

EITC Tax Preparer Toolkit

Self-employed House Cleaner
wants to file as Head of
Household and Claim Earned
Income Tax Credit

Life's a little easier with



Example 4

A client tells you:

- She is head of household and has 2 children ages 13 and 14.
- She was self-employed cleaning houses, earned \$12,000, and had no expenses.



What Comes To Mind?

Filing Status--

- Should a client be telling you her filing status?

Self-employed individual with no business expenses--

- It is unlikely that someone who is self-employed had no business expenses.

Schedule C business issues--

- Does the client truly have a business? Preparer might get feeling client is not being truthful about the “business.”

What Questions Should You Ask?

Don't let your client's tell you his or her filing status, ask the right questions so **you** can accurately determine the correct filing status. If your client has a child living with him or her for part of the year, ask:

- *Are you married or single?*
- *Do you have a child or children living with you? And if so, how long did the child live with you?*
- *How old is the child or children?*
- *Did anyone else share the household with you?*
- *Who paid rent, groceries, utilities? Did you pay more than half?*
- If your client is not single, divorced or legally separated, ask if your client lived apart from his or her spouse and if not the full year, ask what part of the year.

What Questions Should You Ask?

You ask--

Do you have records of the amount of money you received from house cleaning?

She says--

No, but I know what I earned.

- Will you accept this answer?
- No, you need to ask more questions to find out how she came up with the \$12,000.

What Questions Should You Ask?

You ask--

How much did you charge to clean a house?

She says--

\$60 per house.

Still not enough information to come up with the \$12,000 income.

What Questions Should You Ask?

You ask--

How many houses did you clean?

She says--

I don't know, it wasn't always the same houses.

What Questions Should You Ask?

You ask--

Who provided the cleaning supplies?

She says...

The homeowners provided everything.

This is possible.

Would You Prepare Her Tax Return?

Probably not,

- You need to tell her that IRS requires a written record of amounts earnings and expenses—copies of receipts, invoices, etc.

Maybe,

- If she is able to reasonably reconstruct her income and expenses.

Tip....

A self employed individual is required to report all income and deduct all expenses.

- Authority for deduction of expenses is Revenue Ruling 56-407, 2 C.B. 564.
- Revenue Ruling addressed the issue of whether taxpayers may disregard allowable deductions in computing net earnings from self-employment for self-employment tax purposes. Under § 1402(a), every taxpayer (with the exception of certain farm operators) must claim all allowable deductions in computing net earnings from self-employment for self-employment tax purposes. Because the net earnings from self-employment included in earned income for EIC purposes are defined by cross-reference to the definition of net-earnings from self-employment under I.R.C. §1402(a), this ruling applies equally to the EIC.
- See Chief Counsel Advice CCA 20022051.