Tax Primer
for Self-Employed Parents Completing the Parents’ Financial Statement
Introduction

Use this primer to get an understanding of which few tax forms are most helpful to business or farm owners as you complete your Parents’ Financial Statement (PFS).

This primer doesn’t provide an overview of every possible tax form you might receive or need to file with IRS. Instead, it focuses on the forms that self-employed families may need to have on hand to complete the PFS accurately and correctly.

The tax forms covered in this tax primer are:

- Form W-2
- Form 1040
- Schedule C
- Schedule E
- Schedule F
- Schedule K-1
- Form 1099-MISC
- Form 1065
- Form 1120S

For each of these tax forms, the primer answers 3 questions:

1. What is the form used for?
2. What does the form look like?
3. Which lines on the form matter the most for completing the PFS?

--- Important ---

Be sure to send all your tax forms as required by each school you are applying to for financial aid. Do not limit what you submit to schools to the documents covered in this primer. If a school requires your tax forms and schedules, be sure to send or upload the full set of tax that you submit to the IRS when filing your tax return. Doing so ensures that you complete each school’s document requirements correctly, avoiding possible delays in the process.
Form W-2

What is the Form W2 for?
The W-2 is an annual statement of your earnings for the calendar year, provided by your employer. It also displays how much was withheld from your pay for taxes, Social Security, and Medicare. This is where you can also see how much of your income was put into certain types of pre-tax retirement plans.

What does the Form W2 look like?

Which lines on Form W-2 matter most for completing the PFS?
If you pay yourself a salary from your business, that salary will appear in Box 1. Report the salary in Box 1 of your W-2 on line 7A of the PFS for the parent listed as “Parent A.” Use 7B for the parent listed as “Parent B.” Be sure to report the totals from all W-2s if either parent has more than one for the year.

Look at Box 12. If any amounts appear in this section with a code D-H, be sure to report that amount as “Payments to tax-deferred retirement plans” in PFS line 8D of the Nontaxable Income Worksheet. If you have multiple W2s, be sure to report the total amount.
You do not have to report any other information from the W2 on the PFS. It is possible that one or more schools you’re applying to might ask you to supply other information from the W2. You’ll most likely be required to submit or upload a copy of each W2 you receive as part of your financial aid application.
Form 1040

What is Form 1040 for?
The 1040 is used to report your sources of income, as well as any adjustments, deductions, and credits against your income that will determine how much and what types of federal taxes you should have paid for the tax year. If you’ve paid too much in taxes, it will show how much of a refund from the federal government you are entitled to receive. If you’ve paid too little in taxes, it will show how much more you need to pay.

What does the Form 1040 look like?
The 1040 is a two-page document and additional schedules depending on income source.

► 1040 Page 1
1040 Page 2

Which lines on Form 1040 matter most for completing the PFS?

Nearly every line of the 1040’s Income section has a corresponding line on the PFS where the income information should be reported. Most are straightforward one-to-one matches. However, a few lines are worth pointing out as relevant for business owners:

1040 Page 2 Line 1: Salary/Wages

Salary and wages reported here are a total of salaries earned by the parents in the household. The PFS asks you to report each parent’s salary separately, so you won’t see a single line item on the PFS for the total salaries. Be sure, though, that the total of the salaries you enter in line 7A and 7B for each parent is the same as the total shown on Line 1 of your 1040 Page 2. Business owners must be careful not to report profit taken from the business as salary or wages. If you own a business and paid yourself or your spouse a salary from the business, and reported it with a W-2, only enter the amount of salary from the W-2 in Lines 7A or 7B.

1040 Page 2 Line 15

This shows what you owe for the different types of federal taxes on your income. PFS Line 6G asks you to report your federal taxes paid. Be sure to report the amount shown on 1040 Line 15. If you also have Self-Employment taxes reported on 1040 Schedule 4 Line 57, do not include those in PFS Line 6G, since you will report those separately for each business. If you paid self-employment taxes, for PFS Line 6G, report the total tax on Line 15 of Page 2 minus any Schedule 4 Line 57 Self-Employment tax.
### 1040 Schedule 1: Business Income

#### Additional Income

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-9b</td>
<td>Reserved</td>
<td>1-9b</td>
</tr>
<tr>
<td>10</td>
<td>Taxable refunds, credits, or offsets of state and local income taxes</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Alimony received</td>
<td>11 PFS Line 7E</td>
</tr>
<tr>
<td>12</td>
<td>Business income or (loss), Attach Schedule C or C-EZ</td>
<td>12 PFS Line 15-18</td>
</tr>
<tr>
<td>13</td>
<td>Capital gain or (loss), Attach Schedule D if required, If not required, check here</td>
<td>13 PFS Line 7M</td>
</tr>
<tr>
<td>14</td>
<td>Other gains or (losses), Attach Form 4797</td>
<td>14</td>
</tr>
<tr>
<td>15a</td>
<td>Reserved</td>
<td>15a</td>
</tr>
<tr>
<td>16a</td>
<td>Reserved</td>
<td>16a</td>
</tr>
<tr>
<td>17</td>
<td>Rental real estate, royalties, partnerships, S corporations, trusts, etc, Attach Schedule E</td>
<td>17 PFS Line 7Q or 15-18</td>
</tr>
<tr>
<td>18</td>
<td>Farm income or (loss), Attach Schedule F</td>
<td>18 PFS Line 15-19</td>
</tr>
<tr>
<td>19</td>
<td>Unemployment compensation</td>
<td>19 PFS Line 7R</td>
</tr>
<tr>
<td>20a</td>
<td>Reserved</td>
<td>20a</td>
</tr>
<tr>
<td>21</td>
<td>Other income, List type and amount</td>
<td>21 PFS Line 7T</td>
</tr>
</tbody>
</table>

Combine the amounts in the far right column. If you don’t have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23.

#### Adjustments to Income

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>Educator expenses</td>
<td>23</td>
</tr>
<tr>
<td>24</td>
<td>Certain business expenses of reservists, performing artists, and fee-basis government officials, Attach Form 2106</td>
<td>24</td>
</tr>
<tr>
<td>25</td>
<td>Health savings account deduction, Attach Form 8889</td>
<td>25</td>
</tr>
<tr>
<td>26</td>
<td>Moving expenses for members of the Armed Forces, Attach Form 3903</td>
<td>26</td>
</tr>
<tr>
<td>27</td>
<td>Deductible part of self-employment tax, Attach Schedule SE</td>
<td>27 PFS Line 7I</td>
</tr>
<tr>
<td>28</td>
<td>Self-employed SEP, SIMPLE, and qualified plans</td>
<td>28 PFS Line 7H</td>
</tr>
<tr>
<td>29</td>
<td>Self-employed health insurance deduction</td>
<td>29</td>
</tr>
<tr>
<td>30</td>
<td>Penalty on early withdrawal of savings</td>
<td>30</td>
</tr>
<tr>
<td>31a</td>
<td>Alimony paid b Recipient’s SSN</td>
<td>31a</td>
</tr>
<tr>
<td>32</td>
<td>IRA deduction</td>
<td>32 PFS Line 7G</td>
</tr>
<tr>
<td>33</td>
<td>Student loan interest deduction</td>
<td>33</td>
</tr>
<tr>
<td>34</td>
<td>Reserved</td>
<td>34</td>
</tr>
<tr>
<td>35</td>
<td>Reserved</td>
<td>35</td>
</tr>
<tr>
<td>36</td>
<td>Add lines 23 through 35</td>
<td>36 PFS Line 7F</td>
</tr>
</tbody>
</table>

Make sure to answer “Yes” to PFS line 6h and indicate number of businesses owned on PFS line 6l. This will properly populate Business/Farm section 15-18.
Which Lines Matter for the PFS for Self-Employed Applicants?

- **1040 Schedule 1 Line 12: Business income or (loss)**
  This refers specifically to income or loss you had from a Sole Proprietorship, for which you also completed a Schedule C. On Line 15-18 of the PFS, the total of the net profit or loss from each Schedule C business you own should equal the amount shown on your 1040 Line 12. Be sure to send or upload each Schedule C you file, if you have income or a loss listed on your 1040 Schedule 1 Line 12.

- **1040 Schedule 1 Line 17: Rental real estate, royalties, partnerships, S corporations, trusts, etc.**
  This line can be complicated, depending on what type of income is included here, since many different types of income can be reported on your 1040 Schedule 1 Line 17. If any income reported on Line 17 is from rental property, trusts, or royalties, report it on PFS Line 7Q of PFS (answer “Yes” to Other Taxable Income to open the worksheet). If any income reported on Line 17 is from S corporations or Partnerships that you share ownership in, report it on Line 15-18 of your PFS, in the section that asks you to detail the income and expenses of the business. Be sure to send or upload each Schedule E you file, if you have income or loss listed on your 1040 Schedule 1 Line 17.

- **1040 Schedule 1 Line 18: Farm income or (loss)**
  This refers specifically to income or loss you had from a farm, for which you also completed a Schedule F. On Line 15-18 of the PFS, the total of the net profit or loss from each Schedule F farm you own should equal the amount shown on your 1040 Schedule 1 Line 18. Be sure to send or upload each Schedule F you file, if you have income or a loss listed on your 1040 Schedule 1 Line 18.

- **1040 Schedule 1 Adjustments to Income**
  In this section, three items are specific to self-employed applicants: deductible portion of self-employment tax and payments to self-employment retirement and health insurance plans. Be sure to report them on the appropriate lines on the PFS (7H and 7I). Be sure to report the total shown on 1040 Line 36 on PFS line 7F. If you have adjustments in 1040 Lines 27, 28, or 32, report them in the proper lines on the PFS. If you have adjustments other than those three, be sure to leave a note in PFS Item 7J to specify what the adjustments were for (e.g., “alimony paid” or “Educator expenses”).
Other Schedule’s for Self-Employed Applicants?

- **1040 Schedule 4: Other Taxes**

  ![Schedule 4 Image](image)

- **1040 Schedule 4 Line 57**
  This shows the total amount of self-employment taxes you paid for your business(es). These should also be reported on Line 17J on the PFS. Note that the PFS will ask you how much self-employment tax you paid for each business separately. The total of all those self-employment tax amounts should be equal to what’s reported here on the 1040 Schedule 4 Line 57.
Schedule C

What is the Schedule C for?
The Schedule C is used for reporting specific details about each business you own for which you are the sole proprietor. It shows the name, location, and type of business. It details the total, gross income you received for the business. It itemizes the allowable expenses of the business that can be written off against the business’s income to ultimately show what your net profit or loss was on the business. The net profit or loss is then entered on your Form 1040 Schedule 1 on Line 12. When you submit your 1040 to the IRS, you are required to attach/include a Schedule C for each sole proprietorship you own.

What does the Schedule C look like?

![Schedule C form image]
Which lines on the Schedule C matter most for completing the PFS?

If you have a Schedule C, you have a Sole Proprietorship. On PFS Line 6H, answer “Yes.” You will be required to complete Section 15 for Business/Farm information.

On PFS Line 15C, select “Sole Proprietorship” and complete the questions about each business based on the income and expense information provided on the Schedule C. See below for guidance:

▶ Schedule C: Business Information and Income

Complete a separate PFS section on income for every sole proprietorship you own.
### Schedule C: Business Expenses and Net Profit/Loss

<table>
<thead>
<tr>
<th>Part II Expenses</th>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Car and truck expenses</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Commissions and fees</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Contract labor</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Deduction and section 179 expense deduction (not included in Part II)</td>
<td>13</td>
<td>PF S Line 17F</td>
</tr>
<tr>
<td>Employee benefit programs (other than on line 15)</td>
<td>14</td>
<td>PF S Line 17C</td>
</tr>
<tr>
<td>Insurance (other than health)</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Interest: a Mortgage (paid to banks, etc.)</td>
<td>16a</td>
<td></td>
</tr>
<tr>
<td>b Other</td>
<td>16b</td>
<td></td>
</tr>
<tr>
<td>Legal and professional services</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Total expenses before expenses for business use of home</td>
<td>26</td>
<td>PF S Line 17/</td>
</tr>
</tbody>
</table>

#### Look at Line 13

If you are writing off any depreciation or “section 179 expense,” you will see an entry here. PFS Line 17F asks you to report this amount. If you claim depreciation, you will likely also file a Form 4562. If you have a 4562, be sure to send or upload that with your tax forms. Doing so allows the school to clarify how much of the amount on Line 13 is actual depreciation and not “section 179 expense.” This is to your advantage, typically.

#### Look at Line 26

If you paid wages to employees for your business (as reported on W2’s that you filed for them), the PFS will ask you to separate out any wages you paid for yourself or your spouse from wages you paid to others. If Schedule C Line 26 includes wages for yourself and/or your spouse, report the amount you paid to yourself and/or your spouse on PFS Line 17A. Only report this amount if you provided a W2 as documentation of those earnings. Do NOT report your net profit as your salary.

If Schedule C Line 26 includes wages paid for anyone other than yourself or your spouse, report the amount that went to other employees on PFS Line 17B.
By definition, a sole proprietorship doesn’t share the profit or loss of the business with any other person or entity. Report the amount on Schedule C Line 31 on PFS Line 17L to reflect your share of the total business profit or loss (in other words, the amount that belongs to you).

Complete a separate PFS section on expenses and net profit for every sole proprietorship you own.
What is the Schedule E for?

The Schedule E is used for reporting specific details about several types of income sources such as rental real estate income, income from partnerships, S-Corporations, royalties, trusts, estates, and more.

For rental properties, it details the total, gross income you received for up to three real estate properties you rent out to others. It itemizes the allowable expenses of the rental properties that can be written off against the property’s income to ultimately show what your net profit or loss was on the property. The net profit or loss is then entered on your Form 1040 Schedule 1 on Line 17. If you own more than three rental properties, you must submit multiple Schedule E’s. When you submit your 1040 to the IRS, you are required to attach/include a Schedule E for each set of three rental properties you own.

For Partnerships and S-Corporations, it details the names and types of businesses you own or co-own as partnerships or S-Corporations. It itemizes the income or loss for each entity that is passed through to you to claim on your 1040. The income or loss is included in the entry on your Form 1040 Schedule 1 on Line 17.

What does the Schedule E look like?

► Schedule E, Page 1 for Rental Income
Schedule E, Page 2 for Partnership and S-Corporation Income

- If you do not own any rental properties, you will not have page 1 of Schedule E.
- If you do not own a share in a Partnership or S Corporation, you will not have page 2 of Schedule E (unless you received reportable income from an estate or trust).
Which lines on the Schedule E matter most for completing the PFS?

Rental Property

There are no specific questions on the PFS for detailing the income and expense sources for rental properties. When completing the PFS, owners of rental real estate should include the profit or loss of the rental properties in PFS Line 7Q (answer “Yes” to Other Taxable Income to open worksheet). This amount is found on Line 17 of the Form 1040.

Rental property owners must also complete questions 10K–10U on the PFS.

Be sure to submit to the school all Schedule E’s that you file with your tax return.
### Partnerships and S-Corporations

For each Partnership or S-Corporation you own, the Schedule E will report the pass-through portion of the business’s profit or loss that you must claim on your tax return. The PFS will ask you to report the total income and expenses of the Partnership or Corporation to calculate the profit or loss of the entire entity. On PFS Line 17L, you must indicate how much of that profit/loss was passed-through to you. For each business you are a partner or shareholder in, your entry on Line 17L should match the entries on Lines 28A-28D.

The total pass-through income (or loss) across all entities appears on line 32 of the Schedule E. This is then included in the total income (or loss) reported on the 1040 Schedule 1, Line 17 (along with other income reported on the Schedule E). This amount, in turn, should be reported on Line 7Q of the PFS.
Schedule F

What is the Schedule F for?

The Schedule F is used for reporting specific details about each farm you own for which you are the sole proprietor. It shows the name, location, and type of farm. It details the total, gross income you received for the farm. It itemizes allowable expenses of the farm that can be written off against the farm’s income to ultimately show your net profit or loss on the farm. The net profit or loss is then entered on your Form 1040 Schedule 1 on Line 18. When you submit your 1040 to the IRS, you are required to attach/include a Schedule F for each farm property you own.

What does the Schedule F look like?

If you have a Schedule F, you have a farm. On PFS Line 6H, answer “Yes.” You will be required to complete Section 15 for Business/Farm information.
On PFS Line 15B, select “Farm” and complete the questions about each farm based on the income and expense information provided on the Schedule F. On PFS Line 15C, select the farm’s type…are you the sole owner? Is it part of a partnership or a corporation? Let’s look at each section of the Schedule F.

▶ **Schedule F: Farm Information and Income**

There are many more lines of detail on the income section of the Schedule F than on the PFS. As such, be careful to total the appropriate lines from the Schedule F and report them in the corresponding “catchall” lines of the PFS.

- Lines 1a and 2 on the Schedule F are reported on Line 16A of the PFS.
- Lines 3 through 8 on the Schedule F are reported on the PFS Line 16D.
- Line 1b on Schedule F is reported on Line 16B of the PFS.
- Line 9 on Schedule F should match the calculation on the PFS Line 16E.

Complete a separate section on income for each farm you own..
Schedule F: Farm Expenses and Net Profit/Loss

Look at Line 14

If you are writing off any depreciation or “section 179 expense,” you will see an entry here. PFS Line 17F asks you to report this amount. If you claim depreciation, you will likely also file a Form 4562. If you have a 4562, be sure to upload it with your tax forms. This allows the school to clarify how much of the amount on Line 13 is actual depreciation and not “section 179 expense.” This is to your advantage, typically.

Look at Line 22

If you paid wages to employees for your business (as reported on W-2s or 1099s that you provide them), the PFS will ask you to separate out any wages you paid for yourself or your spouse from wages you paid to others.

If Schedule F Line 22 includes wages for yourself and/or your spouse, report the amount you paid to yourself and/or your spouse on PFS Line 17A.

If Schedule F Line 22 includes wages paid for anyone other than yourself or your spouse, report the amount that went to other employees on PFS Line 17B.

The amount on Schedule F Line 34 should match the calculation on PFS Line 17L to reflect your share of the total farm profit or loss (in other words, the amount that belongs to you).

Complete a separate section on expenses and net profit for each farm you own.
Schedule K-1

What is the Schedule K-1 for?
The Schedule K-1 is designed to report a partner’s or shareholder’s share of the partnership or S Corporation’s income, deductions, and credits. It indicates additional information such as the percentage ownership the individual holds and some insight into the individual’s share of, and activity with, the entity’s liabilities and capital accounts.

Related forms:
- Form 1065 – Partnership tax return
- Form 1120S – S Corporation tax return
- Schedule E

What does the Schedule K-1 look like?

K-1 for Partnership specify “Form 1065” in the top left corner
K-1 for S-Corporations specify “Form 1120S” in the top left corner

Although they share the same “K-1” name, the K-1’s are different enough that it’s important not to get them confused with each other.

“Schedule K-1 (Form 1065)” is issued for Partnerships, while “Schedule K-1 (Form 1120S)” is issued for S Corporations. Be sure not to get them mixed up (e.g., claiming you own a Partnership but submitting a K-1 for an 1120S or vice versa). They are not interchangeable.

Submit all K-1s you receive for all entities you have an ownership stake in when you submit your tax returns.
Which lines on the Schedule K-1 matter most for completing the PFS?

- **Schedule K-1 for Partnerships**: Select “Partnership” in PFS Line 15C

No other information found on the K-1, 1065 needs to be reported on the PFS. The relevant information on Part 2 of the K-1, 1065 gets reported as your share of the income/loss on Schedule E, which ultimately gets reported on the 1040 and PFS Line 7Q.
No other information found on the K-1, 1120S needs to be reported on the PFS. The relevant information on Part 3 of the K-1, 1120S gets reported as your share of the income/loss on Schedule E, which ultimately gets reported on the 1040 and PFS Line 7Q.
Form 1099-MISC

What is Form 1099-MISC for?
The Form 1099-MISC is provided to you by a person or firm for whom you performed work or service by hiring yourself out as a freelancer, contractor, or the like. 1099s can also show other types of income such as royalties, commissions or rents. Basically, it shows income you earned that wasn’t provided to you as someone else’s employee or from your investments.

Other types of 1099s you might receive:

− 1099-DIV (which reports income from dividends, distributions, and capital gains from investments accounts such as stocks, bonds, and mutual funds)
− 1099-INT (which tracks interest income you earned from investments such as savings accounts).

What does the Form 1099-MISC look like?
Which lines on Form 1099-MISC matter most for completing the PFS?

Income reported on your 1099s should already be included in certain lines of your 1040. On the PFS, any income reported on a 1099-MISC (other than rents and royalties) should be reported on PFS Line 7T.

If you and/or your spouse received multiple 1099s, be sure to add the amounts and report the total income on PFS line 7T.

Important Notes

▲ Do not report any amounts reported on a 1099-MISC as salary or wages, even if you earned it by working for someone as a contractor, freelancer, etc. When reporting your salary or wages on the PFS, ONLY include income for which you received a W-2.

▲ Many schools will require you to submit a W2 as part of your financial aid application. If you didn’t receive a W-2 (meaning you didn’t earn a salary as someone else’s employee), but you did receive a 1099-MISC as a contractor or freelancer, submit your 1099-MISC in place of the W-2 the school requires.
**Form 1065**

**What is Form 1065 for?**

Form 1065 is the return filed by entities set up as Partnerships. It details the income, gains, losses, deductions, credits, etc. for the entire operation. Partnerships don’t pay taxes on its income but passes any profits or losses to its partners, who in turn include their share of the profits/losses on their individual returns.

**Related form:**
- Schedule K-1 (Form 1065)

**What does the Form 1065 look like?**

![U.S. Return of Partnership Income form](image-url)
Which lines on Form 1065 matter most for completing the PFS?

To complete the business information section of the PFS, Partnership partners must report the appropriate total income and expenses for the entire entity. This detail can be found on page 1 of the Form 1065 as shown below:

No information found on pages 2–4 of the Form 1065 is needed to complete the PFS. However, some information on page 5 can be useful in reporting the Partnership’s assets and debts, as referenced below.

Submit a copy of the 1065 for each Partnership in which you are a partner with your tax forms. Ask the partnership’s accountant or tax attorney for a copy of it/their if not already provided to you.
While the PFS seeks to gather the current value of the business’s assets and debts at the time of the application, that information can be difficult to come by. Completing the business assets and debts based on the most recently filed 1065 should be a reasonable approach if more current information is not available for the business.
Form 1120S

What is Form 1120S for?

Form 1120S is the return filed by entities set up as S Corporations. It details the income, gains, losses, deductions, credits, etc. for the entire operation. S Corporations don’t pay taxes on its income but pass any profits or losses to its shareholders, who in turn include their share of the profits/losses on their individual returns.

Related form:
- Schedule K-1 (Form 1120S)

What does the Form 1120S look like?
Which lines on Form 1120S matter most for completing the PFS?

Submit a copy of the 1120S for each S Corporation in which you are a shareholder with your tax form. As the corporation's accountant or tax attorney for a copy if one is not already provided to you.
NOTE: No information found on pages 2, 3, or 5 of the Form 1120S is needed to complete the PFS; however, some information on Form 1120S page 4 can be useful in reporting the Corporation’s assets and debts, as referenced below:

While the PFS seeks to gather the current value of the business’s assets and debts at the time of the application, that information can be difficult to come by. Completing the business assets and debts based on the most recently filed 1120S should be a reasonable approach, if more current information is not available for the business.

For financial aid assessment purposes, items on lines 22–26 above are not considered debts and should not be reported on the PFS.