



Highlights of GAO-04-304, a report to congressional requesters

TAX ADMINISTRATION

Information on Expenses Claimed by Small Business Sole Proprietorships

Why GAO Did This Study

Meeting the requirements of tax rules can be especially burdensome to small business sole proprietorships that independently own their businesses. Internal Revenue Service (IRS) data show that, compared to other taxpayer groups, sole proprietorships have more problems complying with their tax obligations. Simplifying how sole proprietorships account for and report expenses may ease their burden and increase compliance.

Because of the requesters' interest in alleviating any unnecessary burden that federal tax requirements impose on small businesses, we were asked to provide information on the expenses that sole proprietorships report on IRS's Form 1040 Schedule C—Profit or Loss from Business and on Form 1040 Schedule F—Profit or Loss from Farming. By having information on the expenses reported by sole proprietorships, policymakers may be in a better position to develop alternatives for simplifying how these taxpayers account for and report their expenses.

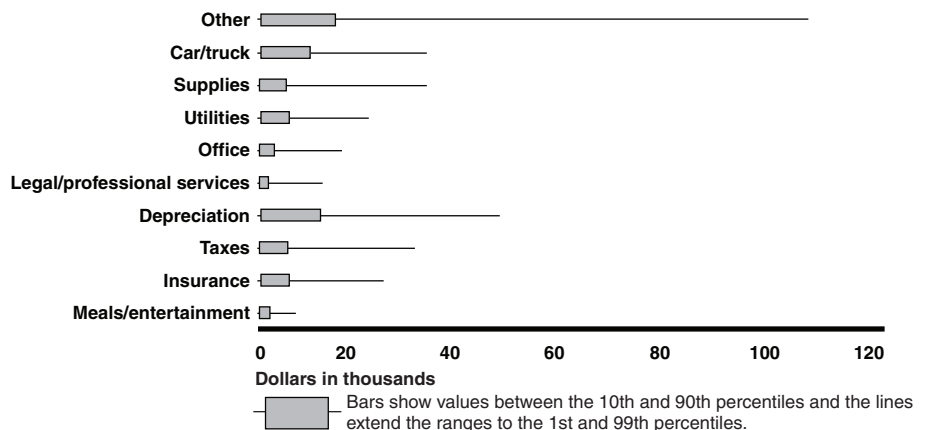
What GAO Found

In tax years 2000 and 2001, the 10 most commonly claimed categories of expenses of sole proprietors filing Schedule C included Other expenses, Car/truck, Supplies, Utilities, Office, and Professional/legal. The percentage of such taxpayers reporting expenses in these categories varied from 73 percent for Other expenses to 48 percent for Professional/legal. Because IRS does not separately compile information on each of the categories of expenses on Schedule F, we could not determine the most commonly claimed expenses for taxpayers who filed that schedule. However, the IRS data showed that more than 50 percent of the taxpayers who filed Schedule F claimed expenses for Depreciation, Repairs, Gasoline/oil, and Supplies.

The expenses that small businesses reported on schedules C and F varied widely across and within expense categories. There was wide variation in both median dollar amounts and ranges. Expenses also varied greatly within the categories of expenses. For example, the expenses for Wages taxpayers reported on Schedule C in tax year 2001 ranged from about \$1,000 at the 10th percentile to \$99,000 at the 90th percentile.

In tax year 2001, there was wide variability in the expenses of sole proprietorships by business characteristics such as gross receipts, industry category, businesses with inventories, and businesses with home offices. Not surprisingly, businesses with higher gross receipts had higher expenses compared to businesses with smaller gross receipts. Further, the distribution of expenses across expense categories generally remained similar for all businesses. However, expenses across industry categories showed wide variability in the amounts and ranges of expenses. Sole proprietors in six industries whose businesses maintained inventories had significantly higher median expenses than those without inventory and sole proprietors with home office expenses generally had lower median expenses than those without home offices.

Ranges of Expenses for the 10 Most Commonly Claimed Categories of Expenses on Schedule C



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To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.