons</p> <p>812220 Cemeteries &amp; crematories</p> <p>812310 Coin-operated laundries &amp; drycleaners</p> <p>812320 Drycleaning &amp; laundry services (except coin-operated) (including laundry &amp; drycleaning dropoff &amp; pickup sites)</p> <p>812210 Funeral homes &amp; funeral services</p> <p>812330 Linen &amp; uniform supply</p> <p>812113 Nail salons</p> <p>812930 Parking lots &amp; garages</p> <p>812910 Pet care (except veterinary) services</p> <p>812920 Photofinishing</p> <p>812190 Other personal care services (including diet &amp; weight reducing centers)</p> <p>812990 All other personal services</p>	<p><b>Retail Trade</b></p> <p><b>Building Material &amp; Garden Equipment &amp; Supplies Dealers</b></p> <p>444130 Hardware stores</p> <p>444110 Home centers</p> <p>444200 Lawn &amp; garden equipment &amp; supplies stores</p> <p>444120 Paint &amp; wallpaper stores</p> <p>444190 Other building materials dealers</p> <p><b>Clothing &amp; Accessories Stores</b></p> <p>448130 Children's &amp; infants' clothing stores</p> <p>448150 Clothing accessories stores</p> <p>448140 Family clothing stores</p> <p>448310 Jewelry stores</p> <p>448320 Luggage &amp; leather goods stores</p> <p>448110 Men's clothing stores</p> <p>448210 Shoe stores</p> <p>448120 Women's clothing stores</p> <p>448190 Other clothing stores</p> <p><b>Electronic &amp; Appliance Stores</b></p> <p>443130 Camera &amp; photographic supplies stores</p> <p>443120 Computer &amp; software stores</p> <p>443111 Household appliance stores</p> <p>443112 Radio, television, &amp; other electronics stores</p> <p><b>Food &amp; Beverage Stores</b></p> <p>445310 Beer, wine, &amp; liquor stores</p> <p>445220 Fish &amp; seafood markets</p> <p>445230 Fruit &amp; vegetable markets</p> <p>445100 Grocery stores (including supermarkets &amp; convenience stores without gas)</p> <p>445210 Meat markets</p> <p>445290 Other specialty food stores</p> <p><b>Furniture &amp; Home Furnishing Stores</b></p> <p>442110 Furniture stores</p> <p>442200 Home furnishings stores</p> <p><b>Gasoline Stations</b></p> <p>447100 Gasoline stations (including convenience stores with gas)</p> <p><b>General Merchandise Stores</b></p> <p>452000 General merchandise stores</p> <p><b>Health &amp; Personal Care Stores</b></p> <p>446120 Cosmetics, beauty supplies, &amp; perfume stores</p> <p>446130 Optical goods stores</p> <p>446110 Pharmacies &amp; drug stores</p> <p>446190 Other health &amp; personal care stores</p>

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

<b>Motor Vehicle &amp; Parts Dealers</b> 441300 Automotive parts, accessories, & tire stores 441222 Boat dealers 441221 Motorcycle dealers 441110 New car dealers 441210 Recreational vehicle dealers (including motor home & travel trailer dealers) 441120 Used car dealers 441229 All other motor vehicle dealers	<b>Nonstore Retailers</b> 454112 Electronic auctions 454111 Electronic shopping 454310 Fuel dealers 454113 Mail-order houses 454210 Vending machine operators 454390 Other direct selling establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)	488000 Support activities for transportation (including motor vehicle towing) <b>Couriers &amp; Messengers</b> 492000 Couriers & messengers <b>Warehousing &amp; Storage Facilities</b> 493100 Warehousing & storage (except leases of miniwarehouses & self-storage units)	423990 Other miscellaneous durable goods <b>Merchant Wholesalers, Nondurable Goods</b> 424300 Apparel, piece goods, & notions 424800 Beer, wine, & distilled alcoholic beverage 424920 Books, periodicals, & newspapers 424600 Chemical & allied products 424210 Drugs & druggists' sundries 424500 Farm product raw materials 424910 Farm supplies 424930 Flower, nursery stock, & florists' supplies 424400 Grocery & related products 424950 Paint, varnish, & supplies 424100 Paper & paper products 424700 Petroleum & petroleum products 424940 Tobacco & tobacco products 424990 Other miscellaneous nondurable goods
<b>Sporting Goods, Hobby, Book, &amp; Music Stores</b> 451211 Book stores 451120 Hobby, toy, & game stores 451140 Musical instrument & supplies stores 451212 News dealers & newsstands 451220 Prerecorded tape, compact disc, & record stores 451130 Sewing, needlework, & piece goods stores 451110 Sporting goods stores	<b>Transportation &amp; Warehousing</b> 481000 Air transportation 485510 Charter bus industry 484110 General freight trucking, local 484120 General freight trucking, long distance 485210 Interurban & rural bus transportation 486000 Pipeline transportation 482110 Rail transportation 487000 Scenic & sightseeing transportation 485410 School & employee bus transportation 484200 Specialized freight trucking (including household moving vans) 485300 Taxi & limousine service 485110 Urban transit systems 483000 Water transportation 485990 Other transit & ground passenger transportation	<b>Utilities</b> 221000 Utilities	
<b>Miscellaneous Store Retailers</b> 453920 Art dealers 453110 Florists 453220 Gift, novelty, & souvenir stores 453930 Manufactured (mobile) home dealers 453210 Office supplies & stationery stores 453910 Pet & pet supplies stores 453310 Used merchandise stores 453990 All other miscellaneous store retailers (including tobacco, candle, & trophy shops)		<b>Wholesale Trade</b> <b>Merchant Wholesalers, Durable Goods</b> 423600 Electrical & electronic goods 423200 Furniture & home furnishing 423700 Hardware, & plumbing & heating equipment & supplies 423940 Jewelry, watch, precious stone, & precious metals 423300 Lumber & other construction materials 423800 Machinery, equipment, & supplies 423500 Metal & mineral (except petroleum) 423100 Motor vehicle & motor vehicle parts & supplies 423400 Professional & commercial equipment & supplies 423930 Recyclable materials 423910 Sporting & recreational goods & supplies 423920 Toy & hobby goods & supplies	<b>Wholesale Electronic Markets and Agents &amp; Brokers</b> 425110 Business to business electronic markets 425120 Wholesale trade agents & brokers
			<b>999999 Unclassified establishments (unable to classify)</b>

