

**How to Read Tax
Returns & Different
Ways to Find
Information on Income**

MFSRC 2024 Annual Conference

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**Where to look to find if someone may be self-employed.
How to determine potential self-employment income.
Administrative Subpoenas.**

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Self-employed = Individual owns a company (registered, expired, or not registered), earns cash, is a subcontractor, is a 1099 employee, or may earn money from an unknown source.

Where to look to find self-employment information:

PRISM and MAXIS (notes or STAT/JOBS):

MN DOC Portal (S3) or Vinelink:

Contact Probation Officer.

MGA:

Look for civil cases associated with a business.

Was someone recently pulled over? What vehicle and license plate?

Googlemaps.com (Street View):

In what type of home or apartment does the individual reside.

Work vehicles at home or work location.

Your County's Paid Data Base (e.g. TLO, CLEAR, Accurant, Enformation):

Registered businesses, Business assets, Business associates & Professional licenses, registered vehicles, etc.

Driver and Vehicle Services (DPS):

What vehicles does the individual own?

Is there a loan on any of the vehicles?

Check under the individual's name and under the business name.

Social Media (Facebook, X, VineLink):

Check on your county's policy regarding use of these sites.

Look up the individual's name or the business name.

Request a full Credit Report:

Instructions are on DHS.SIR.

Look for vehicle loan, mortgages, recreational vehicle loans.

Minnesota Secretary of State (SOS) or other States' websites:

Email: Secretary.State@State.MN.US for copies of business records.

Better Business Bureau:

For possible complaints made against a company.

How to determine potential income:**MN Salary Survey:**

<https://apps.deed.state.mn.us/lmi/oes/>

Administrative Subpoenas (mortgage companies, other loans creditors, or landlords):

Authority: MN Statutes 518.46, Subd. 2 and Subd. 5

Authority: Title IV-D Of the Federal Social Security Act in Federal/State Child Support Enforcement Program.

- Subpoena the loan application for the source & amount of income listed.
- Subpoena info on how loan payments are made.
- Subpoena Lease application for the source & amount of income listed.
- Subpoena information on how rent or lease payments are made.

Administrative Subpoenas (to obtain bank account information):

Review bank account information to determine income deposits.

Other items to remember:

- The use of Subpoenas are very invasive.
- Mail a copy of the subpoena along with a cover letter to the subject of the subpoena within 3 days of serving the original subpoena.
- Serve subpoenas by personal service, if possible.
- Can also serve by certified mail or mail with a signature receipt verification.
- Call first to find out who should be served.
- Subpoenas served on a bank can be served on any bank branch.
- The statute allows a 'reasonable' amount of time for compliance.
- Serve a cover letter along with the subpoena including your name, phone number, email address and fax number. I usually get a response via email.

Step by Step Document Analysis for Determining Income

By: Robert Wolf, Megan Kratzke & Karen Terese Kugler

Step 1: Is the person employed?

- No:
 - Does an exception to potential income exist?
 - MFIP/GA recipient.
 - Caregiver of joint children.
 - Temporary reduction of income which will lead to an increase in income.
 - Bona fide career change where the adverse effect of the reduction in income is outweighed by the ultimate benefit for the joint minor child(ren).
 - Physical or mental incapacitation (disability).
 - Incarceration.
 - Documents or information to calculate potential income or actual income:
 - Documentation of past work history and earnings (i.e. DEED, past years' taxes, old paystubs).
 - Salary Survey.
 - Minimum wage for state in which they live.
 - If applicable: Unemployment benefit documentation.
 - If applicable: Worker's compensation settlement documentation.
 - If retired or disabled:
 - Social security award letter and other correspondence.
 - VA benefits letter(s).
 - Pension documentation.
- Yes: Go to Step 2.

Step 2: Is the person self-employed, or do they work for cash?

- No:
 - Documents or information to obtain:
 - Try to obtain both recent paystubs (last 3 months) and also the last paystub of the prior year, which would show full year-to-date income for an entire calendar year.
 - DEED or PRISM
 - Last year's personal tax returns (include not just 1040, but all schedules, worksheets & attachments).
 - If applicable: Salary schedule (i.e. teachers)
 - W-2 (if cannot obtain paystubs)
- Yes: Go to Step 3.

Step 3: Do they work for cash?

- No: Go to Step 4.
- Yes:
 - Documents or information to obtain:

- Apps which show cash transfers:
 - Venmo.
 - CashApp.
 - Ebay.
- Bank statements (last 12 months).
- Salary survey.

Step 4: Does the self-employed person's business prepare separate tax returns?

- Yes: Go to Step 5.
- No: They have a sole proprietorship and their income can be found on schedules attached to their personal tax returns.
 - Documents or information to obtain:
 - Form 1099 (may have more than one).
 - Form 1040.
 - Schedule C.
 - Schedule E.
 - Schedule F.
 - Form 4562.
 - Profit & Loss Statement
 - If needed: Bank statements (last 12 months).
 - If needed: Client invoices.
 - Things to consider when reviewing the documents:
 - Has the person deducted any expenses which reduce their own personal expenses?:
 - Examples can include things like cell phone, internet used at home, meals, travel which is not strictly for business, vehicles which are used for personal reasons as well as personal, and home utilities and office.
 - Is the depreciation expense (if any) straight line depreciation or is it accelerated?
 - Do the expenses claimed seem actual or estimated?
 - Round numbers (i.e. \$1,000) may indicate an estimated amount which is not accurate.
 - Are there any duplicate expenses?
 - If the person has multiple businesses, check to make sure that they did not deduct the same expense across multiple businesses.
 - If the taxes are not trustworthy, consider potential income.

Step 5: The person has a business which files separate business tax returns.

- Documents or information to obtain:
 - 1120 or 1065.
 - The type of 1120 or 1065 will depend on how the business is set up:
 - C Corp = 1120
 - S Corp = 1120-S
 - Partnership = 1065
 - K-1.

- Profit & Loss Statement
- If needed: Bank statements (last 12 months).
- If needed: Client invoices.
- Things to consider when reviewing the documents:
 - Has the person deducted any expenses which reduce their own personal expenses?:
 - Examples can include things like cell phone, internet used at home, meals, travel which is not strictly for business, vehicles which are used for personal reasons as well as personal, and home utilities and office.
 - Is the depreciation expense (if any) straight line depreciation or is it accelerated?
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 - Are there any duplicate expenses?
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 - If the taxes are not trustworthy, consider potential income.

Tax Quick Reference Sheet

By: Robert Wolf, Megan Kratzke & Karen Terese Kugler

Form 1040

- Main form for personal tax returns.
- Is it a joint return? If so, how much is the party's income out of the total income claimed?
- Line 1a = wages
- Line 8 = read in coordination with Schedule 1 – business, rental and farm income as claimed by the party will come in on this line.
Unemployment compensation will also show up on this line.

Schedule C

- Business income for sole proprietors, who don't have separate business taxes. Attached to personal taxes.
- Line 1 = gross revenue
- Line 4 = cost of goods sold (an expense)
- Lines 8 to 27 = claimed expenses
- Line 9 = vehicle expenses, may be mileage or costs, may include vehicles driven for personal reasons.
- Line 13 = depreciation, review in combination with form 4562
- Line 16a = mortgage interest, may include interest on person's residence.
- Line 24 = travel and meals, often includes personal expenses such as their own food.
- Line 27a = other deductions, look for attachment to review these additional expenses.
- Line 30 = home office deduction, often needs to be added back in, since it reduces personal expenses.

W-2

- Received from employer. Some self employed people have their businesses set up to pay themselves as employees and they will have a W-2.
- Box 1 is not the same as gross income. Many things are deducted from gross income to reach box 1 income (i.e. retirement contributions).
- If you only have a W-2, for most earners, box 3 will be closer to gross income.

Form 1120 or 1065

- Main form for separate business tax returns.
- There are a few versions of this form depending on how the business is set up (for example an 1120-S is for S Corps & 1065 is for partnerships).
- Line 1a = gross revenue
- Line 2 = cost of goods sold (an expense)
- 1120: Line 7 = compensation of owners, this likely needs to be removed from expenses to avoid double counting.
- 1120: Line 8 or 1065, line 9 = wages, this may include wages of owners in some situations
- 1120: Line 14 or 1065: Line 16a = depreciation, review in combination with form 4562
- 1120: Line 20 or 1065: Line 21 = other deductions, look for attachment to review these additional expenses.
- For expenses, consider how/if they reduce personal expenses.

Form 4562

- Form which has depreciation expenses on it.
- Under "method" (column f) if it says "s/l" that is straight line depreciation.
- Most other types of depreciation are some form of accelerated depreciation:
 - Part II = Accelerated, Special depreciation
 - "150DB" = Accelerated, 150% declining balance
 - "200DB" = Accelerated, double declining balance

K-1

- Issued by a partnership (business) to a sole or partial owner.
- Line J = the person's percentage share of the business/earnings. Review with prior years' K-1s to see if the % ownership has changed.
- Line 1 = the person's share of business income as claimed by the business. Because business expenses must be analyzed, this number likely cannot be used for child support purposes.
- Line 4 = guaranteed payments

Sample Tax Returns for Scenarios

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

**Profit or Loss From Business
(Sole Proprietorship)**

▶ Go to www.irs.gov/ScheduleC for instructions and the latest information.

▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

OMB No. 1545-0074

2021

Attachment
Sequence No. **09**

Name of proprietor Bob T. Builder		Social security number (SSN)
A Principal business or profession, including product or service (see instructions) Construction	B Enter code from instructions ▶	
C Business name. If no separate business name, leave blank.	D Employer ID number (EIN) (see instr.) 	
E Business address (including suite or room no.) ▶ City, town or post office, state, and ZIP code		
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶		
G Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on losses		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
H If you started or acquired this business during 2021, check here		<input type="checkbox"/>
I Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
J If "Yes," did you or will you file required Form(s) 1099?		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Part I Income		
1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked ▶ <input type="checkbox"/>	1 200,000
2	Returns and allowances	2
3	Subtract line 2 from line 1	3
4	Cost of goods sold (from line 42)	4 75,000
5	Gross profit. Subtract line 4 from line 3	5 125,000
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6
7	Gross income. Add lines 5 and 6 ▶	7 125,000

Part II Expenses. Enter expenses for business use of your home only on line 30.		
8	Advertising	8 10,000
9	Car and truck expenses (see instructions)	9 25,000
10	Commissions and fees	10
11	Contract labor (see instructions)	11
12	Depletion	12
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13 10,000
14	Employee benefit programs (other than on line 19)	14
15	Insurance (other than health)	15 1693
16	Interest (see instructions):	
a	Mortgage (paid to banks, etc.)	16a
b	Other	16b
17	Legal and professional services	17 3,500
18	Office expense (see instructions)	18 16,000
19	Pension and profit-sharing plans	19
20	Rent or lease (see instructions):	
a	Vehicles, machinery, and equipment	20a
b	Other business property	20b
21	Repairs and maintenance	21 2348
22	Supplies (not included in Part III)	22 4,600
23	Taxes and licenses	23
24	Travel and meals:	
a	Travel	24a 8,000
b	Deductible meals (see instructions)	24b 5,000
25	Utilities	25 1,222
26	Wages (less employment credits)	26
27a	Other expenses (from line 48)	27a 20,000
b	Reserved for future use	27b
28	Total expenses before expenses for business use of home. Add lines 8 through 27a ▶	28 107,363
29	Tentative profit or (loss). Subtract line 28 from line 7	29 17,637
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: <u>2400</u> and (b) the part of your home used for business: <u>1200</u> . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30 7637
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 . • If a loss, you must go to line 32.	31 10,000
32	If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both Schedule 1 (Form 1040), line 3 , and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on Form 1041, line 3 . • If you checked 32b, you must attach Form 6198 . Your loss may be limited.	
	32a <input type="checkbox"/> All investment is at risk.	
	32b <input type="checkbox"/> Some investment is not at risk.	

Part III Cost of Goods Sold (see instructions)

33	Method(s) used to value closing inventory: a <input checked="" type="checkbox"/> Cost b <input type="checkbox"/> Lower of cost or market c <input type="checkbox"/> Other (attach explanation)		
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation	<input type="checkbox"/> Yes	<input type="checkbox"/> No
35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	100,000
36	Purchases less cost of items withdrawn for personal use	36	0
37	Cost of labor. Do not include any amounts paid to yourself	37	0
38	Materials and supplies	38	75,000
39	Other costs	39	0
40	Add lines 35 through 39	40	175,000
41	Inventory at end of year	41	100,000
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42	75,000

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43	When did you place your vehicle in service for business purposes? (month/day/year) ▶ <u>1 / 1 / 2021</u>
44	Of the total number of miles you drove your vehicle during 2021, enter the number of miles you used your vehicle for:
a	Business <u>42,800</u> b Commuting (see instructions) _____ c Other _____
45	Was your vehicle available for personal use during off-duty hours? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
46	Do you (or your spouse) have another vehicle available for personal use?. <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
47a	Do you have evidence to support your deduction? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
b	If "Yes," is the evidence written? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Part V Other Expenses. List below business expenses not included on lines 8–26 or line 30.

Bank Charges	263
Dues and Subscriptions	700
Merchant Fees	7649
Miscellaneous	4888
Postage	500
Tools	1500
Phone	2500
Uniforms	2000
48 Total other expenses. Enter here and on line 27a	48 20,000

Depreciation and Amortization
 (Including Information on Listed Property)

▶ Attach to your tax return.
 ▶ Go to www.irs.gov/Form4562 for instructions and the latest information.

Name(s) shown on return Bob T Builder	Business or activity to which this form relates	Identifying number
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Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

1 Maximum amount (see instructions)	1	
2 Total cost of section 179 property placed in service (see instructions)	2	10,000
3 Threshold cost of section 179 property before reduction in limitation (see instructions)	3	0
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	10,000
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	
6 (a) Description of property	(b) Cost (business use only)	(c) Elected cost
Backhoe	10,000	10,000
7 Listed property. Enter the amount from line 29	7	0
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	10,000
9 Tentative deduction. Enter the smaller of line 5 or line 8	9	10,000
10 Carryover of disallowed deduction from line 13 of your 2020 Form 4562	10	
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5. See instructions	11	
12 Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11	12	10,000
13 Carryover of disallowed deduction to 2022. Add lines 9 and 10, less line 12 ▶	13	

Note: Don't use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Don't include listed property. See instructions.)

14 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year. See instructions.	14	
15 Property subject to section 168(f)(1) election	15	
16 Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Don't include listed property. See instructions.)

Section A

17 MACRS deductions for assets placed in service in tax years beginning before 2021	17	
18 If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>		

Section B—Assets Placed in Service During 2021 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2021 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 30-year			30 yrs.	MM	S/L	
d 40-year			40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21 Listed property. Enter amount from line 28	21	
22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22	
23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	