

January 2004

TAX  
ADMINISTRATION

Information on  
Expenses Claimed by  
Small Business Sole  
Proprietorships



G A O

Accountability \* Integrity \* Reliability



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.

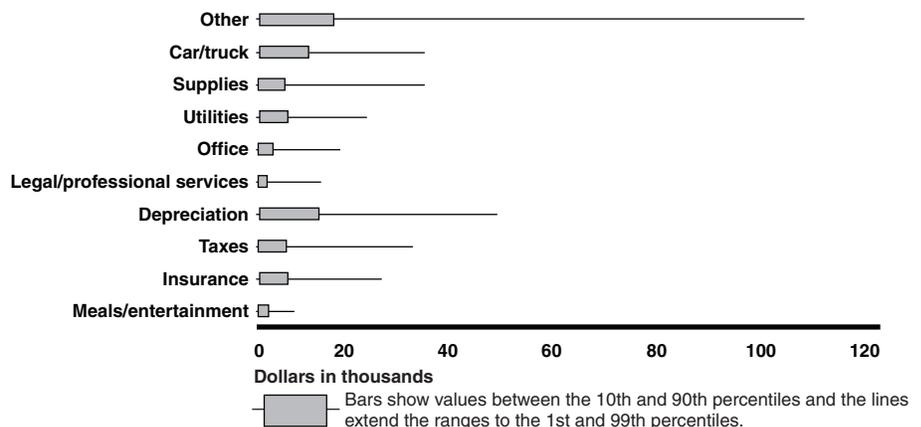
### What GAO Found

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 10<sup>th</sup> percentile to \$99,000 at the 90<sup>th</sup> 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**



[www.gao.gov/cgi-bin/getrpt?GAO-04-304](http://www.gao.gov/cgi-bin/getrpt?GAO-04-304)

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.

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United States General Accounting Office  
Washington, D.C. 20548

January 23, 2004

The Honorable Olympia J. Snowe  
Chair  
Committee on Small Business and Entrepreneurship  
United States Senate

The Honorable Christopher S. Bond  
United States Senate

Complying with tax rules can be especially burdensome to small business sole proprietorships who independently own their unincorporated businesses. Internal Revenue Service (IRS) data show that sole proprietorships have more problems meeting their tax obligations than other taxpayer groups. For example, IRS examiners proposed adjustments to sole proprietors' tax returns at three times the rate as it did for nonbusiness individual tax returns in fiscal year 2001. Simplifying how sole proprietorships account for and report their business expenses may ease their burden and increase compliance.

Sole proprietorships report their business-related expenses on IRS's Form 1040 Schedule C—Profit or Loss from Business, and farm-related expenses on IRS's Form 1040 Schedule F—Profit or Loss from Farming.<sup>1</sup> Both forms are preprinted with a list of expense categories for taxpayers to itemize their expenses, including "Other expenses" for expenses not included in another category.

Because of your interest in alleviating any unnecessary burden that federal tax requirements impose on small businesses, you asked us for information on the expenses that small businesses operating as sole proprietorships report on their income tax returns. As agreed with your office, we are providing you with information on the expenses claimed by taxpayers on Schedule C and Schedule F. Specifically, we are providing information on

- the most commonly reported categories of expenses;
- the amount of variation within and across expense categories; and

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<sup>1</sup>Elsewhere in this report, we refer to these forms simply as Schedule C and Schedule F.

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- the expenses based on selected business characteristics such as size, industry category, businesses with inventories, and businesses with home offices.

You also asked us for information on the cost of goods sold for businesses with inventories and information on depreciation expenses by industry categories. Appendix V provides that information.

To address our objectives, we reviewed the Schedule C and Schedule F tax forms, their related instructions, and other IRS publications pertaining to small businesses. We obtained IRS's Statistics of Income (SOI) individual income tax databases for tax years 2000 and 2001, the most recent 2 years that data were available. The SOI databases included information on taxpayers who reported business expenses on Schedule C and Schedule F. We used these databases to develop the statistical information in this report. Given that the SOI data are a sample, the population estimates made from the data are subject to sampling errors. The numbers we report are estimated to the population with a 95 percent confidence interval. The sample error surrounding each estimate is disclosed for each data table contained in the appendixes. Also, we omitted population estimates from some tables when there were too few observations or too much sample variation to generate reliable estimates. This report only addresses one group of small business taxpayers, that is, sole proprietorships who reported business expenses on Schedule C or Schedule F.

We determined that the SOI databases were reliable for our purposes, although they have limitations for our purposes. Specifically, because IRS does not compile separate information on each of the expense categories listed on Schedule F, we could not provide complete information on the expenses of small businesses engaged in farming. Furthermore, the SOI data contain information as reported by taxpayers on their tax returns prior to verification by IRS through audits and other checks.

We conducted our work between April 2003 and October 2003 in accordance with generally accepted government auditing standards. Appendix I describes our objectives, scope, and methodology in greater detail.

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## Results in Brief

In tax years 2000 and 2001, the most commonly claimed categories of expenses for sole proprietors filing Schedule Cs included Other expenses, Car/truck, Supplies, Utilities, Office, and Professional/legal. The

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percentage of taxpayers filing Schedule Cs that reported expenses in these categories varied from 73 percent for the Other expense category to 48 percent for the Professional/legal expense category. Because the SOI database did not separately compile information for each expense category on Schedule F, we were unable to determine the most commonly reported categories of expenses of taxpayers filing Schedule F. However, over 50 percent of the taxpayers filing Schedule F claimed expenses for Depreciation, Repairs, Gasoline/oil, and Supplies.

The expenses that small businesses reported on Schedule C and Schedule F varied widely across and within expense categories. There was wide variation in both median dollar amounts and ranges. On Schedule C in tax year 2001, the 99<sup>th</sup> percentile<sup>2</sup> ranged from about \$10,000 for Meals/entertainment expenses to nearly \$350,000 for Wages. Expenses also varied greatly within the categories of expenses. For example, the expenses for Wages that taxpayers reported on Schedule C in tax year 2001 ranged from about \$1,000 at the 10<sup>th</sup> percentile to about \$99,000 at the 90<sup>th</sup> percentile.

In tax year 2001, there was wide variability in the expenses of sole proprietorships based on business characteristics such as size (measured in gross receipts), industry category, businesses with inventories, and businesses with home offices.<sup>3</sup> Not surprisingly, for the 10 most commonly claimed expenses on Schedule C, businesses with higher gross receipts had higher expenses in contrast to businesses with smaller gross receipts that had lower expenses. Further, the distribution of expenses across expense categories generally remained similar for all business sizes. However, in viewing the expenses across industry categories, the data showed wide variability in the amounts and ranges of expenses. For example, the total expenses that farming sole proprietorships claimed were about 75 percent larger than the total expenses that taxpayers claimed for any other industry. In six industries, sole proprietors whose businesses maintained inventories had significantly higher median expenses than those that did not, and sole proprietors with home office expenses generally had lower median expenses than those without home offices.

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<sup>2</sup>We are not providing information on ranges of expense categories for the absolute minimum and maximum amounts to remove extreme outliers and to ensure that we do not disclose taxpayer information.

<sup>3</sup>Businesses with home office expenses only relate to sole proprietors filing Schedule Cs.

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## Background

IRS defines small businesses to include all partnerships, corporations, and S corporations with assets under \$10 million, and all self-employed individuals also known as sole proprietorships.<sup>4</sup> Each form of business has distinctive legal characteristics that bring about different tax consequences. For example, corporations are taxed as separate entities distinct from their owners, with taxable dividends included in the shareholders' income; income earned by S corporations and partnerships is passed through to their owners and taxed at the owners' rates; and sole proprietorships are taxed as individuals.<sup>5</sup>

According to IRS's data, a majority of small businesses are sole proprietorships. In calendar year 2003 about 20.4 million sole proprietors were expected to file tax returns. In addition, about 7 million of the 8.2 million partnerships, corporations, and S corporations were expected to file tax returns had assets of less than \$10 million.

Sole proprietors report their business income to IRS on Form 1040, the individual income tax return. They are also required to attach the appropriate schedules for reporting income and expenses related to their business operations such as Schedule C and Schedule F.<sup>6</sup> Schedule C is preprinted with 24 expense categories including a separate line for taxpayers to record expenses for business use of their homes. Similarly, Schedule F has 25 expense categories. One of the expense categories on both schedules is for taxpayers to report any other expenses that do not generally fit within one of the itemized categories. In tax year 2001, about 90 percent of the sole proprietors submitted Schedule Cs and about 10 percent submitted Schedule Fs.

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<sup>4</sup>Sole proprietors may employ individuals other than themselves to work in their business.

<sup>5</sup>A limited liability company (LLC) may be classified for federal income tax purposes as a sole proprietorship, partnership, or a corporation. If the LLC has only one owner, it will automatically be considered to be a sole proprietorship, unless an election is made to be treated as a corporation.

<sup>6</sup>Sole proprietors with a single business that had \$2,500 or less in expenses and used the cash method for accounting purposes and had no inventory at any time during the year can use Schedule C-EZ provided they had no operating loss and met certain other criteria.

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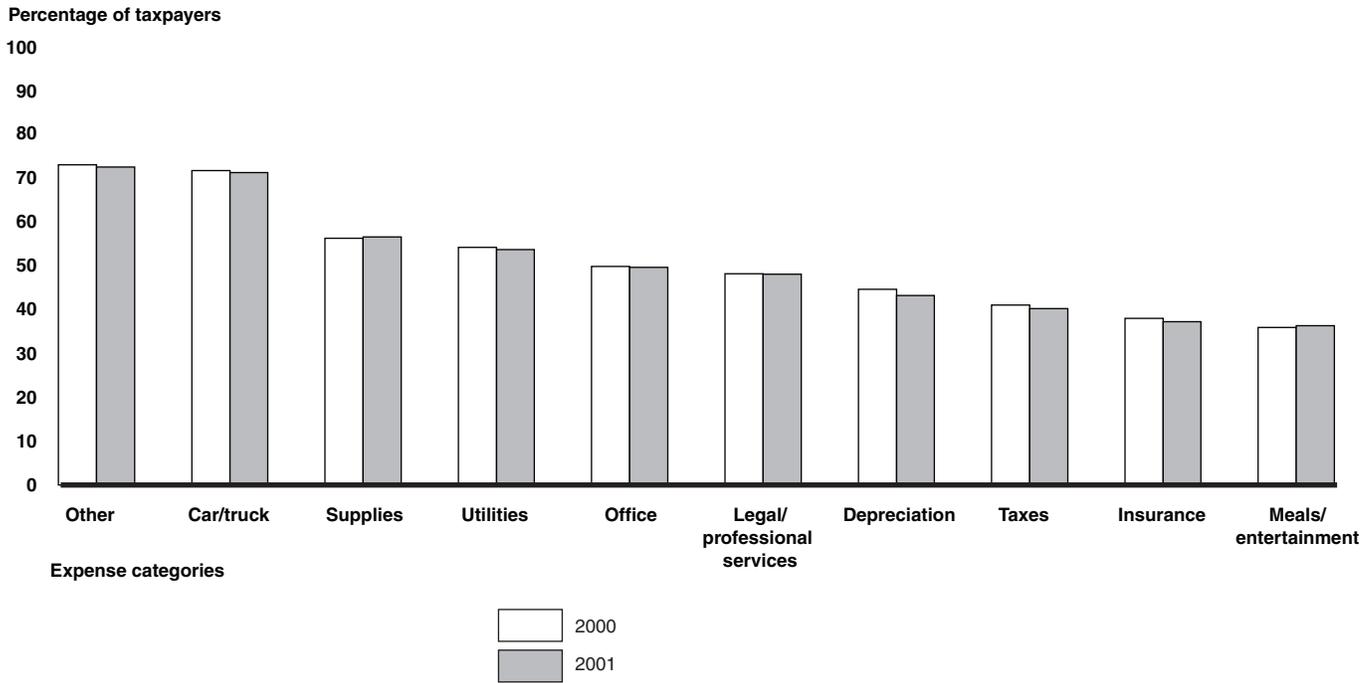
## The Most Commonly Claimed Categories of Expenses of Sole Proprietorships

Figure 1 shows the 10 most commonly claimed categories of expenses that sole proprietorships reported on Schedule C. As illustrated, the most commonly claimed categories of expenses on Schedule Cs included Other expenses, Car/truck, Supplies, Utilities, Office, and Professional/legal. The percentage of taxpayers claiming these particular categories of expenses ranged from 73 percent for Other expenses to 48 percent for Professional/legal. While the information contained in IRS's SOI database precluded us from determining the most common expenses that taxpayers reported on Schedule Fs, figure 2 shows the percentage of taxpayers claiming Schedule F expenses that SOI does individually track. The available data showed that more than half of the sole proprietors claimed expenses in the categories for Depreciation, Repairs, Gasoline/oil, and Supplies. We could not determine the most commonly reported expenses of taxpayers who filed Schedule F because IRS does not compile detailed information on 13 of the 25 expense categories on Schedule F.<sup>7</sup> Instead, the data on these 13 expense categories are aggregated with and reported in the Other expense category. Consequently, the value of the Other expense category is overstated. The tables in appendix II provide additional information on the percentage of taxpayers who claimed certain expense categories on Schedule Cs and Schedule Fs in tax years 2000 and 2001.

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<sup>7</sup>SOI officials stated that they do not compile information on each category of expenses on Schedule Fs because currently there is no requirement to do so.

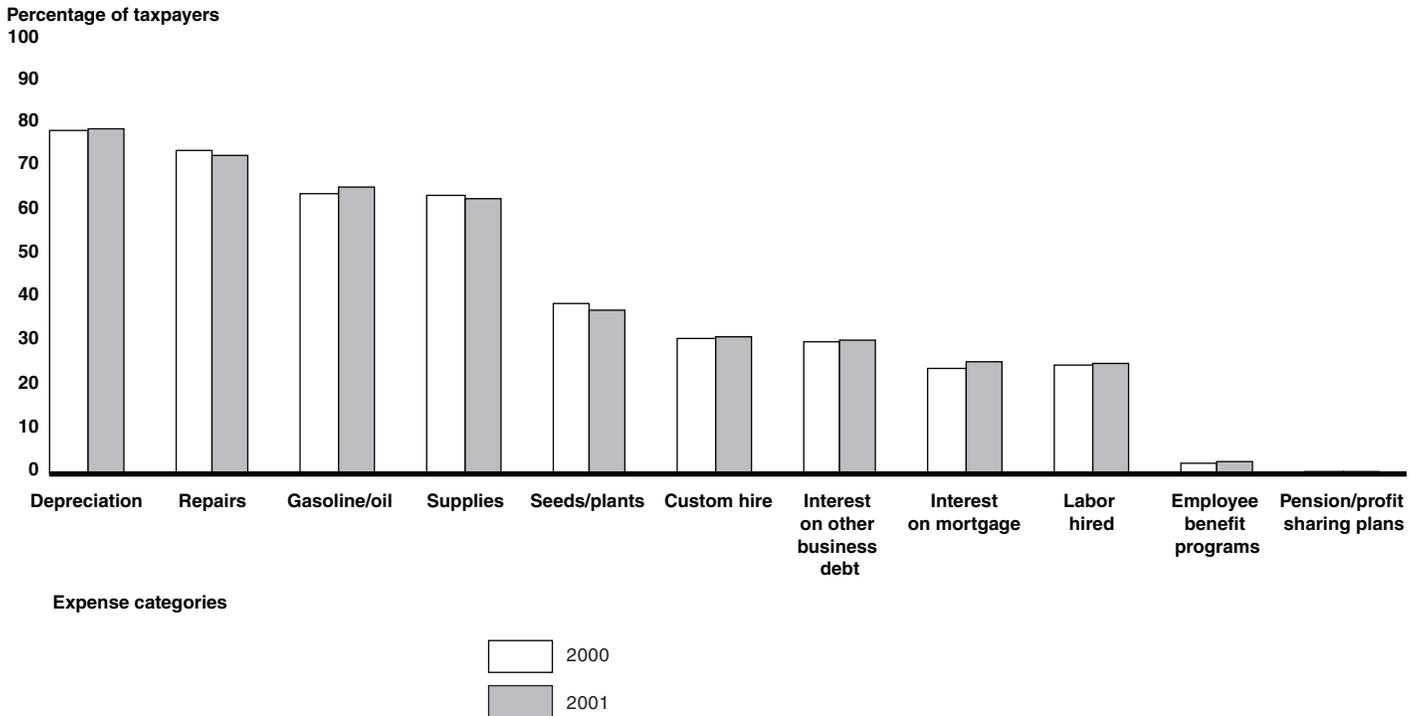
**Figure 1: Ten Most Commonly Reported Expenses on Schedule C, Tax Years 2000 and 2001**



Source: GAO analysis of IRS data.

Note: Insurance expense excludes accident and health insurance for employees.

**Figure 2: Reported Expenses Compiled by SOI from Schedule F, Tax Years 2000 and 2001**



Source: GAO analysis of IRS data.

Note: Excludes the Other expenses category because SOI aggregates the 13 categories of expenses for which data are not individually compiled into the Other expenses category.

## Wide Variation in Amounts of Expenses Within and Across Expense Categories

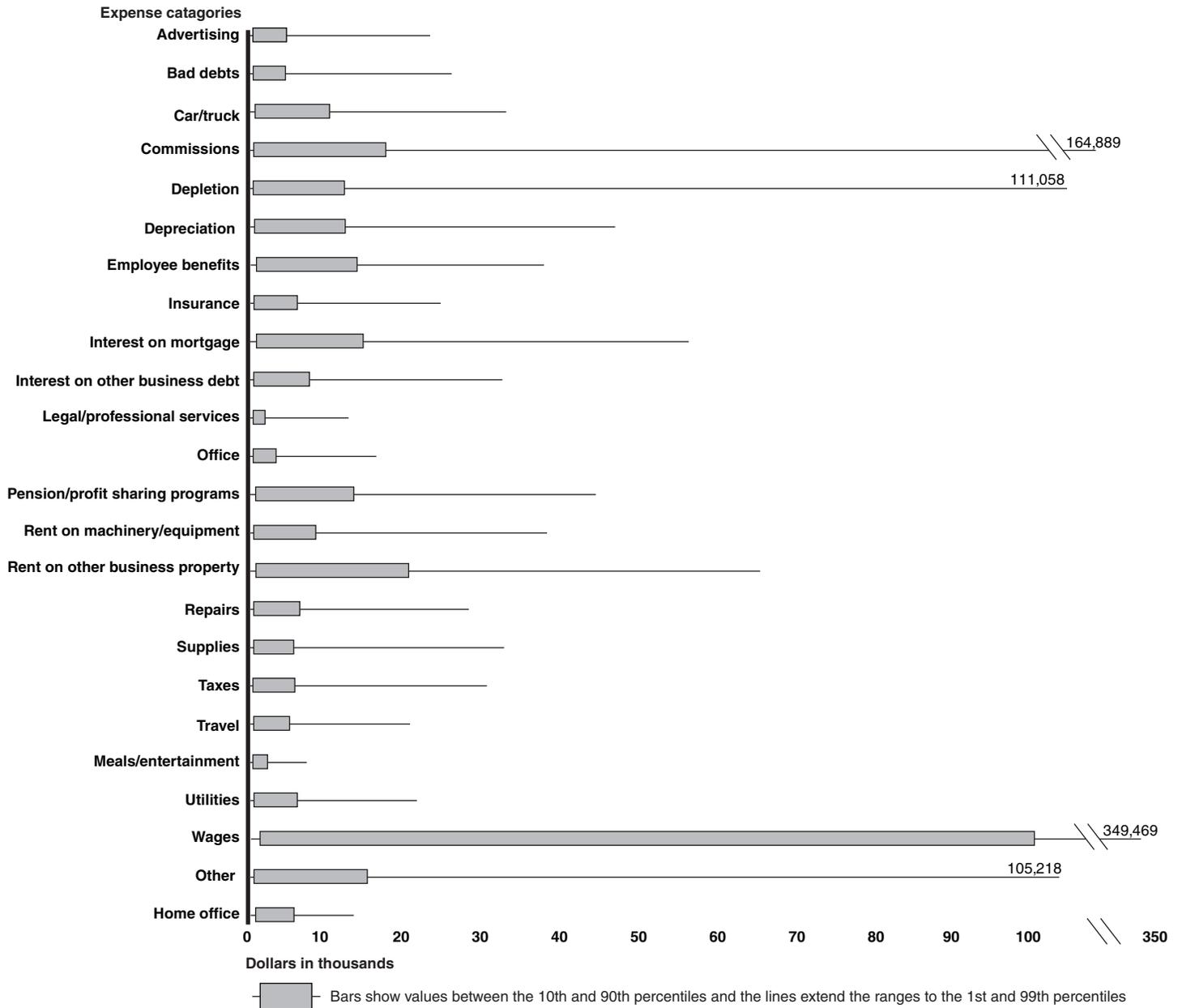
The expenses reported by sole proprietorships on Schedule C and Schedule F varied widely across and within expense categories. The median dollar amounts for expenses varied extensively across expense categories as did the ranges of expenses reported on both schedules. For example, the 99<sup>th</sup> percentile of expenses on Schedule C ranged from about \$10,000 for Meals/entertainment to about \$350,000 for Wages. Within an expense category, the data also showed wide variation.

Figures 3 and 4 show the broad ranges of expenses that sole proprietorships reported on Schedule Cs and Schedule Fs in tax year 2001. The solid bars represent the ranges of expenses at the 10<sup>th</sup> and the 90<sup>th</sup>

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percentiles and define the ranges where 80 percent of the expenses fell. For example, 80 percent of claims on Schedule C for Wage expenses fell between \$895 at the 10<sup>th</sup> percentile and \$99,163 at the 90<sup>th</sup> percentile. The lines that extend out from the ends of the bar show the range of the expenses to the 1<sup>st</sup> and 99<sup>th</sup> percentiles. For example, Wage expenses on Schedule C ranged from approximately \$100 at the 1<sup>st</sup> percentile to about \$350,000 at the 99<sup>th</sup> percentile. Like schedule C, the ranges of expenses on Schedule F varied widely.

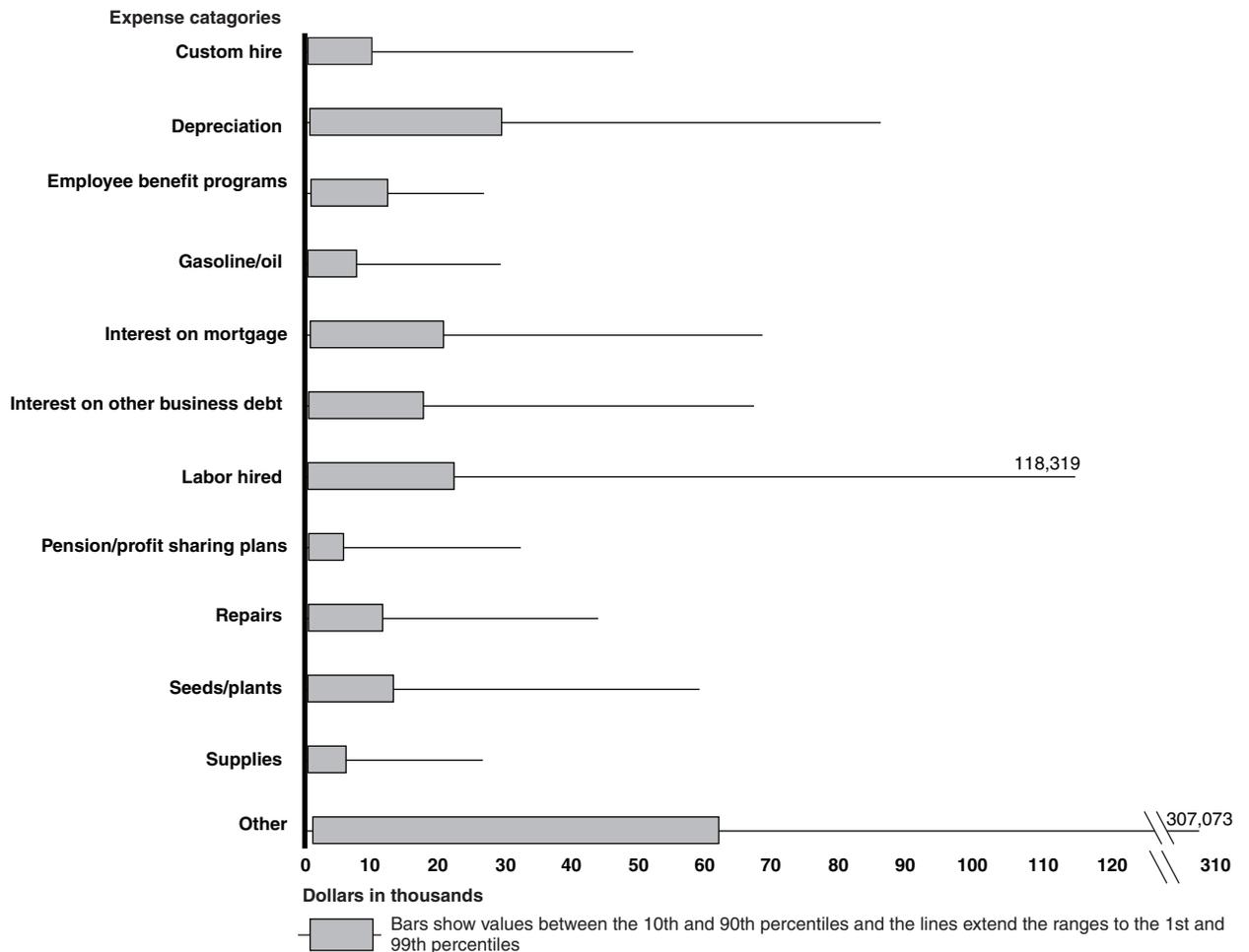
**Figure 3: Ranges of Expenses Reported on Schedule C, Tax Year 2001**



Source: GAO analysis of IRS data.

Note: Insurance expense excludes accident and health insurance for employees.

**Figure 4: Ranges of Expenses Reported on Schedule F Compiled by SOI, Tax Year 2001**

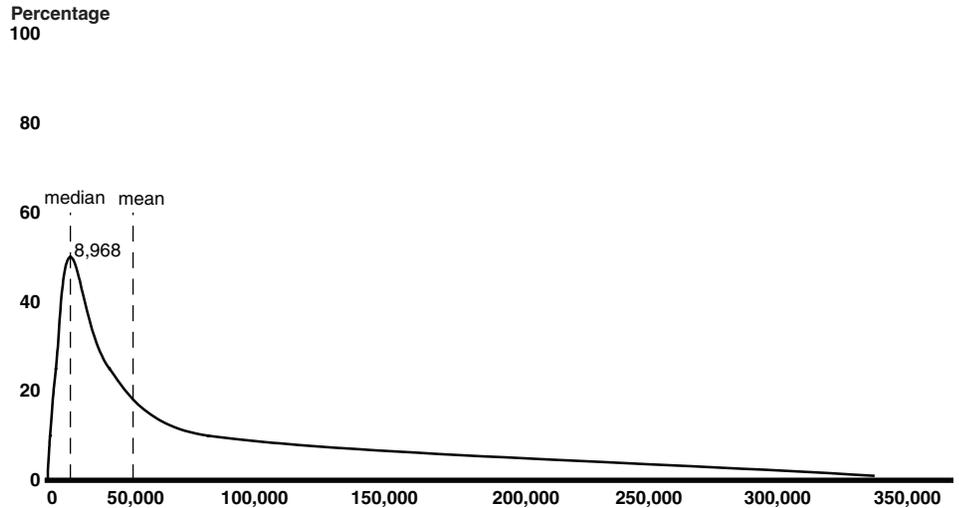


Source: GAO analysis of IRS data.

Note: The Other expense category includes information on the Other expense category plus the 13 categories of expenses for which IRS does not compile separate data.

Figure 5 shows the percentage distribution of taxpayers according to the aggregate amount of expenses they reported on Schedule C in tax year 2001. As illustrated, the median expenses claimed were \$8,968. This means that half of the taxpayers claimed less than \$8,968 in total expenses while half claimed more.

**Figure 5: Percentage Distribution of Taxpayers According to Their Aggregate Expenses Reported on Schedule C, Tax Year 2001**



Source: GAO analysis of IRS data.

## Wide Variation in Expenses by Business Characteristics

There was a high degree of variability in the amounts and ranges of expenses based on business size, industry category, businesses with inventories, and businesses with home offices.<sup>8</sup>

## As Gross Receipts Increased, the Distribution of Expenses Remained Similar

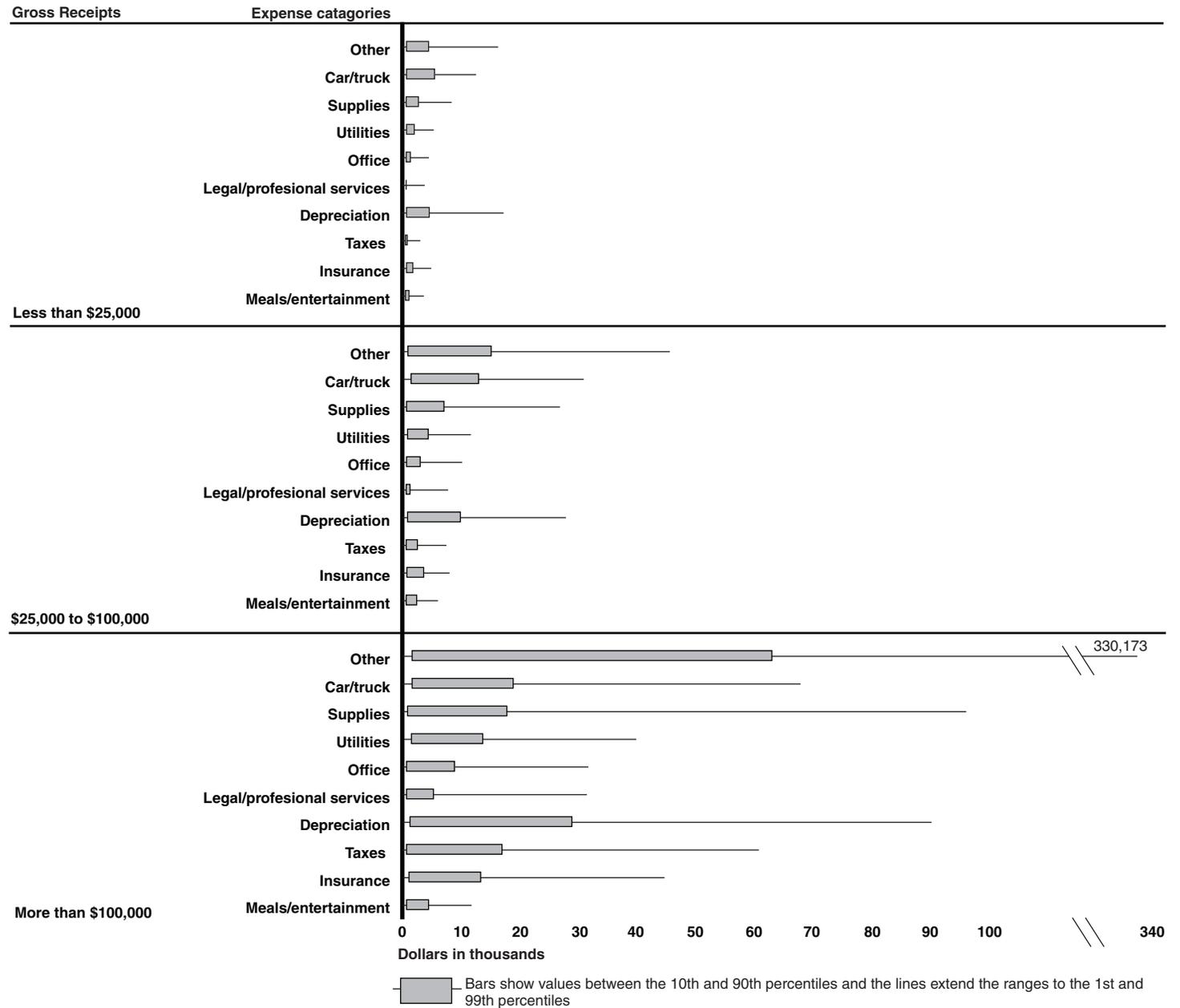
To provide some perspective on how business expenses may differ between larger and smaller businesses, we used gross receipts as a measure of business size. Not surprisingly, sole proprietors with larger gross receipts generally claimed more expenses in the 10 most commonly claimed Schedule C categories than those with smaller gross receipts. While the amounts and ranges of expenses were larger as gross receipts increased, the distribution of expenses across expense categories generally remained similar. We analyzed information for three different size categories—(1) under \$25,000 in gross receipts, which represented 61

<sup>8</sup>Comparable data on business characteristics were not available for sole proprietorships that filed Schedule F.

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percent of the sole proprietors who filed Schedule Cs, (2) between \$25,000 and \$100,000 in gross receipts, which represented 25 percent of the sole proprietors who filed Schedule Cs, and (3) and over \$100,000 in gross receipts, which represented 14 percent of the sole proprietors who filed Schedule Cs. Figure 6 compares the ranges of expenses across these three business sizes. Comparable information on gross receipts was not available for us to analyze farming expenses in this manner.

**Figure 6: Comparison of Ranges of the 10 Most Commonly Claimed Expenses on Schedule C Based On Gross Receipts, Tax Year 2001**



Note: Table shows 10 most common expenses claimed by sole proprietors on Schedule C. Insurance expense excludes accident and health insurance for employees.

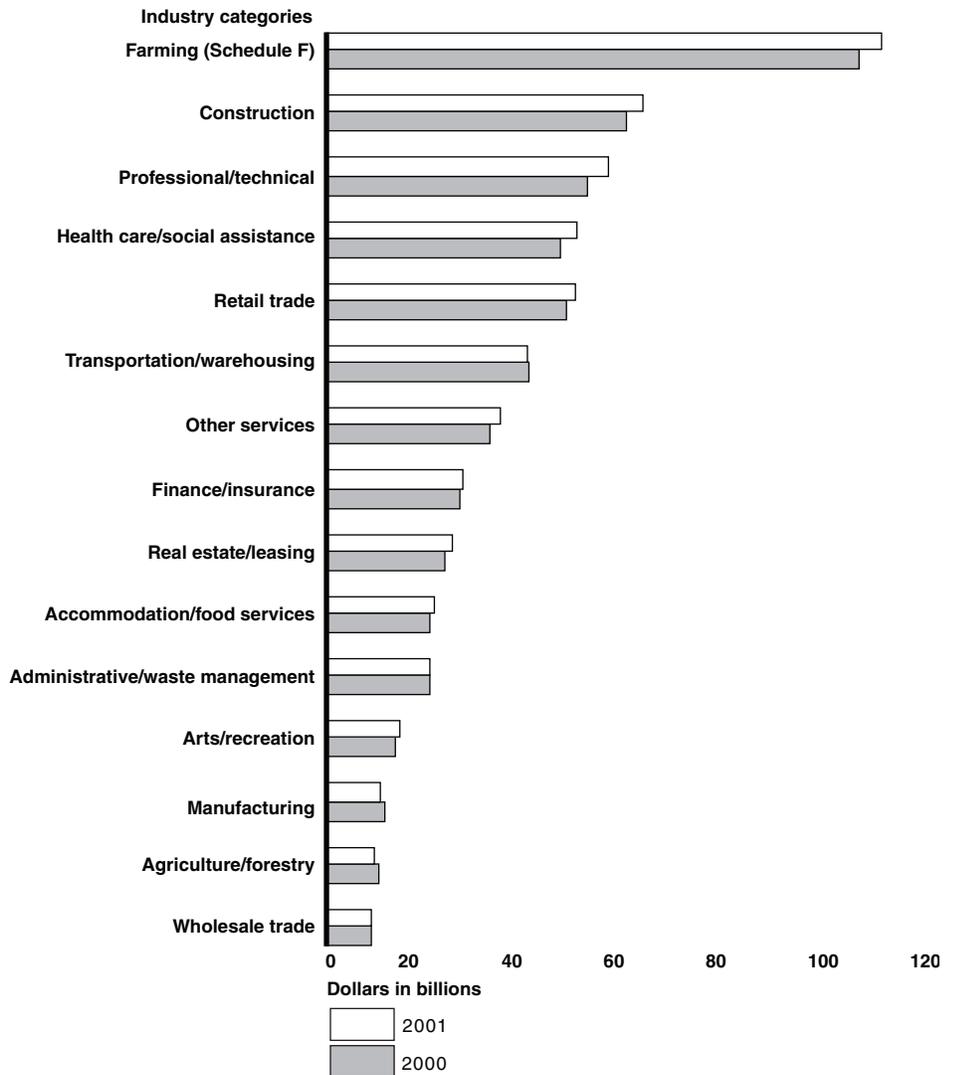
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## Expenses Vary by Industry Category

Figure 7 shows the total dollar amounts of expenses that sole proprietors reported on Schedule Cs and Schedule Fs by industry category in tax years 2000 and 2001. In filling out their Schedule Cs, taxpayers are to select an industry category that best describes their business from the list of codes included in the schedule's instructions. (See app. I for more information.) As illustrated by the figure, the total expenses that taxpayers claimed related to the farming industry on Schedule F were about 75 percent larger than the expenses for any other single industry category for Schedule C businesses. Figure 8 shows that variation exists in median expenses across industry categories.

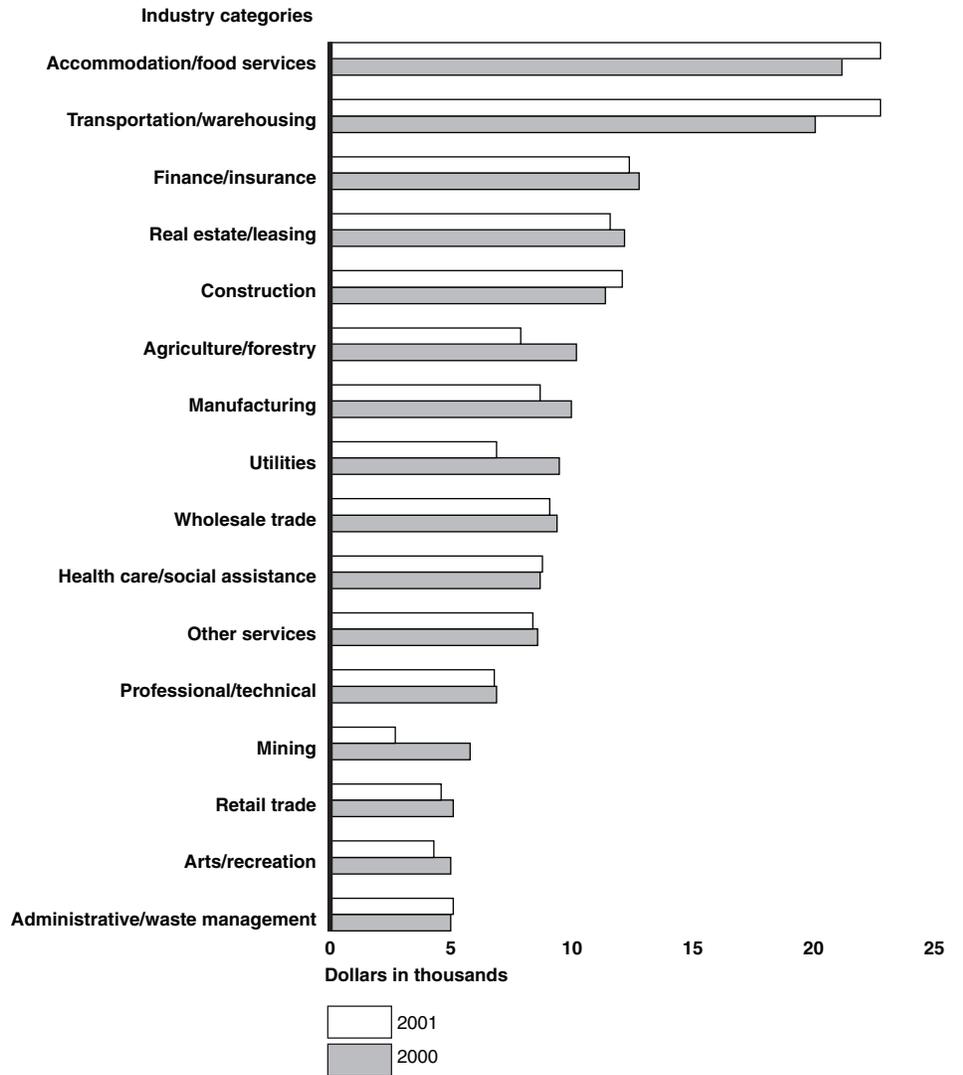
**Figure 7: Aggregate Expenses Greater Than 5 Billion Claimed on Schedule C and Schedule F by Industry Categories, Tax Years 2000 and 2001**



Source: GAO analysis of IRS's data.

Note: Expenses for the farming industry category were reported on the Schedule F. Expenses for all other industry categories were reported on the Schedule C.

**Figure 8: Schedule C Industry Categories With Median Expenses \$5,000 or More, Tax Years 2000 and 2001**



Source: GAO analysis of IRS data.

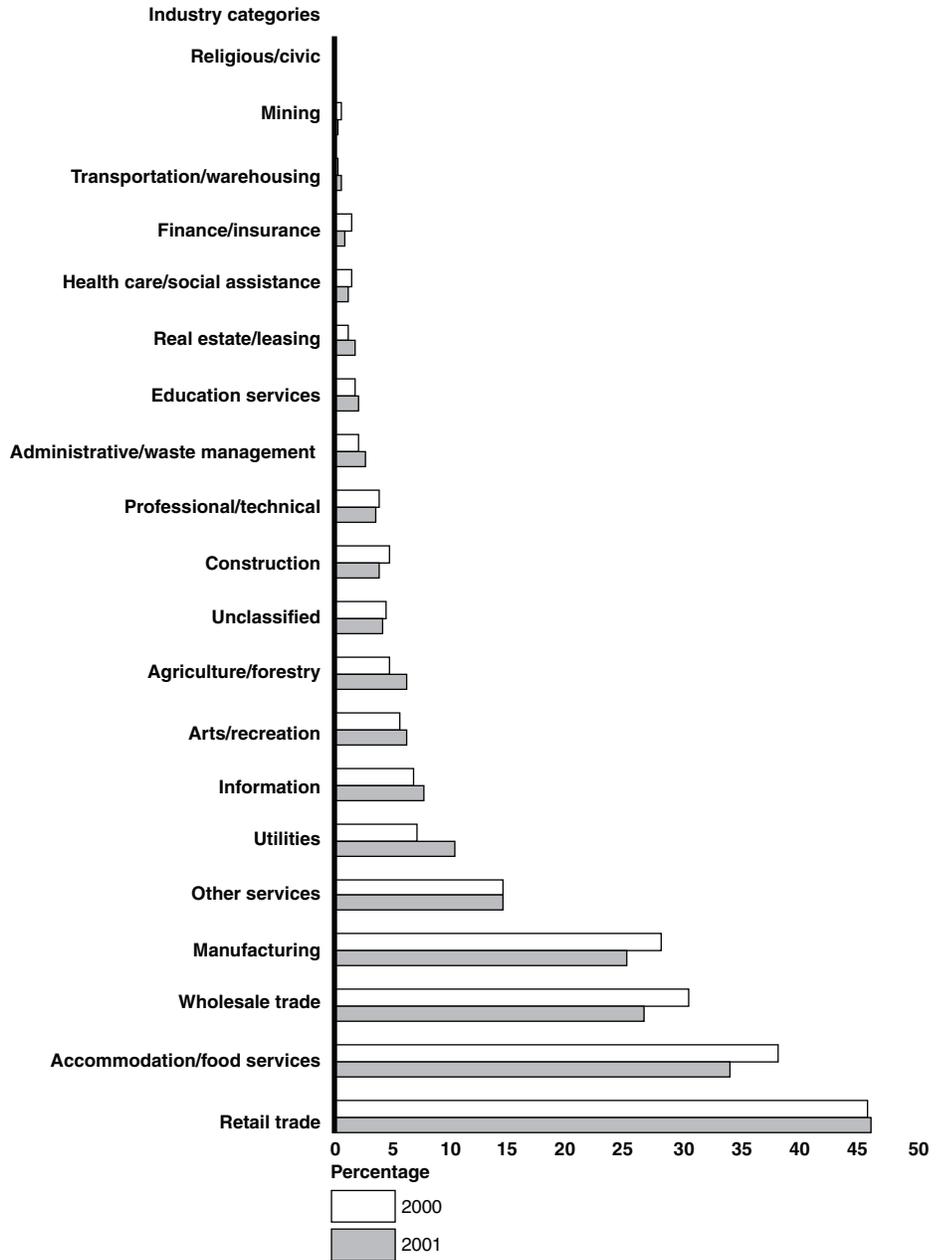
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**In Six Industries, Sole Proprietorships With Inventory Had Significantly Higher Median Expenses Than Those Without Inventory**

All industries had some small businesses that maintained inventories. In only four industries, however—Retail trade, Accommodation/food services, Wholesale trade, and Manufacturing—did more than 15 percent of businesses have inventories in tax years 2000 and 2001. (See fig. 9.)

**Figure 9: Businesses Maintaining Inventory by Industry Category, Tax Years 2000 and 2001 (Schedule C)**

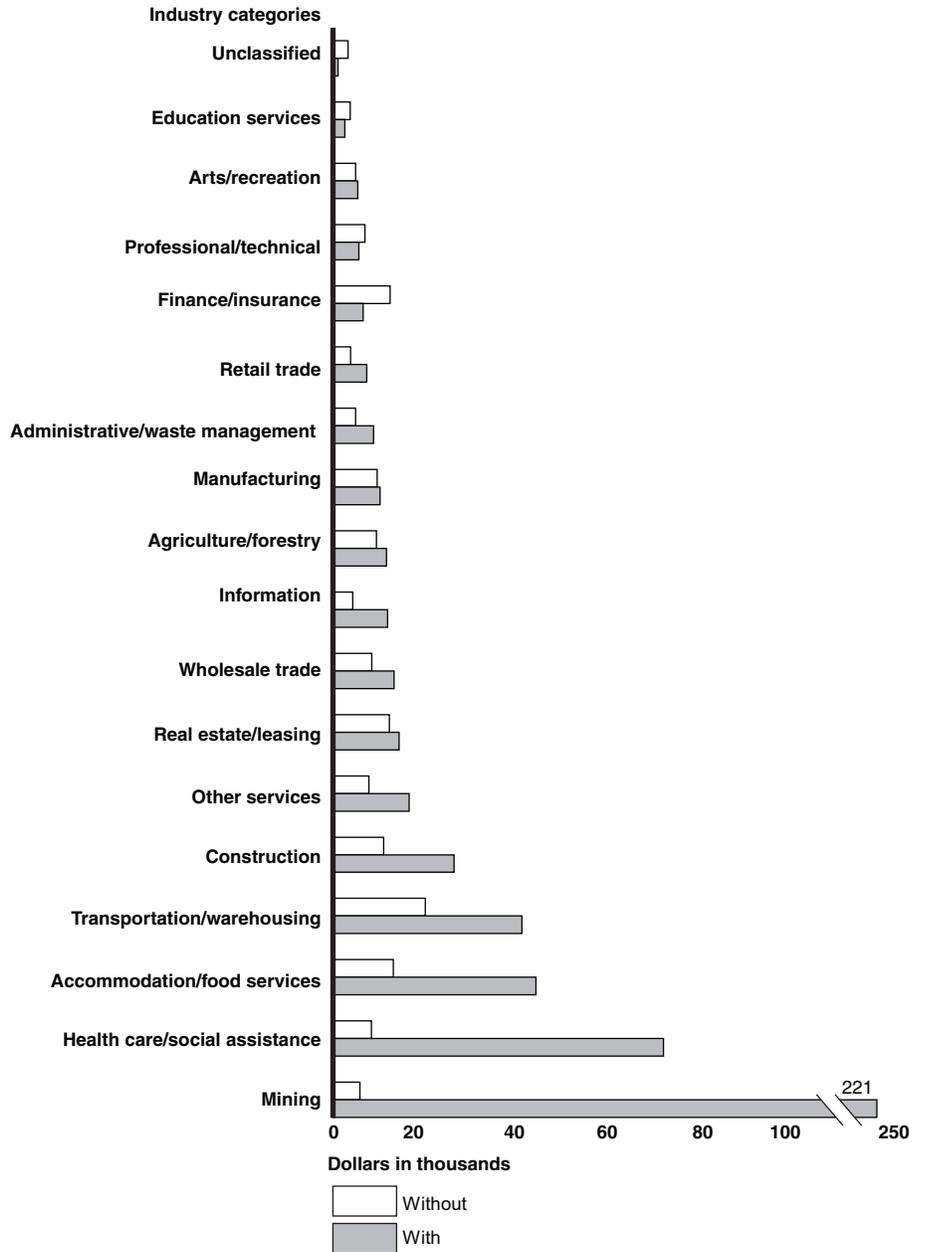


Source: GAO analysis of IRS data.

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Figure 10 shows a comparison of median expenses of businesses by industry with and without inventory. The median expenses for businesses with inventory were significantly higher than those of businesses without an inventory for six industries—Accommodation/food services, Health care/social assistance, Mining, Transportation/warehousing, Construction, and Other services.

**Figure 10: Median Expenses of Businesses Without and With Inventory by Industry, Tax Year 2001 (Schedule C)**



Source: GAO analysis of IRS data.

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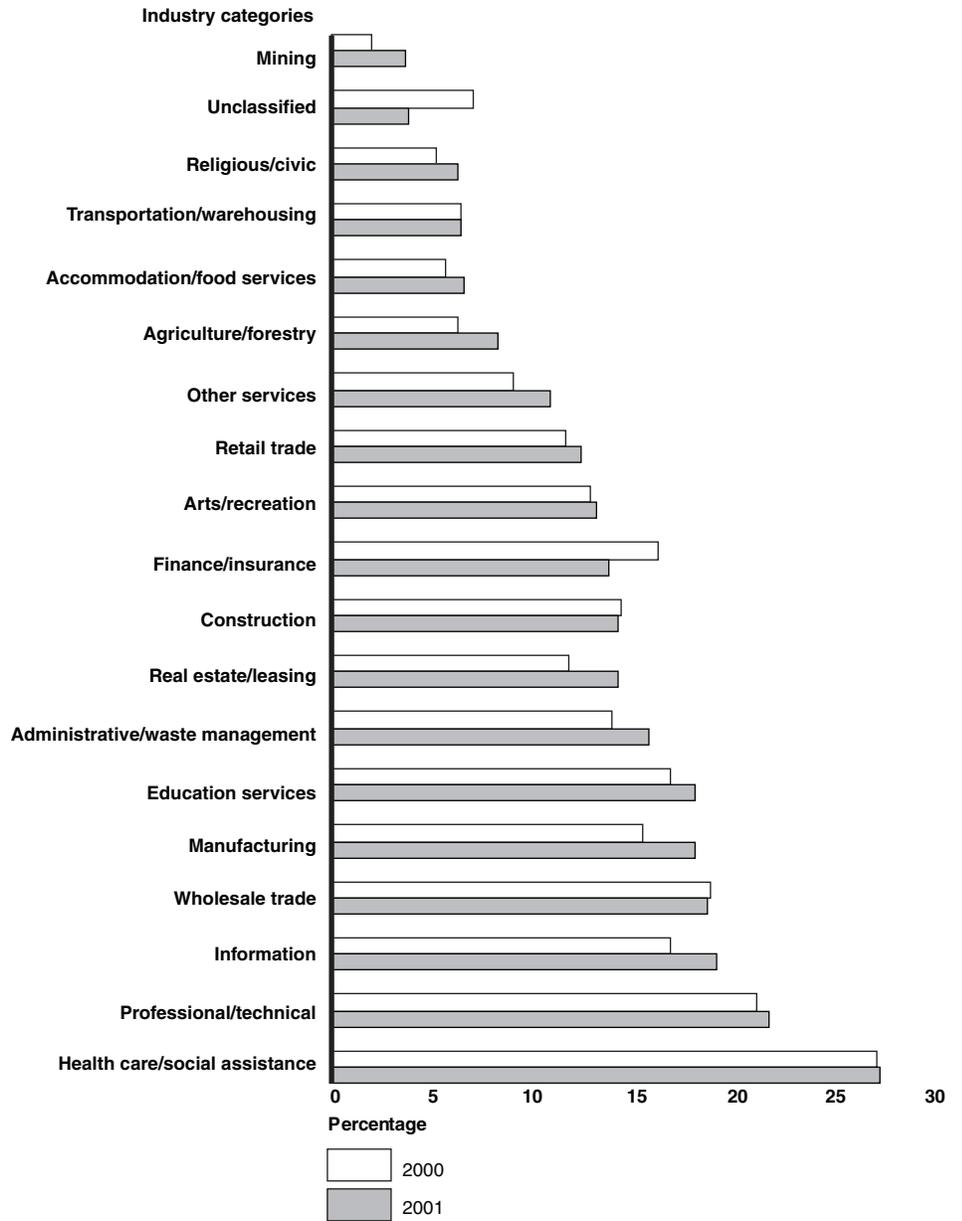
Note: Two industries—Religious/civic and Utilities—are not included because reliable population estimates could not be developed.

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**Sole Proprietorships  
Claiming Home Office  
Expense Generally Had  
Lower Median Expenses  
Than Those Without Home  
Offices**

While all industries had some businesses with home offices, they were more prevalent in some industries. Health care/social assistance and Professional/technical had the highest percentage of Home office expenses claimed in tax years 2000 and 2001 (see fig. 11). Figure 12 shows the variation in the median amounts of Home office expense by industry in tax year 2001. Those businesses without home offices generally reported higher median expenses than those with home offices, although Office and Other expenses were higher for those businesses with a home office (see fig. 13).

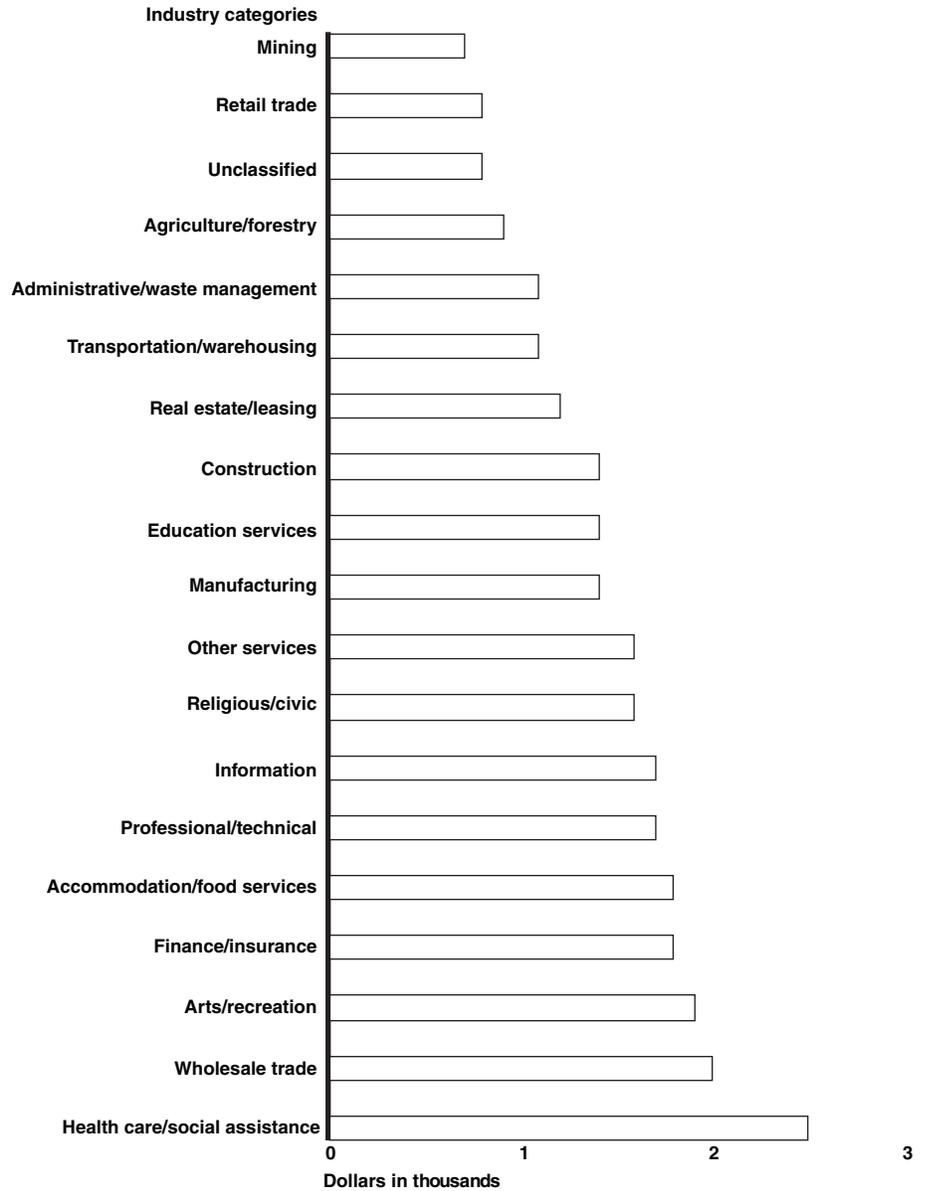
**Figure 11: Businesses Claiming Home Office Expenses by Industry, Tax Years 2000 and 2001 (Schedule C)**



Source: GAO analysis of IRS data.

Note: The Utilities industry was excluded from the analysis because it had less than 100 sample observations.

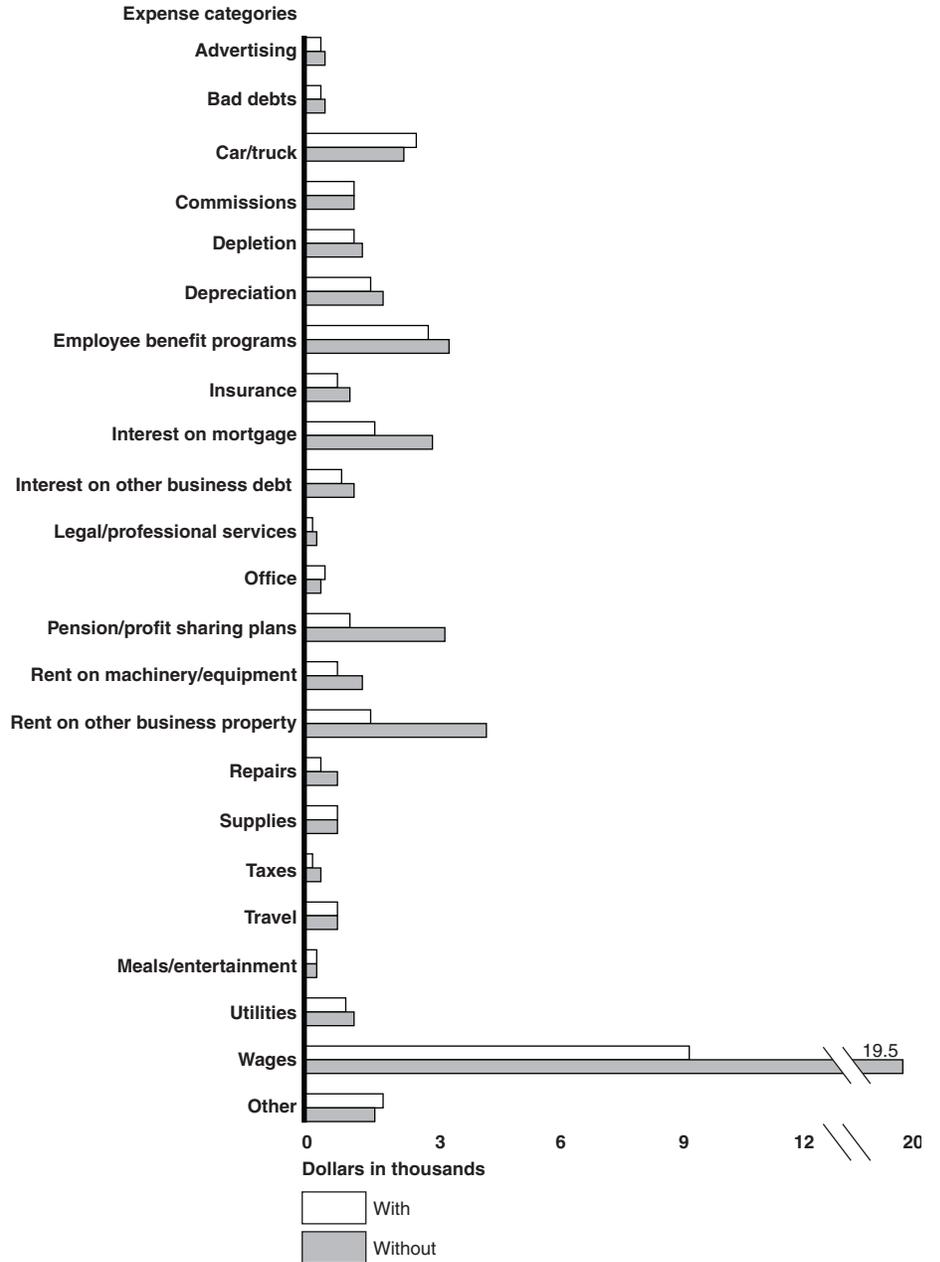
**Figure 12: Median Home Office Expenses Reported on Schedule C by Industry Category, Tax Year 2001**



Source: GAO analysis of IRS data.

Note: The Utilities industry was excluded from the analysis because it had less than 100 sample observations.

**Figure 13: Median Business Expenses Claimed by Businesses With and Without Home Office Expense, Tax Year 2001 (Schedule C)**



Source: GAO analysis of IRS data.

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Appendix IV provides additional information on expenses of sole proprietors by the business characteristics described above.

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## Agency Comments

IRS's Director, Research, Analysis, and Statistics provided us written comments on a draft of this report in a January 13, 2004, letter, which is reprinted in appendix VI. The Director agreed that the tabulations in the report accurately reflect the SOI sample data for small business expenses claimed by taxpayers on Schedule Cs and Schedule Fs.

As agreed with your office, unless you announce the contents of this report earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to the Ranking Minority Member of your Committee, the Chairman and Ranking Minority Member of the House Committee on Small Business, the Chairman and Ranking Minority Member of the Senate Committee on Finance, and the Chairman and Ranking Minority Member of the House Committee on Ways and Means. We will also send copies to the Secretary of the Treasury, the Commissioner of Internal Revenue, and the Director, Office of Management and Budget. Copies will be made available to others upon request. The report is also available on GAO's home page at <http://www.gao.gov>.

If you have any questions concerning this report, please contact me or Charlie Daniel at (202) 512-9110. Key contributors to this work are listed in appendix VI.



Michael Brostek  
Director, Tax Issues

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# Objectives, Scope, and Methodology

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Our objective was to provide descriptive information on (1) the most commonly reported categories of expenses of small business taxpayers operating as sole proprietorships, (2) the amount of variation within and across expense categories, and (3) the expenses based on selected business characteristics such as size, industry, businesses with inventories, and businesses with home offices.

To address our objective, we obtained information from IRS's nonpublic use SOI databases of individual income tax returns that reported expenses for small business sole proprietorship on Schedules C and Schedule F for tax years 2000 and 2001. These years were the most recent that data were available. SOI's nonpublic use databases differs from its public use databases in that they contain more detailed data, some of which could be associated to specific taxpayers. According to IRS, the SOI databases were compiled from transaction file records created when IRS processed individual income tax returns. The statistics compiled by SOI are estimates from a stratified probability sample of unaudited individual income tax returns filed during calendar years 2001 (for tax year 2000) and 2002 (for tax year 2001). IRS excluded tentative and amended tax returns from the database. Tentative returns were excluded because the revised returns may have been sampled later and amended returns were excluded because the original returns had already been subjected to sampling. The sample was stratified on the basis of subpopulation groups called strata, and a sample was randomly selected independently from each stratum. For example, one stratum is for the presence of both Schedule F and Schedule C.

To assess the reliability of IRS's SOI individual income tax return databases, we followed our guidance for assessing the reliability of computerized databases.<sup>1</sup> In particular, we (1) performed electronic testing for obvious errors in the accuracy and completeness of the data, (2) reviewed the SOI dataset documentation, and (3) interviewed IRS officials knowledgeable about the data to gain an understanding of the internal procedures that were in place to ensure data quality. According to SOI, the data derived from the tax returns were subjected to a number of validation and consistency checks, including systematic verifications of some work of each tax examiner involved in the SOI processes to compile the databases. Most of the data validation checks were computerized tests of records.

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<sup>1</sup>U.S. General Accounting Office, *Assessing the Reliability of Computer-Processed Data* (External version1), GAO-03-273G (Washington, D.C.: October 2002).

While we found the data reliable for the purpose of our engagement, we noted limitations of the database. In particular, SOI data contain information as reported by taxpayers on their income tax returns that may not have been subjected to much of IRS's internal accuracy checks such as the document matching of information returns. In addition, IRS does not separately transcribe all of the detailed expense information from Schedule F like it does for the Schedule C. Consequently, we could not provide the same level of detailed information on expenses relating to Schedule F as we could for Schedule C tax returns.

To determine the most commonly reported expenses of small business sole proprietorships, we estimated the percent of taxpayers who reported a nonzero value in each expense category listed on the Schedule Cs and Schedule Fs. We excluded taxpayers who filed Schedule C-E, because that form does not have itemized expenses. We also excluded taxpayers who filed Schedule Cs or Schedule Fs but did not list any itemized expenses on them. Because IRS does not compile information on all of the expense categories on Schedule F, we were unable to precisely determine what were the most commonly reported categories of expenses. Of the 25 categories of expenses on Schedule F, IRS only compiles detailed information on 12 categories. The SOI databases combine information on the remaining 13 expenses and reports them as a single amount under the Other expenses category on Schedule F. As shown in table 2 in appendix II, the Other expenses category represented about 51 percent of the expenses reported by taxpayers on Schedule F in tax year 2001. However, we used IRS's available data to provide some perspective on the percent of taxpayers who filed Schedule Fs that reported nonzero values in the expense categories where data were available. This information was not sufficient for us to rank the categories and present reliable information on the most commonly claimed expenses.

To provide information on the amount of variation within and across expense categories, we summarized information on the dollar amounts of expenses from IRS's SOI individual databases that reported expenses of small business sole proprietorships and estimated the population mean and median values. We also estimated population percentile values of the business expense categories on Schedule Cs and Schedule Fs. We estimated values for the 1<sup>st</sup>, 10<sup>th</sup>, 50<sup>th</sup>, 90<sup>th</sup>, and 99<sup>th</sup> percentiles. Our information on Schedule F taxpayers was limited to those expense categories for which IRS had data. To mitigate the possibility of presenting unusual outliers and to ensure that we do not disclose taxpayer

information, we do not provide the minimum and maximum values. Rather we provide estimates of the 1<sup>st</sup> and 99<sup>th</sup> percentiles.

To provide information on the selected business characteristics that you requested, we estimated population expense values based on business size, industry category, businesses maintaining inventory, and businesses with home offices. We also included information on businesses operating farms and agricultural enterprises. To perform our analysis of business expenses based on the size of businesses, we used different levels of gross receipts as the measure for size. To determine industry categories, we collected information from IRS's SOI databases by the principal business codes as reported by taxpayers. Taxpayers were to determine their principal business codes from the North American Industry Classification System information in the instructions for the tax forms.

To provide information on the cost of goods sold for businesses with inventories and information on depreciation expenses by industry categories, we estimated population values for different categories of industries.

Because the SOI data are a sample, the population estimates made from that data are subject to some imprecision owing to sampling variability. We express our confidence in the precision of the sample's results as a 95 percent confidence interval of plus or minus some percentage for sampling errors. The sampling errors associated with our population estimates are listed with each table in the appendixes. Further, for some entries in some tables there were too few observations or too much sample variation to generate reliable population estimates. In these cases the estimates are omitted.

We did our work at IRS headquarters in Washington, D.C. between April 2003 and October 2003 in accordance with generally accepted government auditing standards.

# Information on the Percent of Taxpayers Who Claimed Expenses on Schedule C and Schedule F in Tax Years 2000 and 2001

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This appendix provides complete information on the percentage of taxpayers who claimed expenses in the categories of expenses listed on Schedule C and on Schedule F, to the extent that data on farming expenses were available. It also provides information that shows how each individual expense category compares as a percentage of the total expenses

**Appendix II**  
**Information on the Percent of Taxpayers Who**  
**Claimed Expenses on Schedule C and**  
**Schedule F in Tax Years 2000 and 2001**

**Table 1: Percentage of Taxpayers Who Claimed Expense Categories on Schedule C, Tax Years 2000 and 2001**

Expense category	2000		2001	
	Percentage of taxpayers who claimed expense	Expense as percentage of total expenses	Percentage of taxpayers who claimed expense	Expense as percentage of total expenses
Advertising	35.3	2.4	35.1	2.5
Bad debts	2.6	0.2 <sup>a</sup>	2.8	0.3 <sup>b</sup>
Car/truck	71.5	10.9	71.0	10.9
Commissions	7.9	2.8	7.8	2.8
Depletion	0.6	0.2 <sup>a</sup>	0.6	0.2 <sup>a</sup>
Depreciation	44.5	7.7	43.1	7.7
Employee benefit programs	2.3	0.4	2.2	0.5
Insurance	37.9	3.3	37.1	3.3
Interest on mortgage	5.7	1.3	5.6	1.3
Interest on other business debt	13.6	1.7	13.2	1.6
Legal/professional services	48.0	1.8	47.9	1.7
Office	49.7	2.5	49.5	2.4
Pension/profit sharing plans	1.1	0.2 <sup>a</sup>	1.1	0.2 <sup>a</sup>
Rent on machinery/equipment	15.2	2.1	15.1	2.0
Rent on other business property	20.4	5.8	19.7	5.8
Repairs	31.2	2.9	30.5	2.8
Supplies	56.1	5.2	56.4	5.3
Taxes	40.9	3.3	40.1	3.3
Travel	26.6	2.0	26.8	2.0
Meals/entertainment	35.8	1.1	36.2	1.1
Utilities	54.0	4.6	53.5	4.7
Wages	10.7	15.2	10.1	14.7
Other	72.8	20.8	72.3	21.8
Home office	15.6	1.4	16.4	1.4
<b>Total<sup>c</sup></b>		<b>100%</b>		<b>100%</b>

Source: GAO analysis of IRS data.

Notes: Estimates in the first and third columns have sampling errors of (+/-) 2 percentage points or less. Estimates in the second and fourth columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Totals may not add to 100 percent due to rounding.

**Appendix II**  
**Information on the Percent of Taxpayers Who**  
**Claimed Expenses on Schedule C and**  
**Schedule F in Tax Years 2000 and 2001**

**Table 2: Percentage of Taxpayers Who Claimed Expense Categories on Schedule F, Tax Years 2000 and 2001**

Expense category	2000		2001	
	Percentage of taxpayers who claimed expense	Expense as percentage of total expenses	Percentage of taxpayers who claimed expense	Expense as percentage of total expenses
Car/truck	a		a	
Chemicals	a		a	
Conservation	a		a	
Custom hire	30.9	2.7	31.2	2.6
Depreciation	78.3	15.7	78.7	16.1
Employee benefit programs	2.2	0.3 <sup>c</sup>	2.5	0.3 <sup>c</sup>
Feed purchased	a		a	
Fertilizers/lime	a		a	
Freight/trucking	a		a	
Gasoline/oil	64.1	3.8	65.4	3.7
Insurance	a		a	
Interest on mortgage	24.1	4.0	25.5	4.1
Interest on other business debt	30.0	4.3	30.5	4.1
Labor hired	24.9	4.9	25.3	4.9
Pension/profit sharing plans	0.2	0.0 <sup>d</sup>	0.2	0.0
Rent on machinery/equipment	a		a	
Rent on other business property	a		a	
Repairs	73.8	6.5	72.8	6.5
Seeds/plants	39.0	3.8	37.3	3.8
Storage/warehousing	a		a	
Supplies	63.5	3.4	62.9	3.1
Taxes	a		a	
Utilities	a		a	
Veterinary/medicine	a		a	
Other expenses <sup>b</sup>	97.3	50.8	97.1	50.8
<b>Total<sup>e</sup></b>		<b>100%</b>		<b>100%</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first and third columns have sampling errors of (+/-) 3 percentage points or less. Estimates in the second and fourth columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Included with Other expenses.

<sup>b</sup>Includes: Car/truck, Chemicals, Conservation, Feed purchased, Fertilizers/lime, Freight/trucking, Insurance, Rent on machinery/equipment, Rent on other business property, Storage/warehousing, Taxes, Utilities, and Veterinary/medicine as well as any expenses taxpayers included in the Other expenses category.

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**Appendix II**  
**Information on the Percent of Taxpayers Who**  
**Claimed Expenses on Schedule C and**  
**Schedule F in Tax Years 2000 and 2001**

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<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling errors exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Totals may not add to 100 percent due to rounding.

# Information on the Amounts and Ranges of Expenses Reported on Schedule C and Schedule F

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As we reported earlier, the amounts and ranges of expenses that sole proprietors reported on Schedule Cs and Schedule Fs varied widely. This appendix provides greater detail on these measures. In particular, the tables in the appendix provide information on the percentile ranges for the expenses. To mitigate the possibility of presenting unusual outliers and because of taxpayer disclosure concerns, we do not provide the minimum and maximum values. Rather we provide estimates of the 1<sup>st</sup> and 99<sup>th</sup> percentiles. Estimates of the mean and median expenses are also provided.

**Appendix III  
Information on the Amounts and Ranges of  
Expenses Reported on Schedule C and  
Schedule F**

**Table 3: Information on Expense Categories on Schedule C by Amount and Range, Tax Year 2000**

Dollars in thousands

Expense category	2000						
	Total	Mean	1st	10th	Median	90th	99th <sup>a</sup>
Advertising	\$10,148,616	\$2.0	\$0.01	\$0.05	\$0.46	\$4.44	\$22.45
Bad debts	983,868 <sup>b</sup>	2.6 <sup>b</sup>	0.01 <sup>d</sup>	0.06 <sup>c</sup>	0.49 <sup>b</sup>	4.50 <sup>c</sup>	30.55
Car/truck	45,711,214	4.4	0.05	0.29	2.36	9.75	32.56
Commissions	11,610,550	10.1	0.01 <sup>e</sup>	0.08 <sup>c</sup>	1.09 <sup>b</sup>	19.35 <sup>c</sup>	139.77
Depletion	684,974 <sup>b</sup>	8.1 <sup>c</sup>	0.01 <sup>e</sup>	0.07 <sup>d</sup>	1.05 <sup>d</sup>	14.51 <sup>d</sup>	110.57
Depreciation	32,196,152	5.0	0.02 <sup>e</sup>	0.22	1.83	11.74	42.73
Employee benefit programs	1,871,875	5.7	0.05 <sup>d</sup>	0.41 <sup>c</sup>	2.85 <sup>b</sup>	12.69 <sup>b</sup>	36.21
Insurance	13,623,747	2.5	0.04	0.17	0.95	5.66	22.76
Interest on mortgage	5,250,896	6.3	0.04 <sup>d</sup>	0.43	2.78	13.37 <sup>b</sup>	55.44
Interest on other business debt	6,981,950	3.6	0.01 <sup>d</sup>	0.11	1.08	7.12	31.72
Legal/professional services	7,312,591	1.0	0.02	0.07	0.25	1.93	12.00
Office	10,456,413	1.4	0.01	0.06	0.45	3.41	15.26
Pension/profit sharing plans	892,873	5.8	0.01 <sup>e</sup>	0.40 <sup>c</sup>	3.52 <sup>b</sup>	12.86 <sup>b</sup>	40.03
Rent on machinery/equipment	8,880,267	4.0	0.03	0.12	1.47	9.07 <sup>b</sup>	35.18
Rent on other business property	24,342,102	8.2	0.04	0.41	4.02	18.98	60.41
Repairs	12,280,522	2.7	0.02	0.09	0.82	6.30	28.28
Supplies	21,793,943	2.7	0.02	0.10	0.80	5.39	29.67
Taxes	13,955,915	2.4	0.01	0.04	0.34	5.69	29.21
Travel	8,457,309	2.2	0.02	0.12	0.84	4.96	19.87
Meals/entertainment	4,664,691	0.9	0.01	0.04	0.33	2.28	7.29
Utilities	19,381,870	2.5	0.02	0.18	1.09	5.84	19.19
Wages	63,485,482	40.8	0.12	1.03 <sup>c</sup>	16.37	96.47	330.87
Other	87,025,927	8.2	0.02	0.17	1.58	14.04	96.40
Home office	5,642,543	2.5	0.07	0.37	1.54	5.59	13.66
<b>All categories</b>	<b>\$417,636,291<sup>f</sup></b>	<b>\$28.8</b>	<b>\$0.10</b>	<b>\$1.03</b>	<b>\$8.80</b>	<b>\$62.23</b>	<b>\$316.05</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first, second, fifth, and sixth columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the fourth column have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>For these estimates we are more than 95 percent confident that the actual percentile is at least 80 percent of the estimate shown.

<sup>b</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

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**Appendix III  
Information on the Amounts and Ranges of  
Expenses Reported on Schedule C and  
Schedule F**

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<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling errors exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

<sup>f</sup>Total may not add due to rounding.

**Appendix III  
Information on the Amounts and Ranges of  
Expenses Reported on Schedule C and  
Schedule F**

**Table 4: Information on Expense Categories on Schedule C by Amount and Range, Tax Year 2001**

Dollars in thousands

Expense category	2001						
	Total	Mean	1st	10th	Median	90th	99th <sup>a</sup>
Advertising	\$10,774,079	\$2.1	\$0.01	\$0.05	\$0.47	\$4.62	\$22.71
Bad debts	1,176,324 <sup>c</sup>	2.8 <sup>c</sup>	0.02 <sup>e</sup>	0.05 <sup>c</sup>	0.50 <sup>c</sup>	4.47 <sup>c</sup>	25.42
Car/truck	47,351,940	4.5	0.04	0.31	2.48	10.02	32.31
Commissions	12,130,077	10.5	0.02	0.10	1.19 <sup>b</sup>	17.14 <sup>c</sup>	164.89
Depletion	693,669 <sup>b</sup>	7.8 <sup>b</sup>	0.00 <sup>e</sup>	0.08 <sup>d</sup>	1.36 <sup>c</sup>	11.91 <sup>d</sup>	111.06
Depreciation	33,425,567	5.2	0.03	0.21	1.83	12.02	46.13
Employee benefit programs	2,040,639	6.4	0.08	0.46 <sup>c</sup>	3.45 <sup>b</sup>	13.53 <sup>b</sup>	37.16
Insurance	14,367,018	2.6	0.03	0.19	1.01	5.97	24.08
Interest on mortgage	5,456,226	6.6	0.02 <sup>d</sup>	0.45	2.86	14.31 <sup>b</sup>	55.44
Interest on other business debt	7,053,321	3.6	0.01	0.11	1.10	7.48	31.88
Legal/professional services	7,482,619	1.1	0.02	0.07	0.25	1.87	12.37
Office	10,604,805	1.4	0.01	0.06	0.45	3.27	15.90
Pension/profit sharing plans	991,892 <sup>b</sup>	6.0	0.00 <sup>e</sup>	0.34 <sup>d</sup>	3.15 <sup>b</sup>	13.10 <sup>b</sup>	43.73
Rent on machinery/equipment	8,522,008	3.8	0.02	0.13	1.35 <sup>b</sup>	8.31 <sup>b</sup>	37.53
Rent on other business property	25,119,124	8.6	0.04	0.43	4.16	20.05	64.49
Repairs	12,129,756	2.7	0.02	0.09	0.77	6.28	27.65
Supplies	23,074,836	2.8	0.02 <sup>c</sup>	0.11	0.78	5.49	32.11
Taxes	14,214,082	2.4	0.01	0.04	0.35	5.65	29.96
Travel	8,657,266	2.2	0.02	0.11	0.83	4.98	20.22
Meals/entertainment	4,735,312	0.9	0.01	0.04	0.34	2.19	7.14
Utilities	20,482,680	2.6	0.03	0.19	1.15	5.97	21.07
Wages	63,826,020	42.5	0.10 <sup>d</sup>	0.90 <sup>c</sup>	17.52	99.16	349.47
Other	94,612,276	8.8	0.02	0.19	1.71	14.81	105.22
Home office	5,981,403	2.5	0.06	0.38	1.54	5.55	13.10
<b>All categories</b>	<b>\$434,902,937<sup>f</sup></b>	<b>\$29.3</b>	<b>\$0.10<sup>e</sup></b>	<b>\$1.04</b>	<b>\$8.97</b>	<b>\$62.05</b>	<b>\$318.88</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first, second, fifth, and sixth columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the fourth column have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>For these estimates we are more than 95 percent confident that the actual percentile is at least 80 percent of the estimate shown.

<sup>b</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

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**Appendix III  
Information on the Amounts and Ranges of  
Expenses Reported on Schedule C and  
Schedule F**

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<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

<sup>f</sup>Total may not add due to rounding.

**Appendix III  
Information on the Amounts and Ranges of  
Expenses Reported on Schedule C and  
Schedule F**

**Table 5: Information on Expense Categories on Schedule F Compiled by SOI by Amount and Range, Tax Year 2000**

Dollars in thousands

Expense category	2000						
	Total	Mean	1st	10th	Median	90th	99th <sup>a</sup>
Custom hire	\$2,763,207	\$4.4	\$0.05	\$0.18	\$1.21	\$10.30	\$43.22
Depreciation	16,074,177	10.1	0.05	0.37	3.76	24.62	79.77
Employee benefit programs	296,282 <sup>c</sup>	6.6 <sup>c</sup>	0.20 <sup>f</sup>	0.81 <sup>e</sup>	5.54 <sup>d</sup>	12.21	35.87
Gasoline/oil	3,843,670	2.9	0.02	0.10	1.00	7.22	29.39
Interest on mortgage	4,072,378	8.3	0.10 <sup>e</sup>	0.62	3.87	18.52	70.24
Interest on other business debt	4,381,129	7.2	0.03 <sup>e</sup>	0.32	2.22	16.70	65.41
Labor hired	4,977,414	9.8	0.03	0.11 <sup>e</sup>	1.50 <sup>d</sup>	19.72 <sup>d</sup>	114.68
Pension/profit sharing plans	30,525 <sup>f</sup>	7.7 <sup>f</sup>	0.16 <sup>f</sup>	0.31 <sup>f</sup>	1.48 <sup>e</sup>	15.94 <sup>e</sup>	66.76
Repairs	6,651,168	4.4	0.02 <sup>e</sup>	0.20	1.47	10.70	41.68
Seeds/plants	3,848,517	4.9	0.01 <sup>e</sup>	0.10	1.09 <sup>d</sup>	11.60	53.24
Supplies	3,425,979	2.7	0.01 <sup>e</sup>	0.11	0.81	5.89	24.70
Other expenses <sup>b</sup>	51,903,473	26.2	0.07 <sup>e</sup>	0.73	5.61	58.54	290.44
<b>All categories</b>	<b>\$102,267,920</b>	<b>\$50.3</b>	<b>\$0.11<sup>e</sup></b>	<b>\$1.66</b>	<b>\$12.77</b>	<b>\$120.19</b>	<b>\$535.15</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first and second columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted. Estimates in the third and fourth columns have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the fifth and sixth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>For these estimates we are more than 95 percent confident that the actual percentile is at least 80 percent of the estimate shown.

<sup>b</sup>Includes: Car/truck, Chemicals, Conservation, Feed purchased, Fertilizers/lime, Freight/trucking, Insurance, Rent on machinery/equipment, Rent on other business property, Storage/warehousing, Taxes, Utilities, and Veterinary/medicine as well as any expenses taxpayers included in the Other expenses category.

<sup>c</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

<sup>d</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>f</sup>Reliable confidence intervals could not be computed for estimates.

**Appendix III  
Information on the Amounts and Ranges of  
Expenses Reported on Schedule C and  
Schedule F**

**Table 6: Information on Expense Categories on Schedule F Compiled by SOI by Amount and Range, Tax Year 2001**

Dollars in thousands

Expense category	2001						
	Total	Mean	1st	10th	Median	90th	99th <sup>a</sup>
Custom hire	\$2,754,246	\$4.4	\$0.04	\$0.18	\$1.35	\$10.02	\$49.11
Depreciation	17,173,495	11.0	0.06 <sup>f</sup>	0.40	4.28	29.44	86.14
Employee benefit programs	321,002 <sup>d</sup>	6.5 <sup>c</sup>	0.07 <sup>f</sup>	0.63 <sup>e</sup>	4.96 <sup>d</sup>	12.38 <sup>d</sup>	26.81
Gasoline/oil	3,937,424	3.0	0.02	0.10	0.97	7.73	29.29
Interest on mortgage	4,407,472	8.7	0.07 <sup>e</sup>	0.52	4.02	20.73	68.43
Interest on other business debt	4,420,903	7.3	0.04 <sup>e</sup>	0.27	2.21	17.72	67.17
Labor hired	5,235,195	10.4	0.02 <sup>f</sup>	0.15	1.41 <sup>d</sup>	22.31 <sup>d</sup>	118.32
Pension/profit sharing plans	11,593 <sup>d</sup>	2.9 <sup>d</sup>	0.11 <sup>f</sup>	0.27 <sup>e</sup>	1.12 <sup>e</sup>	5.78 <sup>e</sup>	32.29
Repairs	6,893,101	4.8	0.03	0.22	1.63	11.64	43.88
Seeds/plants	4,076,730	5.5	0.02 <sup>e</sup>	0.10	1.30 <sup>d</sup>	13.25	59.03
Supplies	3,335,593	2.7	0.02 <sup>e</sup>	0.12	0.88	6.17	26.63
Other expenses <sup>b</sup>	54,241,466	28.0	0.10	0.84	6.02	61.90	307.07
<b>All categories</b>	<b>\$106,808,219</b>	<b>\$53.6</b>	<b>\$0.10<sup>e</sup></b>	<b>\$1.70</b>	<b>\$13.41</b>	<b>\$128.29</b>	<b>\$561.95</b>

Source: GAO analysis of IRS data.

Note: Estimates in first and second columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted. Estimates in the third and fourth columns have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the fifth and sixth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>For the estimates in the seventh column, we are more than 95 percent confident that the actual percentile is at least 80 percent of the estimate shown.

<sup>b</sup>Includes: Car/truck, Chemicals, Conservation, Feed purchased, Fertilizers/lime, Freight/trucking, Insurance, Rent on machinery/equipment, Rent on other business property, Storage/warehousing, Taxes, Utilities, and Veterinary/medicine as well as any expenses taxpayers included in the Other expenses category.

<sup>c</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

<sup>d</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>f</sup>Reliable confidence intervals could not be computed for estimates.

# Information on the Expenses Reported on Schedule C by Selected Business Characteristics

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As discussed previously, the data showed wide variability in the expenses of sole proprietorships based on business characteristics such as size (measured in gross receipts), industry category, businesses with inventories, and businesses with home offices. This appendix provides detailed information on Schedule C expenses by these business characteristics. Comparable data on Schedule F expenses were not available.

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**Table 7: Percentage of Taxpayers Who Claimed Expense Categories on Schedule C by Size Based on Business Gross Receipts, Tax Year 2000**

Expense category	Business gross receipts					
	Under \$25,000		\$25,000 to \$100,000		Over \$100,000	
	Percentage of taxpayers who claimed expense	Expense category as percentage of total expenses	Percentage of taxpayers who claimed expense	Expense category as percentage of total expenses	Percentage of taxpayers who claimed expense	Expense category as percentage of total expenses
Advertising	24.3	1.9	44.7	2.5	66.4	2.5
Bad debts	1.7	0.4 <sup>c</sup>	3.0	0.2 <sup>b</sup>	6.3	0.2 <sup>a</sup>
Car/truck	65.1	21.7	81.2	18.5	81.6	5.7
Commissions	5.6	1.4 <sup>b</sup>	9.8	1.9 <sup>a</sup>	14.5	3.4
Depletion	0.7	0.2 <sup>c</sup>	0.4	0.1 <sup>c</sup>	0.6	0.2 <sup>b</sup>
Depreciation	33.8	9.3	53.7	9.0	74.2	6.9
Employee benefit programs	0.3	0.1 <sup>c</sup>	1.3	0.1 <sup>b</sup>	12.7	0.6
Insurance	21.3	2.3	54.4	3.2	80.0	3.5
Interest on mortgage	2.4	1.0 <sup>b</sup>	7.1	1.1 <sup>a</sup>	17.8	1.4
Interest on other business debt	5.7	1.7 <sup>b</sup>	18.6	1.4 <sup>a</sup>	38.9	1.8
Legal/professional services	35.8	2.1	60.4	1.7	78.7	1.7
Office	39.5	3.3	59.9	3.0	75.7	2.1
Pension/profit sharing plans	0.2	0.1 <sup>c</sup>	0.5	0.1 <sup>c</sup>	6.0	0.3
Rent on machinery/equipment	7.9	2.2 <sup>a</sup>	21.5	2.7 <sup>a</sup>	35.7	1.9
Rent on other business property	11.9	4.9	26.5	6.4	46.7	5.8
Repairs	19.4	2.5 <sup>a</sup>	41.4	3.5	64.1	2.8
Supplies	52.4	8.6	60.8	6.6	63.3	4.0
Taxes	27.8	1.3	51.5	2.0	78.8	4.3
Travel	21.4	3.8	31.2	2.7	40.8	1.4
Meals/entertainment	27.8	2.0	44.7	1.7	54.4	0.7
Utilities	40.0	5.1	70.0	5.5	85.6	4.2
Wages	2.3	1.5 <sup>b</sup>	11.8	4.5 <sup>a</sup>	46.0	22.2
Other	63.2	19.0	84.3	19.1	93.5	21.9
Home office	13.2	3.5	21.3	2.6	15.5	0.4 <sup>a</sup>
<b>Total<sup>d</sup></b>		<b>100%</b>		<b>100%</b>		<b>100%</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first, third, and fifth columns have sampling errors of (+/-) 2 percentage points or less. Estimates in the second, fourth, and sixth columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

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<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling errors exceeds (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Totals may not add to 100 percent due to rounding.

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**Table 8: Percentage of Taxpayers Who Claimed Expense Categories on Schedule C by Size Based on Business Gross Receipts, Tax Year 2001**

Expense category	Business gross receipts amount					
	Under \$25,000		\$25,000 to \$100,000		Over \$100,000	
	Percentage of taxpayers who claimed expense	Expense as percentage of total expenses	Percentage of taxpayers who claimed expense	Expense as percentage of total expenses	Percentage of taxpayers who claimed expense	Expense as percentage of total expenses
Advertising	25.1	2.0	43.1	2.6	64.9	2.5
Bad debts	2.0	0.5 <sup>b</sup>	2.6	0.1 <sup>b</sup>	6.8	0.3 <sup>b</sup>
Car/truck	64.7	21.5	80.9	18.8	80.5	5.6
Commissions	5.3	1.2 <sup>b</sup>	10.1	2.0 <sup>a</sup>	14.6	3.4
Depletion	0.6	0.1 <sup>b</sup>	0.5	0.1 <sup>c</sup>	0.7	0.2 <sup>a</sup>
Depreciation	32.7	9.5	51.6	8.5	73.9	7.0
Employee benefit programs	0.3	0.1 <sup>b</sup>	1.3	0.1 <sup>b</sup>	12.3	0.7
Insurance	20.6	2.3	54.1	3.2	79.2	3.6
Interest on mortgage	2.3	1.1 <sup>b</sup>	6.9	1.1 <sup>a</sup>	17.8	1.4
Interest on other business debt	5.7	1.4 <sup>b</sup>	17.7	1.3 <sup>a</sup>	38.1	1.8
Legal/professional services	36.2	2.1	59.5	1.6	78.8	1.7
Office	39.5	3.2	59.7	2.9	75.3	2.1
Pension/profit sharing plans	0.2	0.0 <sup>c</sup>	0.6	0.1 <sup>c</sup>	6.2	0.3
Rent on machinery/equipment	8.2	2.1 <sup>a</sup>	20.7	2.5 <sup>a</sup>	35.3	1.8
Rent on other business property	11.4	4.6	26.0	6.3	45.3	5.9
Repairs	19.7	2.6	39.5	3.3	62.5	2.6
Supplies	53.3	8.4	60.3	7.0	63.2	4.0
Taxes	27.4	1.4	50.7	1.9	76.9	4.2
Travel	21.9	3.9	31.1	2.7	41.1	1.3
Meals/entertainment	27.8	1.8	46.5	1.7	54.4	0.7
Utilities	40.2	5.3	68.4	5.6	85.7	4.3
Wages	2.3	1.5 <sup>b</sup>	10.9	4.4 <sup>a</sup>	43.8	21.5
Other	63.1	19.7	83.0	19.8	93.7	22.9
Home office	14.2	3.6	21.2	2.4	17.5	0.5 <sup>a</sup>
<b>Total<sup>d</sup></b>		<b>100%</b>		<b>100%</b>		<b>100%</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first, third, and fifth columns have sampling errors of (+/-) 2 percentage points or less. Estimates in the second, fourth, and sixth columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

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<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling errors exceeds (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Totals may not add to 100 percent due to rounding.

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**Table 9: Information on Expense Categories on Schedule C by Size Based on Business Gross Receipts, Tax Years 2000 and 2001**

Dollars in thousands

Expense category	Business gross receipts total					
	Under \$25,000		\$25,000 to \$100,000		Over \$100,000	
	2000	2001	2000	2001	2000	2001
Advertising	\$1,115,436	\$1,267,229	\$2,387,850	\$2,591,984	\$6,645,329	\$6,914,866
Bad debts	217,234 <sup>b</sup>	303,444 <sup>b</sup>	170,641 <sup>b</sup>	145,056 <sup>b</sup>	595,992 <sup>a</sup>	727,824 <sup>b</sup>
Car/truck	12,662,766	13,516,802	18,047,208	18,616,606	15,001,240	15,218,532
Commissions	815,056 <sup>b</sup>	763,945 <sup>b</sup>	1,857,395 <sup>a</sup>	1,981,873 <sup>a</sup>	8,938,100	9,384,259
Depletion	88,207 <sup>b</sup>	78,953 <sup>b</sup>	95,628 <sup>b</sup>	116,199 <sup>b</sup>	501,139 <sup>a</sup>	498,517 <sup>a</sup>
Depreciation	5,419,350	6,001,607	8,794,872	8,451,676	17,981,931	18,972,284
Employee benefit programs	74,362 <sup>c</sup>	57,738 <sup>b</sup>	138,365 <sup>b</sup>	131,358 <sup>b</sup>	1,659,148	1,851,542
Insurance	1,330,836	1,449,294	3,118,389	3,190,042	9,174,522	9,727,682
Interest on mortgage	566,888 <sup>a</sup>	689,164 <sup>b</sup>	1,060,497 <sup>a</sup>	1,073,733 <sup>a</sup>	3,623,511	3,693,329
Interest on other business debt	978,781 <sup>b</sup>	910,187 <sup>b</sup>	1,360,883 <sup>a</sup>	1,278,587 <sup>a</sup>	4,642,285	4,864,547
Legal/professional services	1,232,327	1,316,971	1,622,574	1,559,789	4,457,689	4,605,859
Office	1,933,877	2,000,186	2,900,183	2,909,072	5,622,354	5,695,547
Pension/profit sharing plans	38,274 <sup>c</sup>	27,496 <sup>c</sup>	50,457 <sup>c</sup>	70,066 <sup>c</sup>	804,142	894,330
Rent on machinery/equipment	1,290,642 <sup>a</sup>	1,307,168 <sup>a</sup>	2,612,902 <sup>a</sup>	2,431,023 <sup>a</sup>	4,976,723	4,783,816
Rent on other business property	2,832,479	2,922,305	6,188,327	6,240,658	15,321,295	15,956,161
Repairs	1,471,137 <sup>a</sup>	1,622,908	3,401,489	3,306,118	7,407,896	7,200,730
Supplies	5,013,068	5,323,414	6,405,253	6,945,572	10,375,621	10,805,850
Taxes	778,489	906,450	1,950,810	1,904,286	11,226,616	11,403,346
Travel	2,238,733	2,434,854	2,658,219	2,660,376	3,560,357	3,562,036
Meals/entertainment	1,158,258	1,134,275	1,669,707	1,725,173	1,836,726	1,875,864
Utilities	2,976,362	3,327,822	5,334,535	5,514,404	11,070,973	11,640,455
Wages	871,086 <sup>b</sup>	918,960 <sup>b</sup>	4,425,092 <sup>a</sup>	4,340,403 <sup>a</sup>	58,189,304	58,566,657
Other	11,081,586	12,432,885	18,606,347	19,608,587	57,337,994	62,570,804
Home office	2,064,635	2,294,004	2,498,346	2,396,990	1,079,562 <sup>a</sup>	1,290,409 <sup>a</sup>
<b>Total<sup>d</sup></b>	<b>\$58,249,869</b>	<b>\$63,008,061</b>	<b>\$97,355,972</b>	<b>\$99,189,633</b>	<b>\$262,030,451</b>	<b>\$272,705,243</b>

Source: GAO analysis of IRS data.

Note: Estimates in all columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

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<sup>d</sup>Totals may not add due to rounding.

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**Table 10: Range Information on Expense Categories on Schedule C by Size Based on Businesses Gross Receipts, Tax Year 2000**

Dollars in thousands

Expense category	Business gross receipts under \$25,000						
	Total	Mean	1st	10th	Median	90th	99th <sup>a</sup>
Advertising	\$1,115,436	\$0.52	\$0.01	\$0.04	\$0.22	\$1.26	4.79
Bad debts	217,234 <sup>c</sup>	1.48 <sup>c</sup>	0.01 <sup>d</sup>	0.04 <sup>d</sup>	0.24 <sup>d</sup>	2.47 <sup>d</sup>	19.88 <sup>e</sup>
Car/truck	12,662,766	2.22	0.03	0.18	1.29	5.28	13.26
Commissions	815,056 <sup>c</sup>	1.66 <sup>c</sup>	0.01	0.04 <sup>d</sup>	0.42 <sup>c</sup>	3.22 <sup>c</sup>	15.86
Depletion	88,207 <sup>c</sup>	1.55 <sup>c</sup>	0.01	0.05 <sup>d</sup>	0.46 <sup>d</sup>	2.99 <sup>d</sup>	20.30
Depreciation	5,419,350	1.83	0.02	0.13	0.93	4.19	12.77
Employee benefit programs	74,362 <sup>d</sup>	2.70 <sup>c</sup>	<sup>b</sup>	0.16 <sup>e</sup>	1.37 <sup>d</sup>	5.43 <sup>d</sup>	41.80
Insurance	1,330,836	0.71	0.02	0.10	0.43	1.56	4.51
Interest on mortgage	566,888	2.71	0.03 <sup>e</sup>	0.15 <sup>d</sup>	1.51 <sup>c</sup>	5.50 <sup>c</sup>	26.40
Interest on other business debt	978,781 <sup>c</sup>	1.97 <sup>c</sup>	0.01 <sup>d</sup>	0.07 <sup>c</sup>	0.54	2.55 <sup>c</sup>	12.01
Legal/professional services	1,232,327	0.39	0.02	0.05	0.15	0.70	3.33
Office	1,933,877	0.56	0.01 <sup>f</sup>	0.04	0.25	1.35	4.29
Pension/profit sharing plans	38,274 <sup>e</sup>	2.81 <sup>d</sup>	<sup>b</sup>	0.04 <sup>d</sup>	0.42 <sup>d</sup>	6.60 <sup>d</sup>	25.08 <sup>e</sup>
Rent on machinery/equipment	1,290,642	1.87	0.02 <sup>d</sup>	0.10 <sup>c</sup>	0.78 <sup>c</sup>	4.78	13.00
Rent on other business property	2,832,479	2.72	0.03 <sup>d</sup>	0.19 <sup>c</sup>	1.80	6.12	15.11
Repairs	1,471,137	0.86	0.02	0.06	0.37	1.85	6.67
Supplies	5,013,068	1.09	0.01	0.07	0.50	2.75	7.97
Taxes	778,489	0.32	0.01	0.02	0.13	0.75	2.50
Travel	2,238,733	1.19	0.01 <sup>d</sup>	0.10	0.55	2.67	8.42
Meals/entertainment	1,158,258	0.47	0.01	0.03	0.19	1.12	4.27
Utilities	2,976,362	0.85	0.01	0.10	0.53	1.93	4.87
Wages	871,086 <sup>c</sup>	4.39 <sup>c</sup>	0.03 <sup>d</sup>	0.20 <sup>d</sup>	1.42 <sup>c</sup>	7.61 <sup>c</sup>	36.23
Other	11,081,586	2.00	0.02	0.10	0.78	4.22	14.74
Home office	2,064,635	1.78	0.04 <sup>d</sup>	0.28	1.17	3.92	9.60
<b>All categories</b>	<b>\$58,249,869<sup>f</sup></b>	<b>\$6.64</b>	<b>\$0.06</b>	<b>\$0.60</b>	<b>\$4.20</b>	<b>\$14.52</b>	<b>\$32.42</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first, second, and fourth through sixth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>For these estimates we are more than 95 percent confident that the actual percentile is at least 80 percent of the estimate shown, unless otherwise noted.

<sup>b</sup>Population estimates could not be developed.

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<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

<sup>f</sup>Total may not add due to rounding.

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**Table 11: Range Information on Expense Categories on Schedule C by Size Based on Businesses Gross Receipts, Tax Year 2000**

Dollars in thousands

Expense category	Business gross receipts \$25,000 to \$100,000						
	Total	Mean	1st	10th	Median	90th	99th <sup>a</sup>
Advertising	\$2,387,850	\$1.43	\$0.02 <sup>f</sup>	\$0.08	\$0.58	\$3.72	\$10.97
Bad debts	170,641 <sup>d</sup>	1.53 <sup>d</sup>	0.01 <sup>f</sup>	0.05 <sup>e</sup>	0.40 <sup>e</sup>	3.00 <sup>e</sup>	11.24 <sup>f</sup>
Car/truck	18,047,208	5.92	0.13	0.86	4.11	12.76	30.94
Commissions	1,857,395 <sup>c</sup>	5.06 <sup>c</sup>	0.02 <sup>f</sup>	0.17 <sup>e</sup>	1.66 <sup>d</sup>	15.18 <sup>d</sup>	36.45
Depletion	95,628 <sup>d</sup>	6.03 <sup>d</sup>	0.06 <sup>f</sup>	0.16 <sup>e</sup>	4.67 <sup>d</sup>	14.52 <sup>d</sup>	31.01
Depreciation	8,794,872	4.37	0.04	0.32	2.42	10.70	27.28
Employee benefit programs	138,365 <sup>d</sup>	2.79 <sup>d</sup>	0.10 <sup>f</sup>	0.43 <sup>e</sup>	1.96 <sup>d</sup>	5.68 <sup>e</sup>	12.28 <sup>f</sup>
Insurance	3,118,389	1.53	0.05	0.21	0.91	3.64	7.96
Interest on mortgage	1,060,497 <sup>c</sup>	3.99 <sup>c</sup>	0.04 <sup>f</sup>	0.43 <sup>d</sup>	2.27 <sup>d</sup>	9.28 <sup>d</sup>	27.65
Interest on other business debt	1,360,883 <sup>c</sup>	1.95 <sup>c</sup>	0.01 <sup>e</sup>	0.13 <sup>d</sup>	0.92	4.41	13.75
Legal/professional services	1,622,574	0.72	0.04	0.09	0.26	1.32	8.04
Office	2,900,183	1.29	0.02	0.09	0.58	3.19	9.86
Pension/profit sharing plans	50,457 <sup>e</sup>	2.48 <sup>d</sup>	<sup>b</sup>	0.32 <sup>f</sup>	1.47 <sup>e</sup>	6.00 <sup>d</sup>	9.08 <sup>f</sup>
Rent on machinery/equipment	2,612,902 <sup>c</sup>	3.23	0.02	0.12 <sup>d</sup>	1.40	8.17 <sup>d</sup>	21.82
Rent on other business property	6,188,327	6.22	0.07	0.53 <sup>d</sup>	4.75	14.00	25.40
Repairs	3,401,489	2.19	0.02	0.12	0.99	5.73	16.13
Supplies	6,405,253	2.81	0.02	0.18	1.21	6.73	22.83
Taxes	1,950,810	1.01	0.01	0.05	0.42	2.60	7.38
Travel	2,658,219	2.27	0.02	0.13	1.03	5.52	16.42
Meals/entertainment	1,669,707	1.00	0.01 <sup>e</sup>	0.07	0.44	2.54	6.62
Utilities	5,334,535	2.03	0.06	0.33	1.40	4.34	10.60
Wages	4,425,092 <sup>c</sup>	9.96	0.15 <sup>e</sup>	0.77 <sup>e</sup>	6.36 <sup>d</sup>	23.68	48.29
Other	18,606,347	5.89	0.05	0.39	2.62	14.38	48.09
Home office	2,498,346	3.13	0.12 <sup>e</sup>	0.56	2.00	6.95	15.16
<b>All categories</b>	<b>\$97,355,972<sup>g</sup></b>	<b>\$25.95</b>	<b>\$1.40</b>	<b>\$7.03</b>	<b>\$21.13</b>	<b>\$50.09</b>	<b>\$90.35</b>

Source: GAO analysis of IRS data.

Note: Estimates in first and second columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the fourth, fifth, and sixth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>For these estimates we are more than 95 percent confident that the actual percentile is at least 80 percent of the estimate shown, unless otherwise noted.

<sup>b</sup>Population estimates could not be developed.

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<sup>c</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

<sup>d</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>f</sup>Reliable confidence intervals could not be computed for estimates.

<sup>g</sup>Total may not add due to rounding.

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**Table 12: Range Information on Expense Categories on Schedule C by Size Based on Businesses Gross Receipts, Tax Year 2000**

Dollars in thousands

Expense category	Business gross receipts over \$100,000						
	Total	Mean	1st	10th	Median	90th	99th <sup>a</sup>
Advertising	\$6,645,329	\$5.04	\$0.03	\$0.19	\$1.72	\$11.41	\$47.45
Bad debts	595,992 <sup>b</sup>	4.76 <sup>b</sup>	0.01 <sup>e</sup>	0.10 <sup>d</sup>	1.07 <sup>c</sup>	6.35 <sup>c</sup>	67.16
Car/truck	15,001,240	9.26	0.16	1.16	5.14	17.88	63.58
Commissions	8,938,100	31.03	0.02 <sup>e</sup>	0.21 <sup>c</sup>	5.70 <sup>c</sup>	67.27 <sup>c</sup>	382.23
Depletion	501,139 <sup>b</sup>	41.69 <sup>c</sup>	0.03 <sup>d</sup>	0.45 <sup>d</sup>	13.47 <sup>d</sup>	84.54 <sup>c</sup>	408.86
Depreciation	17,981,931	12.21	0.10 <sup>e</sup>	0.85	5.46	27.40	90.85
Employee benefit programs	1,659,148	6.57	0.05 <sup>d</sup>	0.50 <sup>c</sup>	3.70 <sup>b</sup>	13.65	40.12
Insurance	9,174,522	5.77	0.13	0.65	3.17	12.76	40.82
Interest on mortgage	3,623,511	10.26	0.10 <sup>d</sup>	0.80 <sup>c</sup>	4.80 <sup>b</sup>	21.93	86.74
Interest on other business debt	4,642,285	6.01	0.01 <sup>d</sup>	0.22 <sup>c</sup>	2.17 <sup>b</sup>	12.03	51.52
Legal/professional services	4,457,689	2.85	0.06	0.18	0.92	5.37	27.03
Office	5,622,354	3.74	0.03	0.21	1.63	8.88	29.80
Pension/profit sharing plans	804,142	6.76	0.05 <sup>e</sup>	0.69 <sup>c</sup>	4.25 <sup>b</sup>	14.32	43.01
Rent on machinery/equipment	4,976,723	7.02	0.04	0.23	2.75 <sup>b</sup>	15.44	64.97
Rent on other business property	15,321,295	16.53	0.10 <sup>d</sup>	1.38 <sup>c</sup>	10.20	35.20	99.43
Repairs	7,407,896	5.82	0.03	0.21	2.14	14.12	53.38
Supplies	10,375,621	8.26	0.04	0.35	2.49	18.03	99.32
Taxes	11,226,616	7.18	0.03	0.24	3.30	16.54	55.62
Travel	3,560,357	4.39	0.03	0.20	1.69	10.02	40.85
Meals/entertainment	1,836,726	1.70	0.01	0.09	0.74 <sup>b</sup>	4.50	11.45
Utilities	11,070,973	6.52	0.20	1.00	4.40	13.38	36.51
Wages	58,189,304	63.77	0.61 <sup>d</sup>	5.55 <sup>c</sup>	35.68	132.72	427.62
Other	57,337,994	30.89	0.12	1.01	8.56	58.00	311.15
Home office	1,079,562 <sup>b</sup>	3.51	0.14 <sup>e</sup>	0.68	2.42 <sup>b</sup>	7.44	19.26
<b>All categories</b>	<b>\$262,030,451<sup>f</sup></b>	<b>\$131.94</b>	<b>\$5.20</b>	<b>\$22.56</b>	<b>\$81.16</b>	<b>\$259.67</b>	<b>\$838.39</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first, second, and fifth columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the fourth and sixth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>For these estimates we are more than 95 percent confident that the actual percentile is at least 80 percent of the estimate shown.

<sup>b</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

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<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

<sup>f</sup>Total may not add due to rounding.

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**Table 13: Range Information on Expense Categories on Schedule C by Size Based on Businesses Gross Receipts, Tax Year 2001**

Dollars in thousands

Expense category	Business gross receipts under \$25,000						
	Total	Mean	1st	10th	Median	90th	99th <sup>a</sup>
Advertising	\$1,267,229	\$0.6	\$0.01	\$0.04	\$0.22	\$1.20	\$5.29
Bad debts	303,444 <sup>c</sup>	1.7 <sup>c</sup>	0.01 <sup>e</sup>	0.05 <sup>c</sup>	0.30 <sup>c</sup>	2.02 <sup>d</sup>	18.48 <sup>e</sup>
Car/truck	13,516,802	2.3	0.03	0.19	1.42	5.48	12.53
Commissions	763,945 <sup>c</sup>	1.6 <sup>b</sup>	0.01 <sup>d</sup>	0.06 <sup>c</sup>	0.44	3.28 <sup>c</sup>	14.06
Depletion	78,953 <sup>c</sup>	1.4 <sup>c</sup>	0.00 <sup>d</sup>	0.07 <sup>d</sup>	0.77 <sup>d</sup>	2.85 <sup>d</sup>	6.06
Depreciation	6,001,607	2.0	0.02	0.13	0.95	4.56	17.15
Employee benefit programs	57,738 <sup>c</sup>	2.3 <sup>c</sup>	0.18 <sup>e</sup>	0.31 <sup>d</sup>	1.54 <sup>d</sup>	4.46 <sup>c</sup>	7.30 <sup>e</sup>
Insurance	1,449,294	0.8	0.02	0.10	0.46	1.78	4.83
Interest on mortgage	689,164 <sup>c</sup>	3.4 <sup>b</sup>	0.01 <sup>e</sup>	0.32 <sup>d</sup>	1.84 <sup>c</sup>	7.21 <sup>c</sup>	25.96 <sup>e</sup>
Interest on other business debt	910,187 <sup>c</sup>	1.8 <sup>c</sup>	0.01 <sup>d</sup>	0.07 <sup>c</sup>	0.48	2.83 <sup>c</sup>	11.77
Legal/professional services	1,316,971	0.4	0.02	0.05	0.16	0.68	3.79
Office	2,000,186	0.6	0.01	0.04	0.25	1.36	4.51
Pension/profit sharing plans	27,496 <sup>d</sup>	1.5 <sup>c</sup>	0.00 <sup>e</sup>	0.01 <sup>d</sup>	0.80 <sup>d</sup>	3.48 <sup>e</sup>	6.95 <sup>e</sup>
Rent on machinery/equipment	1,307,168 <sup>b</sup>	1.8	0.01 <sup>d</sup>	0.10	0.75 <sup>c</sup>	4.81	9.12
Rent on other business property	2,922,305	2.8	0.03 <sup>d</sup>	0.20 <sup>c</sup>	1.99	6.17	13.97
Repairs	1,622,908	0.9	0.01 <sup>e</sup>	0.06	0.37	2.33	7.11
Supplies	5,323,414	1.1	0.01	0.07	0.50	2.71	8.41
Taxes	906,450	0.4	0.01 <sup>e</sup>	0.03	0.14	0.86	2.96
Travel	2,434,854	1.2	0.02	0.08	0.56	2.80	8.52
Meals/entertainment	1,134,275	0.5	0.01	0.03	0.20	1.14	3.56
Utilities	3,327,822	0.9	0.01	0.11	0.58	2.03	5.37
Wages	918,960 <sup>c</sup>	4.5 <sup>c</sup>	0.03 <sup>e</sup>	0.19 <sup>d</sup>	1.19 <sup>c</sup>	8.00 <sup>c</sup>	29.94
Other	12,432,885	2.2	0.01	0.11	0.86	4.48	16.32
Home office	2,294,004	1.8	0.04 <sup>d</sup>	0.28	1.12	3.90	10.13
<b>All categories</b>	<b>\$63,008,061<sup>f</sup></b>	<b>\$7.0</b>	<b>\$0.06</b>	<b>\$0.59</b>	<b>\$4.40</b>	<b>\$14.97</b>	<b>\$36.26</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first and second columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the fourth, fifth, and six columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>For these estimates we are more than 95 percent confident that the actual percentile is at least 80 percent of the estimate shown, unless otherwise noted.

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<sup>b</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

<sup>f</sup>Total may not add due to rounding.

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**Table 14: Range Information on Expense Categories on Schedule C by Size Based on Businesses Gross Receipts, Tax Year 2001**

Dollars in thousands

Expense category	Business gross receipts \$25,000 to \$100,000						
	Total	Mean	1st	10th	Median	90th	99th <sup>a</sup>
Advertising	\$2,591,984	\$1.6	\$0.02	\$0.08	\$0.68	\$4.29	\$10.92
Bad debts	145,056 <sup>d</sup>	1.5 <sup>d</sup>	0.02 <sup>f</sup>	0.07 <sup>d</sup>	0.58 <sup>e</sup>	2.68 <sup>d</sup>	15.53 <sup>f</sup>
Car/truck	18,616,606	6.1	0.10	0.88	4.20	12.99	30.91
Commissions	1,981,873 <sup>c</sup>	5.2 <sup>c</sup>	0.02 <sup>e</sup>	0.14 <sup>d</sup>	1.67 <sup>d</sup>	13.91 <sup>d</sup>	51.33
Depletion	116,199 <sup>d</sup>	6.0 <sup>d</sup>	0.04 <sup>f</sup>	0.28 <sup>e</sup>	4.96 <sup>d</sup>	13.78 <sup>d</sup>	24.49 <sup>f</sup>
Depreciation	8,451,676	4.3	0.05	0.33	2.40	9.90	27.87
Employee benefit programs	131,358 <sup>d</sup>	2.7 <sup>d</sup>	0.09 <sup>f</sup>	0.16 <sup>e</sup>	1.83 <sup>e</sup>	6.89 <sup>d</sup>	10.50 <sup>f</sup>
Insurance	3,190,042	1.6	0.06	0.25	0.99	3.61	8.06
Interest on mortgage	1,073,733 <sup>c</sup>	4.1 <sup>c</sup>	0.03 <sup>f</sup>	0.41 <sup>d</sup>	2.19 <sup>d</sup>	9.02 <sup>d</sup>	32.40
Interest on other business debt	1,278,587 <sup>c</sup>	1.9	0.01 <sup>e</sup>	0.14 <sup>d</sup>	0.97	4.75	11.91
Legal/professional services	1,559,789	0.7	0.04	0.09	0.25	1.29	7.82
Office	2,909,072	1.3	0.02	0.10	0.58	3.02	10.15
Pension/profit sharing plans	70,066 <sup>e</sup>	3.1 <sup>e</sup>	<sup>b</sup>	0.10 <sup>f</sup>	1.17 <sup>e</sup>	9.02 <sup>e</sup>	10.44 <sup>f</sup>
Rent on machinery/equipment	2,431,023 <sup>c</sup>	3.1 <sup>c</sup>	0.02	0.13	1.26 <sup>d</sup>	7.60	21.95
Rent on other business property	6,240,658	6.4	0.04 <sup>e</sup>	0.60	4.79	14.40	26.61
Repairs	3,306,118	2.2	0.03	0.11	0.90	5.70	18.25
Supplies	6,945,572	3.0	0.03	0.18	1.25	7.11	26.84
Taxes	1,904,286	1.0	0.01 <sup>f</sup>	0.05	0.40	2.54	7.52
Travel	2,660,376	2.3	0.03	0.14	1.07	5.49	17.93
Meals/entertainment	1,725,173	1.0	0.02	0.07	0.50	2.44	6.07
Utilities	5,514,404	2.1	0.06	0.37	1.50	4.40	11.69
Wages	4,340,403 <sup>c</sup>	10.5	0.10 <sup>e</sup>	0.75 <sup>d</sup>	6.64 <sup>d</sup>	26.16	48.09
Other	19,608,587	6.2	0.04	0.41	2.88	15.11	45.53
Home office	2,396,990	3.0	0.11	0.55	2.06	6.91	12.96
<b>All categories</b>	<b>\$99,189,633<sup>g</sup></b>	<b>\$26.2</b>	<b>\$1.56</b>	<b>\$7.24</b>	<b>\$21.42</b>	<b>\$51.14</b>	<b>\$90.10</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first and second columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the fourth, fifth, and sixth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>For these estimates we are more than 95 percent confident that the actual percentile is at least 80 percent of the estimate shown, unless otherwise noted.

<sup>b</sup>Population estimates could not be developed.

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<sup>c</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

<sup>d</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>f</sup>Reliable confidence intervals could not be computed for estimates.

<sup>g</sup>Total may not add due to rounding.

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**Table 15: Range Information on Expense Categories on Schedule C by Size Based on Businesses Gross Receipts, Tax Year 2001**

Dollars in thousands

Expense category	Business gross receipts over \$100,000						
	Total	Mean	1st	10th	Median	90th	99th <sup>a</sup>
Advertising	\$6,914,866	\$5.3	\$0.03	\$0.14 <sup>c</sup>	\$1.69	\$11.92	\$51.66
Bad debts	727,824 <sup>c</sup>	5.3 <sup>c</sup>	0.02 <sup>d</sup>	0.08 <sup>d</sup>	1.08 <sup>c</sup>	8.20 <sup>c</sup>	46.24
Car/truck	15,218,532	9.4	0.11	1.15	5.33	18.90	67.81
Commissions	9,384,259	31.8	0.04	0.30 <sup>c</sup>	4.81 <sup>c</sup>	71.93 <sup>c</sup>	396.84
Depletion	498,517 <sup>b</sup>	34.7 <sup>c</sup>	0.03 <sup>e</sup>	0.45 <sup>d</sup>	7.68 <sup>d</sup>	74.56 <sup>c</sup>	377.74
Depreciation	18,972,284	12.7	0.09	0.75	5.76	28.88	90.13
Employee benefit programs	1,851,542	7.5	0.08	0.51 <sup>c</sup>	4.40	15.69	42.76
Insurance	9,727,682	6.1	0.13	0.63	3.22	13.32	44.65
Interest on mortgage	3,693,329	10.3	0.02 <sup>d</sup>	0.67 <sup>c</sup>	4.41	22.01	91.50
Interest on other business debt	4,864,547	6.3	0.01 <sup>d</sup>	0.21 <sup>c</sup>	2.45	12.70	53.25
Legal/professional services	4,605,859	2.9	0.06	0.17	0.90	5.31	31.46
Office	5,695,547	3.7	0.03	0.19	1.57	8.87	31.64
Pension/profit sharing plans	894,330	7.2	0.06 <sup>e</sup>	0.66 <sup>c</sup>	3.94	15.24	52.70
Rent on machinery/equipment	4,783,816	6.7	0.04	0.22	2.51	14.96	61.39
Rent on other business property	15,956,161	17.5	0.10 <sup>d</sup>	1.35	10.98	36.49	114.58
Repairs	7,200,730	5.7	0.04	0.22	2.14	13.73	51.01
Supplies	10,805,850	8.5	0.04	0.32	2.56	17.80	96.02
Taxes	11,403,346	7.4	0.03	0.20	3.29	16.97	60.74
Travel	3,562,036	4.3	0.03	0.21	1.64	9.56	40.90
Meals/entertainment	1,875,864	1.7	0.01	0.09	0.80	4.45	11.81
Utilities	11,640,455	6.7	0.24	1.04	4.25	13.69	39.82
Wages	58,566,657	66.3	0.58 <sup>d</sup>	6.56	37.44	136.71	453.02
Other	62,570,804	33.1	0.14	1.05	8.78	62.93	330.17
Home office	1,290,409 <sup>b</sup>	3.7	0.16	0.66	2.46	7.93	16.96
<b>All categories</b>	<b>\$272,705,243<sup>f</sup></b>	<b>\$135.2</b>	<b>\$5.38</b>	<b>\$23.13</b>	<b>\$82.28</b>	<b>\$267.14</b>	<b>\$876.72</b>

Source: GAO analysis of IRS data.

Note: Estimates in the first and second columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the fourth, fifth, and sixth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>For these estimates we are more than 95 percent confident that the actual percentile is at least 80 percent of the estimate shown.

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<sup>b</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

<sup>f</sup>Total may not add due to rounding.

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**Table 16: Information on Expense Categories on Schedule C by Total Business Gross Receipts, Tax Years 2000 and 2001**

Dollars in thousands

Expense category	Expenses as a percentage of business gross receipts	
	2000	2001
Advertising	1.7	1.8
Bad debts	1.2 <sup>a</sup>	1.4 <sup>b</sup>
Car/truck	6.1	6.4
Commissions	7.8 <sup>a</sup>	8.5
Depletion	7.8 <sup>b</sup>	7.6 <sup>a</sup>
Depreciation	4.7	4.9
Employee benefit programs	1.3	1.4
Insurance	1.9	2.0
Interest on mortgage	3.2	3.3
Interest on other business debt	1.8	1.9
Legal/professional services	1.0	1.0
Office	1.5	1.5
Pension/profit sharing plans	1.3	1.3
Rent on machinery/equipment	2.7	2.6
Rent on other business property	5.6	5.9
Repairs	2.1	2.1
Supplies	3.6	3.8
Taxes	2.0	2.0
Travel	2.1	2.2
Meals/entertainment	0.9	0.9
Utilities	2.5	2.6
Wages	15.1	15.2
Other	9.8	10.7
Home office	4.1	4.3

Source: GAO analysis of IRS data.

Note: Estimates in all columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

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**Table 17: Information by Industry Categories for Schedule C Expenses by Business Gross Receipts, Tax Years 2000 and 2001**

Dollars in thousands

Industry category	2000		2001	
	Business gross receipts total <sup>a</sup>	Expenses as a percentage of business gross receipts	Business gross receipts total <sup>a</sup>	Expenses as a percentage of business gross receipts
Accommodation/food services	\$36,068,000	55.3	\$35,827,892	57.8
Administrative/waste management	36,977,755	54.0	36,552,989	54.8
Agriculture/forestry	15,965,777	62.5	15,496,089	60.0
Arts/recreation	19,544,201	67.8	19,818,497	72.1
Construction	154,732,186	37.4	159,253,760	38.3
Education services	4,085,152 <sup>b</sup>	63.9	4,357,558	63.5
Finance/insurance	99,457,478	26.3	77,723,180	34.8 <sup>b</sup>
Health care/social assistance	83,758,190	53.9	89,449,901	54.0
Information	6,509,562	60.4	7,053,158	58.5
Manufacturing	27,580,129	40.8	23,976,663	43.2
Mining	5,344,455	79.6	6,200,506	79.7
Other services	62,924,792	50.0	66,224,392	50.6
Professional/technical	108,778,286	46.4	112,906,070	48.3
Real estate/leasing	47,217,865	48.7	47,164,765	51.8
Religious/civic	2,639,655 <sup>b</sup>	48.4	2,396,712 <sup>b</sup>	53.9
Retail trade	174,136,958	26.5	179,437,743	26.8
Transportation/warehousing	50,852,835	76.5	50,676,326	76.3
Utilities	256,908 <sup>c</sup>	71.0 <sup>b</sup>	250,610 <sup>c</sup>	66.0 <sup>b</sup>
Wholesale trade	41,078,866	20.8	38,099,169	22.4
Unclassified	2,390,234 <sup>b</sup>	57.0	1,612,332 <sup>b</sup>	50.0 <sup>b</sup>

Source: GAO analysis of IRS data.

Note: Estimates in all columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall in different industry categories; only those amounts that could clearly be associated with a specific industry category are included in the table.

<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

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**Table 18: Information by Industry Categories for Schedule C Expenses, Tax Years 2000 and 2001**

Dollars in thousands

Industry category	2000		2001	
	Expense total <sup>a</sup>	Expense as percentage of total expenses	Expense total <sup>a</sup>	Expense as percentage of total expenses
Accommodation/food services	\$19,951,050	4.8	\$20,690,429	4.8
Administrative/waste management	19,928,104	4.8	19,914,615	4.6
Agriculture/forestry	9,973,723	2.4	9,288,614	2.2
Arts/recreation	13,221,156	3.2	14,266,382	3.3
Construction	57,618,909	13.9	60,783,362	14.1
Education services	2,570,439 <sup>b</sup>	0.6 <sup>b</sup>	2,734,030	0.6
Finance/insurance	25,687,067	6.2	26,388,126	6.1
Health care/social assistance	45,096,357	10.9	48,249,135	11.2
Information	3,920,292	0.9	4,120,542	1.0
Manufacturing	11,254,726	2.7	10,345,963	2.4
Mining	4,247,335	1.0	4,941,103	1.1
Other services	31,434,173	7.6	33,479,849	7.8
Professional/technical	50,302,594	12.1	54,340,816	12.6
Real estate/leasing	22,904,868	5.5	24,233,205	5.6
Religious/civic	1,250,739 <sup>b</sup>	0.3 <sup>b</sup>	1,264,084 <sup>b</sup>	0.3 <sup>b</sup>
Retail trade	46,102,269	11.1	48,013,853	11.1
Transportation/warehousing	38,885,750	9.4	38,648,317	9.0
Utilities	181,741 <sup>c</sup>	0.0 <sup>c</sup>	165,375 <sup>c</sup>	0.0 <sup>c</sup>
Wholesale trade	8,528,371	2.1	8,510,788	2.0
Unclassified	1,327,310 <sup>b</sup>	0.3 <sup>b</sup>	786,364 <sup>b</sup>	0.2 <sup>b</sup>
<b>Total<sup>d</sup></b>		<b>100%</b>		<b>100%</b>

Source: GAO analysis of IRS data.

Note: Estimates in all columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall into a different industry category; only those amounts that could be associated with a specific industry category are included in the table.

<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Totals may not add to 100 percent due to rounding.

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**Table 19: Information by Industry Categories for Schedule C Expenses, Tax Years 2000 and 2001**

Dollars in thousands

Industry category	2000			2001		
	Total <sup>a</sup>	Mean	Median	Total <sup>a</sup>	Mean	Median
Accommodation/food services	\$19,951,050	\$65.8	\$22.8 <sup>b</sup>	\$20,690,429	\$63.2	\$21.2 <sup>b</sup>
Administrative/waste management	19,928,104	17.6	5.1	19,914,615	17.1	5.0
Agriculture/forestry	9,973,723	37.0	7.9 <sup>b</sup>	9,288,614	34.8	10.2 <sup>b</sup>
Arts/recreation	13,221,156	13.0	4.3	14,266,382	14.5	5.0
Construction	57,618,909	30.6	12.1	60,783,362	29.7	11.4
Education services	2,570,439 <sup>b</sup>	10.0	3.8 <sup>b</sup>	2,734,030	9.4	3.7 <sup>b</sup>
Finance/insurance	25,687,067	47.5	12.4	26,388,126	48.7	12.8 <sup>b</sup>
Health care/social assistance	45,096,357	36.2	8.8	48,249,135	37.2	8.7
Information	3,920,292	15.6	4.6 <sup>b</sup>	4,120,542	16.6	4.5 <sup>b</sup>
Manufacturing	11,254,726	34.5	8.7 <sup>b</sup>	10,345,963	35.1	10.0 <sup>b</sup>
Mining	4,247,335	36.7	2.7 <sup>c</sup>	4,941,103	43.7	5.8 <sup>c</sup>
Other services	31,434,173	21.1	8.4	33,479,849	21.5	8.6
Professional/technical	50,302,594	23.1	6.8	54,340,816	23.6	6.9
Real estate/leasing	22,904,868	24.6	11.6	24,233,205	25.2	12.2
Religious/civic	1,250,739 <sup>b</sup>	7.0	3.1 <sup>b</sup>	1,264,084 <sup>b</sup>	7.1	4.2 <sup>b</sup>
Retail trade	46,102,269	20.6	4.6	48,013,853	21.7	5.1
Transportation/warehousing	38,885,750	48.6	22.8	38,648,317	45.8	20.1
Utilities	181,741 <sup>c</sup>	13.9 <sup>c</sup>	6.9 <sup>c</sup>	165,375 <sup>c</sup>	20.4 <sup>c</sup>	9.5 <sup>c</sup>
Wholesale trade	8,528,371	24.0	9.1 <sup>b</sup>	8,510,788	26.1	9.4
Unclassified	1,327,310 <sup>b</sup>	10.7 <sup>b</sup>	4.1 <sup>c</sup>	786,364 <sup>b</sup>	8.1 <sup>b</sup>	3.6 <sup>c</sup>

Source: GAO analysis of IRS data.

Note: Estimates in all columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall in different industry categories; only those amounts that could clearly be associated with a specific industry category are included in the table.

<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

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**Table 20: Information by Industry Categories for Schedule C Expenses by Businesses With Inventory, Tax Years 2000 and 2001**

Dollars in thousands

Industry category	2000		2001	
	Total <sup>a</sup>	Percentage with inventory	Total <sup>a</sup>	Percentage with inventory
Accommodation/food services	\$120	37.8	\$115	33.8
Administrative/waste management	25	2.0 <sup>b</sup>	33	2.6
Agriculture/forestry	13 <sup>b</sup>	4.7 <sup>b</sup>	17 <sup>b</sup>	6.1 <sup>b</sup>
Arts/recreation	60	5.7	63	6.2
Construction	91	4.6	85	3.9
Education services	5 <sup>b</sup>	1.7 <sup>b</sup>	7 <sup>b</sup>	2.1 <sup>b</sup>
Finance/insurance	8 <sup>b</sup>	1.4 <sup>b</sup>	6 <sup>b</sup>	1.0 <sup>b</sup>
Health care/social assistance	21	1.5	15	1.1 <sup>b</sup>
Information	18	6.7 <sup>b</sup>	21	7.7 <sup>b</sup>
Manufacturing	95	28.0	79	25.1
Mining	1 <sup>c</sup>	0.5 <sup>b</sup>	0 <sup>b</sup>	0.2 <sup>b</sup>
Other services	228	14.4	242	14.5
Professional/technical	87	3.8	87	3.6
Real estate/leasing	12	1.3	18	1.8 <sup>b</sup>
Religious/civic	0 <sup>c</sup>	0.0 <sup>b</sup>	0 <sup>c</sup>	0.0 <sup>b</sup>
Retail trade	1,080	45.7	1,069	46.0
Transportation/warehousing	4 <sup>b</sup>	0.4 <sup>b</sup>	5 <sup>b</sup>	0.6 <sup>b</sup>
Utilities	1 <sup>c</sup>	7.1 <sup>c</sup>	1 <sup>c</sup>	10.3 <sup>c</sup>
Wholesale trade	114	30.4	89	26.5
Unclassified	7 <sup>b</sup>	4.4 <sup>b</sup>	6 <sup>c</sup>	4.2 <sup>b</sup>

Source: GAO analysis of IRS data.

Note: Estimates in all columns have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall in different industry categories; only those amounts that could clearly be associated with a specific industry category are included in the table.

<sup>b</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Reliable confidence intervals could not be computed for estimates.

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**Table 21: Information by Industry Categories for Schedule C Expenses by Businesses With and Without Inventory, Tax Year 2000**

Dollars in thousands

Industry category	2000							
	With inventory			Without inventory			Total	
	Total <sup>a</sup>	Mean	Median	Total <sup>a</sup>	Mean	Median	Mean	Median
Accommodation/food services	\$12,242,127	\$102.1	\$44.7	\$7,708,923	\$42.0	\$11.4 <sup>c</sup>	\$65.8	\$22.8 <sup>c</sup>
Administrative/waste management	1,437,708 <sup>c</sup>	56.8 <sup>c</sup>	15.1 <sup>d</sup>	18,490,397	16.4	4.9	17.3	5.0
Agriculture/forestry	762,692 <sup>c</sup>	58.8 <sup>d</sup>	9.7 <sup>d</sup>	9,211,031	35.9	7.8 <sup>c</sup>	37.0	7.9 <sup>c</sup>
Arts/recreation	1,440,280 <sup>c</sup>	25.1 <sup>c</sup>	5.7 <sup>d</sup>	11,780,876	12.1	4.1	12.9	4.2
Construction	5,251,889	57.9	27.2	52,367,020	29.1	11.4	30.4	12.0
Education services	97,709 <sup>d</sup>	20.0 <sup>d</sup>	4.5 <sup>d</sup>	2,472,730 <sup>c</sup>	9.7	3.6 <sup>c</sup>	9.9	3.7 <sup>c</sup>
Finance/insurance	203,872 <sup>d</sup>	26.2 <sup>d</sup>	10.5 <sup>d</sup>	25,483,195	47.2	12.0	46.9	12.0
Health care/social assistance	1,718,444 <sup>c</sup>	82.7 <sup>c</sup>	42.1 <sup>d</sup>	43,377,913	35.1	8.5	35.9	8.7
Information	420,743 <sup>d</sup>	24.8 <sup>c</sup>	8.5 <sup>d</sup>	3,499,548	14.8	4.5 <sup>c</sup>	15.5	4.5 <sup>c</sup>
Manufacturing	4,478,146	50.6 <sup>c</sup>	10.1 <sup>d</sup>	6,776,580	28.3	8.5 <sup>c</sup>	34.3	8.7 <sup>c</sup>
Mining	121,517 <sup>d</sup>	197.0 <sup>d</sup>	44.6 <sup>e</sup>	4,125,818	34.9	2.4 <sup>d</sup>	35.7	2.5 <sup>d</sup>
Other services	9,037,826	40.0	16.1	22,396,347	17.5	7.5	20.9	8.3
Professional/technical	1,970,841 <sup>c</sup>	22.9 <sup>c</sup>	6.0	48,331,754	22.9	6.8	22.9	6.8
Real estate/leasing	933,538 <sup>c</sup>	75.7 <sup>c</sup>	20.2 <sup>d</sup>	21,971,330	23.8	11.3	24.4	11.4
Religious/civic	34,025 <sup>e</sup>	843.2	<sup>b</sup>	1,216,714 <sup>c</sup>	6.6	2.9 <sup>c</sup>	6.8	2.9 <sup>c</sup>
Retail trade	32,881,146	31.4	7.1	13,221,123	10.8	3.3	20.3	4.5
Transportation/warehousing	465,983 <sup>c</sup>	133.1 <sup>d</sup>	34.5 <sup>d</sup>	38,419,768	48.2	22.7	48.5	22.7
Utilities	32,090 <sup>e</sup>	34.4	<sup>b</sup>	149,652 <sup>d</sup>	12.3 <sup>d</sup>	6.5 <sup>d</sup>	13.9 <sup>d</sup>	6.9 <sup>d</sup>
Wholesale trade	3,614,394	32.4	9.3	4,913,977	20.0	8.8 <sup>c</sup>	23.9	9.1 <sup>c</sup>
Unclassified	201,270 <sup>d</sup>	30.3 <sup>d</sup>	12.5 <sup>d</sup>	1,126,040 <sup>c</sup>	9.1 <sup>c</sup>	3.7 <sup>c</sup>	10.2 <sup>c</sup>	3.7 <sup>d</sup>

Source: GAO analysis of IRS data.

Note: Estimates in the first, second, and fourth through eighth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall in different industry categories; only those amounts that could clearly be associated with a specific industry category are included in the table.

<sup>b</sup>Population estimates could not be developed.

<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

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**Table 22: Information by Industry Categories for Schedule C Expenses by Businesses With and Without Inventory, Tax Year 2001**

Dollars in thousands

Industry category	2001							
	With inventory			Without inventory			Total	
	Total <sup>a</sup>	Mean	Median	Total <sup>a</sup>	Mean	Median	Mean	Median
Accommodation/food services	\$11,456,070	\$99.4	\$44.0	\$9,234,359	\$43.1	\$13.1	\$62.8	\$20.7
Administrative/waste management	1,108,773 <sup>c</sup>	34.3 <sup>c</sup>	8.8 <sup>d</sup>	18,805,841	16.3	4.9	16.8	4.9
Agriculture/forestry	843,814 <sup>c</sup>	49.5 <sup>c</sup>	11.6 <sup>d</sup>	8,444,800	33.5	9.4 <sup>c</sup>	34.5	9.8 <sup>c</sup>
Arts/recreation	1,473,398 <sup>c</sup>	24.1 <sup>c</sup>	5.4 <sup>d</sup>	12,792,984	13.7	4.9	14.3	4.9
Construction	5,235,774	62.0	26.2	55,547,588	28.1	11.0	29.5	11.2
Education services	72,049 <sup>e</sup>	10.6 <sup>d</sup>	2.6 <sup>d</sup>	2,661,981	9.2	3.7 <sup>c</sup>	9.2	3.7
Finance/insurance	174,454 <sup>d</sup>	30.3 <sup>d</sup>	6.5 <sup>d</sup>	26,213,673	48.4	12.4 <sup>c</sup>	48.2	12.3
Health care/social assistance	1,664,222 <sup>c</sup>	108.8 <sup>c</sup>	71.6 <sup>d</sup>	46,584,913	35.8	8.3	36.6	8.5
Information	548,821	27.7 <sup>c</sup>	11.8 <sup>d</sup>	3,571,722	15.6	4.3 <sup>c</sup>	16.6	4.5 <sup>c</sup>
Manufacturing	3,838,574	51.9 <sup>c</sup>	10.2 <sup>d</sup>	6,507,389	29.0	9.6 <sup>c</sup>	34.7	9.8 <sup>c</sup>
Mining	152,257 <sup>d</sup>	573.1 <sup>d</sup>	220.8 <sup>d</sup>	4,788,846	42.2	5.8 <sup>d</sup>	43.4	5.8 <sup>d</sup>
Other services	9,647,905	41.4	16.5	23,831,944	17.9	7.8	21.4	8.6
Professional/technical	2,530,210 <sup>c</sup>	29.2 <sup>c</sup>	5.6 <sup>d</sup>	51,810,606	23.2	6.9	23.4	6.9
Real estate/leasing	1,023,394 <sup>c</sup>	57.4 <sup>c</sup>	14.3 <sup>d</sup>	23,209,811	24.5	12.2	25.1	12.2
Religious/civic	38,832 <sup>e</sup>	927.0	<sup>b</sup>	1,225,252 <sup>c</sup>	6.7	4.1 <sup>c</sup>	6.9	4.1 <sup>c</sup>
Retail trade	34,382,362	33.0	7.3	13,631,491	11.5	3.8	21.5	5.0
Transportation/warehousing	578,040 <sup>d</sup>	117.6 <sup>d</sup>	40.9 <sup>d</sup>	38,070,277	45.2	20.0	45.6	20.1
Utilities	18,836 <sup>d</sup>	20.1	<sup>b</sup>	146,539 <sup>d</sup>	20.4 <sup>d</sup>	9.3 <sup>d</sup>	20.4 <sup>d</sup>	9.5 <sup>d</sup>
Wholesale trade	4,126,679	46.5	13.2 <sup>d</sup>	4,384,109	18.2	8.4	25.8	9.3
Unclassified	38,198 <sup>e</sup>	6.8 <sup>d</sup>	1.1 <sup>e</sup>	748,166 <sup>c</sup>	7.7 <sup>c</sup>	3.3 <sup>d</sup>	7.6 <sup>c</sup>	3.3 <sup>d</sup>

Source: GAO analysis of IRS data.

Note: Estimates in the first, second, and fourth through eighth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall in different industry categories; only those amounts that could clearly be associated with a specific industry category are included in the table.

<sup>b</sup>Population estimates could not be developed.

<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

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**Table 23: Information on Expense Categories on Schedule C by Businesses With and Without Home Office Expense, Tax Year 2000**

Dollars in thousands

Expense category	2000					
	With home office			Without home office		
	Total <sup>a</sup>	Mean	Median	Total <sup>a</sup>	Mean	Median
Advertising	\$1,371,577	\$1.5	\$0.4	\$8,777,039	\$2.1	\$0.5
Bad debts	101,880 <sup>c</sup>	1.6 <sup>c</sup>	0.5 <sup>d</sup>	881,988 <sup>b</sup>	2.7 <sup>b</sup>	0.5
Car/truck	8,094,216	4.4	2.6	37,616,997	4.4	2.3
Commissions	1,803,729	9.3	1.3 <sup>c</sup>	9,806,822	10.3	1.0
Depletion	7,190 <sup>d</sup>	1.9 <sup>d</sup>	0.5 <sup>e</sup>	677,783 <sup>b</sup>	8.4 <sup>c</sup>	1.1 <sup>d</sup>
Depreciation	5,119,981	3.8	1.7	27,076,170	5.3	1.9
Employee benefit programs	209,585 <sup>c</sup>	4.1	2.6 <sup>c</sup>	1,662,290	6.0	2.9
Insurance	1,488,311	1.9	0.7	12,135,436	2.6	1.0
Interest on mortgage	345,804 <sup>c</sup>	4.0	1.7 <sup>c</sup>	4,905,092	6.6	3.0
Interest on other business debt	755,801	2.1	0.9	6,226,148	3.9	1.2
Legal/professional services	1,009,482	0.8	0.2	6,303,109	1.1	0.3
Office	1,715,990	1.2	0.5	8,740,424	1.5	0.4
Pension/profit sharing plans	73,288 <sup>c</sup>	4.1 <sup>c</sup>	3.3 <sup>c</sup>	819,586	6.1	3.5
Rent on machinery/equipment	1,111,101	3.3	1.1 <sup>c</sup>	7,769,166	4.2	1.5
Rent on other business property	1,185,139	4.2	1.6 <sup>c</sup>	23,156,963	8.6	4.4
Repairs	1,231,555	1.8	0.5	11,048,967	2.9	0.9
Supplies	3,482,106	2.3	0.8	18,311,837	2.8	0.8
Taxes	1,237,442	1.4	0.2	12,718,473	2.5	0.4
Travel	1,685,788	2.3	0.9	6,771,521	2.2	0.8
Meals/entertainment	881,931	0.8	0.3	3,782,760	0.9	0.3
Utilities	2,154,350	1.7	1.0	17,227,520	2.6	1.1
Wages	5,265,814	25.1	7.4 <sup>c</sup>	58,219,668	43.3	18.4
Other	12,381,187	6.7	1.8	74,644,740	8.6	1.5
Home office	5,642,543	2.5	1.5	n/a	n/a	n/a
<b>Total<sup>f</sup></b>	<b>\$58,355,790</b>			<b>\$359,280,501</b>		

Source: GAO analysis of IRS data.

Note: Estimates in the first, second, third, and sixth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted. Estimates in the fourth and fifth columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall in different industry categories; only those amounts that could clearly be associated with a specific industry category are included in the table.

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<sup>b</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

<sup>f</sup>Total may not add due to rounding.

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**Table 24: Information on Expense Categories on Schedule C by Businesses With and Without Home Office Expense, Tax Year 2001**

Dollars in thousands

Expense category	2001					
	With home office			Without home office		
	Total	Mean	Median	Total	Mean	Median
Advertising	\$1,714,740	\$1.7	\$0.4	\$9,059,338	\$2.1	\$0.5
Bad debts	231,807 <sup>d</sup>	3.1 <sup>d</sup>	0.4 <sup>b</sup>	944,517 <sup>a</sup>	2.8 <sup>a</sup>	0.5 <sup>b</sup>
Car/truck	9,164,442	4.7	2.7	38,187,497	4.4	2.4
Commissions	2,107,584	9.0	1.2 <sup>b</sup>	10,022,493	10.9	1.2
Depletion	22,478 <sup>c</sup>	2.8 <sup>c</sup>	1.2 <sup>c</sup>	671,191 <sup>a</sup>	8.3 <sup>a</sup>	1.4 <sup>c</sup>
Depreciation	5,521,567	4.0	1.6	27,904,000	5.6	1.9
Employee benefit programs	232,760 <sup>b</sup>	4.7 <sup>b</sup>	3.0 <sup>b</sup>	1,807,879	6.7	3.5
Insurance	1,714,384	1.9	0.8	12,652,634	2.7	1.1
Interest on mortgage	344,775 <sup>b</sup>	3.4	1.7 <sup>b</sup>	5,111,451	7.1	3.1
Interest on other business debt	775,430	2.0	0.9	6,277,891	4.0	1.2
Legal/professional services	1,152,437	0.9	0.2	6,330,182	1.1	0.3
Office	1,878,875	1.3	0.5	8,725,930	1.5	0.4
Pension/profit sharing plans	47,866 <sup>b</sup>	3.2 <sup>b</sup>	1.1 <sup>c</sup>	944,026 <sup>a</sup>	6.2 <sup>a</sup>	3.4
Rent on machinery/equipment	1,185,234	3.0	0.8 <sup>b</sup>	7,336,773	4.0	1.4
Rent on other business property	1,329,368	4.8	1.6 <sup>c</sup>	23,789,756	9.0	4.4
Repairs	1,347,778	1.9	0.4	10,781,978	2.8	0.8
Supplies	4,046,055	2.5	0.8	19,028,780	2.8	0.8
Taxes	1,321,350	1.3	0.2	12,892,731	2.6	0.4
Travel	1,882,599	2.3	0.8	6,774,668	2.1	0.8
Meals/entertainment	972,722	0.8	0.3	3,762,591	0.9	0.3
Utilities	2,465,395	1.8	1.0	18,017,285	2.8	1.2
Wages	5,653,834	26.1	9.3 <sup>b</sup>	58,172,186	45.3	19.5
Other	13,304,153	6.9	1.9	81,308,123	9.2	1.7
Home office	5,981,403	2.5	1.5	n/a	n/a	n/a
<b>Total<sup>e</sup></b>	<b>\$64,399,036</b>			<b>\$370,503,901</b>		

Source: GAO analysis of IRS data.

Note: Estimates in the first, second, third and sixth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted. Estimates in the fourth and fifth columns have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Sampling error is between (+/-) 10 and (+/-) 20 percent of the value of the estimate.

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**Appendix IV**  
**Information on the Expenses Reported on**  
**Schedule C by Selected Business**  
**Characteristics**

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<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Reliable confidence intervals could not be computed for estimates.

<sup>e</sup>Total may not add due to rounding.

**Appendix IV**  
**Information on the Expenses Reported on**  
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**Table 25: Information by Industry Categories for Schedule C Expenses by Businesses With Home Office Expense, Tax Year 2000**

Dollars in thousands

Industry category	2000			
	Percentage of businesses claiming home office expenses	Total of home office expenses claimed	Mean	Median
Accommodation/food services	5.7	\$45,238 <sup>c</sup>	\$2.6 <sup>b</sup>	\$1.4 <sup>c</sup>
Administrative/waste management	14.0	280,282 <sup>b</sup>	1.7	1.3
Agriculture/forestry	6.2	21,741 <sup>c</sup>	1.3 <sup>b</sup>	0.8 <sup>c</sup>
Arts/recreation	12.9	332,943 <sup>b</sup>	2.5	1.8 <sup>b</sup>
Construction	14.4	591,500	2.2	1.5
Education services	16.9	93,139 <sup>b</sup>	2.1 <sup>b</sup>	1.4 <sup>b</sup>
Finance/insurance	16.3	204,671 <sup>b</sup>	2.3	1.6 <sup>b</sup>
Health care/social assistance	27.1	1,239,955	3.6	2.4
Information	16.8	101,637 <sup>b</sup>	2.4 <sup>b</sup>	1.4 <sup>b</sup>
Manufacturing	15.4	148,105 <sup>b</sup>	2.9 <sup>b</sup>	1.6 <sup>c</sup>
Mining	2.0	7,888 <sup>d</sup>	3.3 <sup>c</sup>	3.5 <sup>d</sup>
Other services	9.0	265,521 <sup>b</sup>	2.0	1.2 <sup>b</sup>
Professional/technical	21.1	1,264,367	2.7	1.7
Real estate/leasing	11.8	272,712 <sup>b</sup>	2.5	1.6 <sup>b</sup>
Religious/civic	5.2	15,724 <sup>d</sup>	1.6 <sup>d</sup>	0.4 <sup>d</sup>
Retail trade	11.6	478,860 <sup>b</sup>	1.8	1.1
Transportation/warehousing	6.5	73,700 <sup>b</sup>	1.4 <sup>b</sup>	1.0 <sup>b</sup>
Utilities	7.1 <sup>d</sup>	1,761 <sup>d</sup>	1.9 <sup>d</sup>	<sup>a</sup>
Wholesale trade	18.8	157,851 <sup>b</sup>	2.4 <sup>b</sup>	1.8 <sup>b</sup>
Unclassified	7.1	27,598 <sup>c</sup>	2.9 <sup>c</sup>	1.1 <sup>c</sup>

Source: GAO analysis of IRS data.

Note: Estimates in the first column have sampling errors of (+/-) 10 percent or less of the value of the estimates. Estimates in the second, third, and fourth columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Population estimates could not be developed.

<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Reliable confidence intervals could not be computed for estimates.

**Appendix IV**  
**Information on the Expenses Reported on**  
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**Table 26: Information by Industry Categories for Schedule C Expenses by Businesses With Home Office Expense, Tax Year 2001**

Dollars in thousands

Industry category	2001			
	Percentage of businesses claiming home office expenses	Total of home office expenses claimed	Mean	Median
Accommodation/food services	6.6	\$44,575	\$2.0 <sup>b</sup>	\$1.8 <sup>c</sup>
Administrative/waste management	15.7	345,992	1.9	1.1
Agriculture/forestry	8.3	30,240 <sup>c</sup>	1.4 <sup>b</sup>	0.9 <sup>c</sup>
Arts/recreation	13.2	352,842	2.7	1.9
Construction	14.2	636,034	2.2	1.4
Education services	18.0	100,108	1.9 <sup>b</sup>	1.4
Finance/insurance	13.7	204,760	2.7	1.8
Health care/social assistance	27.2	1,259,834	3.5	2.5
Information	19.1	110,585	2.3 <sup>b</sup>	1.7 <sup>c</sup>
Manufacturing	18.0	119,709	2.2 <sup>b</sup>	1.4 <sup>c</sup>
Mining	3.6	9,644 <sup>d</sup>	2.4 <sup>c</sup>	0.7 <sup>d</sup>
Other services	10.8	363,851	2.1	1.6
Professional/technical	21.7	1,347,227	2.7	1.7
Real estate/leasing	14.3	302,482	2.2	1.2
Religious/civic	6.3	18,703 <sup>c</sup>	1.6 <sup>b</sup>	1.6 <sup>c</sup>
Retail trade	12.4	460,247	1.7	0.8
Transportation/warehousing	6.5	83,564	1.5 <sup>b</sup>	1.1
Utilities	35.3 <sup>b</sup>	3,085 <sup>d</sup>	1.1 <sup>b</sup>	<sup>a</sup>
Wholesale trade	18.6	160,637	2.6	2.0
Unclassified	3.9	6,942 <sup>d</sup>	1.7 <sup>c</sup>	0.8 <sup>d</sup>

Source: GAO analysis of IRS data.

Note: Estimates in the first column have sampling errors of (+/-) 10 percent or less of the value of the estimates unless otherwise noted. Estimates in the second and fourth columns have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the third column have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Population estimates could not be developed.

<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Reliable confidence intervals could not be computed for estimates.

# Information on Cost of Goods Sold for Businesses With Inventories and Depreciation Expenses by Industry Categories

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This appendix provides detailed information on the cost of goods sold for businesses with inventories.<sup>1</sup> It also provides information on the depreciation expense category by industry categories for the Schedule C.

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<sup>1</sup>Generally, businesses in which the production, purchase, or sale of merchandise was income producing must account for inventories at the beginning and end of the tax year. Cost of goods sold is the difference between the inventory at the end of the year and the inventory at the beginning of the year after adding the cost of merchandise bought for sale and/or the cost of raw materials, labor, materials, and supplies used to fabricate a saleable product.

**Appendix V**  
**Information on Cost of Goods Sold for**  
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**Table 27: Information by Industry Categories for Schedule C Expenses by Cost of Goods Sold for Businesses With and Without Inventory, Tax Year 2000**

Dollars in thousands

Industry category	2000							
	With inventory			Without inventory			Total	
	Total <sup>a</sup>	Mean	Median	Total <sup>a</sup>	Mean	Median	Mean	Median
Accommodation/food services	\$10,372,483	\$86.8	\$42.5	\$4,046,147	\$46.0	\$15.9 <sup>d</sup>	\$69.5	\$31.7
Administrative/waste management	1,743,378	71.5 <sup>d</sup>	4.2 <sup>d</sup>	6,514,970	21.2	1.0 <sup>d</sup>	24.9 <sup>c</sup>	1.1 <sup>d</sup>
Agriculture/forestry	1,772,783 <sup>d</sup>	167.8 <sup>d</sup>	12.6 <sup>d</sup>	3,255,437	46.1	1.9 <sup>e</sup>	61.9 <sup>c</sup>	3.5 <sup>d</sup>
Arts/recreation	769,798 <sup>d</sup>	14.9 <sup>d</sup>	1.3 <sup>d</sup>	1,302,265	6.7	0.4 <sup>e</sup>	8.4 <sup>c</sup>	0.7 <sup>d</sup>
Construction	12,147,827	139.0	38.6	62,171,916	63.9	16.9	70.0	18.0
Education services	27,931 <sup>e</sup>	5.7 <sup>e</sup>	0.5 <sup>e</sup>	344,899 <sup>d</sup>	7.0 <sup>d</sup>	<sup>b</sup>	6.9 <sup>d</sup>	<sup>b</sup>
Finance/insurance	6,385,437	825.8 <sup>d</sup>	4.4 <sup>d</sup>	55,154,549	694.8	<sup>b</sup>	706.5 <sup>c</sup>	<sup>b</sup>
Health care/social assistance	659,024	33.5	11.2 <sup>d</sup>	3,727,951	16.2	0.3 <sup>e</sup>	17.6	0.6 <sup>d</sup>
Information	383,863 <sup>d</sup>	22.6 <sup>d</sup>	2.5 <sup>d</sup>	843,672 <sup>d</sup>	13.8 <sup>d</sup>	<sup>b</sup>	15.7 <sup>c</sup>	0.3 <sup>e</sup>
Manufacturing	7,464,505	88.2	10.3 <sup>d</sup>	4,933,207	42.3	7.8	61.6	9.2
Mining	164,599 <sup>e</sup>	266.9 <sup>d</sup>	89.8 <sup>e</sup>	678,420	17.0	<sup>b</sup>	20.8 <sup>c</sup>	<sup>b</sup>
Other services	9,508,833	42.8	9.5	9,765,939	21.4	4.4	28.4	5.5
Professional/technical	2,457,226	31.3	4.2 <sup>d</sup>	12,205,477	29.6	1.9 <sup>d</sup>	29.8	2.5
Real estate/leasing	1,496,405	128.6	31.3 <sup>d</sup>	3,518,578	26.1	<sup>b</sup>	34.2 <sup>c</sup>	<sup>b</sup>
Religious/civic	185,249 <sup>e</sup>	4,591.0	<sup>b</sup>	52,902 <sup>d</sup>	1.5 <sup>d</sup>	<sup>b</sup>	6.8 <sup>e</sup>	<sup>b</sup>
Retail trade	105,808,928	102.8	7.5	16,187,306	26.6	2.7	74.5	5.0
Transportation/warehousing	459,085 <sup>d</sup>	131.2 <sup>d</sup>	47.4 <sup>d</sup>	5,363,752	51.3	5.1 <sup>d</sup>	53.9 <sup>c</sup>	8.8 <sup>d</sup>
Utilities	31,343 <sup>e</sup>	33.6	<sup>b</sup>	9 <sup>e</sup>	0.0 <sup>e</sup>	<sup>b</sup>	16.0 <sup>e</sup>	<sup>b</sup>
Wholesale trade	17,236,104	164.5	12.6 <sup>d</sup>	10,850,304	104.9	10.7 <sup>d</sup>	134.9	11.1 <sup>d</sup>
Unclassified	320,376 <sup>d</sup>	48.2 <sup>d</sup>	4.0 <sup>d</sup>	131,019 <sup>d</sup>	3.4 <sup>d</sup>	<sup>b</sup>	10.0 <sup>d</sup>	0.5 <sup>e</sup>

Source: GAO analysis of IRS data.

Note: Estimates in the first through sixth and eighth columns have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the seventh column have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall in different industry categories; only those amounts that could clearly be associated with a specific industry category are included in the table.

<sup>b</sup>Population estimates could not be developed.

<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

**Appendix V  
Information on Cost of Goods Sold for  
Businesses With Inventories and  
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**Table 28: Information by Industry Categories for Schedule C Expenses by Cost of Goods Sold for Businesses With and Without Inventory, Tax Year 2001**

Dollars in thousands

Industry category	2001							
	With inventory			Without inventory			Total	
	Total <sup>a</sup>	Mean	Median	Total <sup>a</sup>	Mean	Median	Mean	Median
Accommodation/food services	\$9,522,474	\$82.8	\$37.9	\$4,735,444	\$46.5	\$14.2 <sup>d</sup>	\$65.7	\$24.4
Administrative/waste management	1,273,743	42.2 <sup>d</sup>	5.1 <sup>d</sup>	6,347,815	21.0	0.9 <sup>d</sup>	22.9 <sup>c</sup>	1.1
Agriculture/forestry	1,835,940	113.7 <sup>d</sup>	9.1 <sup>d</sup>	3,729,339	51.3	3.6 <sup>d</sup>	62.6 <sup>c</sup>	5.3 <sup>d</sup>
Arts/recreation	668,514	12.4 <sup>d</sup>	1.1 <sup>d</sup>	1,004,029	5.3	<sup>b</sup>	6.8 <sup>c</sup>	0.4 <sup>d</sup>
Construction	11,233,582	137.3	32.0 <sup>d</sup>	62,303,236	63.3	16.6	69.0	17.6
Education services	71,740 <sup>e</sup>	10.5 <sup>e</sup>	2.8 <sup>d</sup>	267,392 <sup>d</sup>	4.2 <sup>d</sup>	<sup>b</sup>	4.9 <sup>d</sup>	<sup>b</sup>
Finance/insurance	5,344,847	927.9 <sup>d</sup>	4.8 <sup>e</sup>	34,664,644	498.3	<sup>b</sup>	531.2 <sup>c</sup>	<sup>b</sup>
Health care/social assistance	720,115	47.2	17.6 <sup>d</sup>	3,822,110	16.6	0.2 <sup>e</sup>	18.5	0.4 <sup>e</sup>
Information	375,140 <sup>d</sup>	19.1	3.8 <sup>d</sup>	1,435,823 <sup>d</sup>	26.4 <sup>d</sup>	0.1 <sup>e</sup>	24.5 <sup>c</sup>	1.3 <sup>d</sup>
Manufacturing	6,257,623	88.1	8.8 <sup>d</sup>	4,460,457	41.6	7.7 <sup>d</sup>	60.1	7.9 <sup>d</sup>
Mining	290,406 <sup>e</sup>	1,097.2 <sup>d</sup>	426.0 <sup>d</sup>	677,036	20.5	<sup>b</sup>	29.1 <sup>c</sup>	<sup>b</sup>
Other services	9,986,625	43.6	7.8	10,253,868	22.7	4.3	29.7	5.4
Professional/technical	2,201,470	26.4	2.6 <sup>d</sup>	12,104,715	29.9	1.8 <sup>d</sup>	29.3	2.0
Real estate/leasing	1,487,003	106.7 <sup>d</sup>	12.2 <sup>d</sup>	2,441,076	21.4	<sup>b</sup>	30.7 <sup>c</sup>	<sup>b</sup>
Religious/civic	52,547 <sup>e</sup>	1,254.4	<sup>b</sup>	85,370 <sup>d</sup>	2.5 <sup>d</sup>	<sup>b</sup>	4.1 <sup>d</sup>	<sup>b</sup>
Retail trade	108,304,195	105.7	8.0	16,809,689	28.3	2.4	77.2	4.8
Transportation/warehousing	452,784 <sup>d</sup>	99.3 <sup>d</sup>	29.1 <sup>d</sup>	5,011,826	47.8	5.2 <sup>d</sup>	50.0 <sup>c</sup>	5.9 <sup>d</sup>
Utilities	21,858 <sup>e</sup>	23.3	<sup>b</sup>	1,658 <sup>e</sup>	47.5 <sup>e</sup>	<sup>b</sup>	24.2	11.4 <sup>e</sup>
Wholesale trade	17,331,067	207.5	20.5 <sup>d</sup>	8,807,787	76.3	8.9 <sup>d</sup>	131.4	11.9 <sup>d</sup>
Unclassified	16,282 <sup>e</sup>	5.4 <sup>e</sup>	<sup>b</sup>	222,783 <sup>e</sup>	10.9 <sup>e</sup>	<sup>b</sup>	10.2 <sup>e</sup>	<sup>b</sup>

Source: GAO analysis of IRS data.

Note: Estimates in the first through sixth and eighth columns have sampling errors of (+/-) 50 percent or less of the value of the estimates unless otherwise noted. Estimates in the seventh column have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall in different industry categories; only those amounts that could clearly be associated with a specific industry category are included in the table.

<sup>b</sup>Population estimates could not be developed.

<sup>c</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>e</sup>Reliable confidence intervals could not be computed for estimates.

**Appendix V  
Information on Cost of Goods Sold for  
Businesses With Inventories and  
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**Table 29: Depreciation Expense Reported on Schedule C by Industry, Tax Year 2000**

Dollars in thousands

Industry category	2000			Percentage of total
	Total <sup>a</sup>	Mean	Median	
Accommodation/food services	\$1,362,847	\$6.8	\$2.8 <sup>b</sup>	4.3
Administrative/waste management	1,773,549	3.9	1.6	5.6
Agriculture/forestry	1,551,461	8.6	3.1 <sup>b</sup>	4.9
Arts/recreation	1,332,323	3.2	1.3	4.2
Construction	5,567,136	6.1	2.6	17.4
Education services	161,559 <sup>b</sup>	1.7 <sup>b</sup>	0.9 <sup>c</sup>	0.5 <sup>b</sup>
Finance/insurance	737,642	3.5	1.8 <sup>b</sup>	2.3
Health care/social assistance	1,995,423	4.3	1.4 <sup>b</sup>	6.2
Information	312,506 <sup>b</sup>	3.3 <sup>b</sup>	1.8 <sup>b</sup>	1.0 <sup>b</sup>
Manufacturing	954,184	5.5	1.8 <sup>b</sup>	3.0
Mining	385,456 <sup>b</sup>	9.5 <sup>b</sup>	1.5 <sup>c</sup>	1.2 <sup>b</sup>
Other services	2,324,806	3.8	1.6	7.3
Professional/technical	2,942,314	2.9	1.5	9.2
Real estate/leasing	2,070,830	5.2	2.0	6.5
Religious/civic	79,147 <sup>c</sup>	2.2 <sup>c</sup>	0.6 <sup>c</sup>	0.2 <sup>c</sup>
Retail trade	2,613,567	3.2	1.1	8.2
Transportation/warehousing	5,141,384	13.8	7.3	16.1
Utilities	9,805 <sup>d</sup>	3.2 <sup>c</sup>	2.3 <sup>c</sup>	0.0 <sup>c</sup>
Wholesale trade	561,459	4.1	1.8 <sup>b</sup>	1.8 <sup>b</sup>
Unclassified	53,225 <sup>c</sup>	2.1 <sup>c</sup>	0.5 <sup>c</sup>	0.2 <sup>c</sup>
<b>Total<sup>e</sup></b>				<b>100%</b>

Source: GAO analysis of IRS's data.

Note: Estimates in all columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

Note: This table shows the total depreciation expenses claimed by sole proprietors in tax year 2000 for all property depreciation classifications. Depreciation classification depends on the type of property being depreciated. For example IRS classifies automobiles, light trucks, copiers, and computers as 5-year property; office furniture, railroad track, and property not otherwise classified as 7-year property; and vessels, barges, and fruit-bearing trees as 10-year property.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall into a different industry category; only those amounts that could clearly be associated with a specific industry category are included in the table.

<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Reliable confidence intervals could not be computed for estimates.

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**Appendix V**  
**Information on Cost of Goods Sold for**  
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<sup>e</sup>Totals may not add to 100 percent due to rounding.

**Appendix V**  
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**Table 30: Depreciation Expense Reported on Schedule C by Industry, Tax Year 2001**

Dollars in thousands

Industry category	2001			Percentage of total
	Total <sup>a</sup>	Mean	Median	
Accommodation/food services	\$1,381,432	\$7.1	\$2.9	4.2
Administrative/waste management	1,804,973	4.0	1.5	5.4
Agriculture/forestry	1,498,533	9.0	2.8 <sup>b</sup>	4.5
Arts/recreation	1,461,440	3.7	1.4	4.4
Construction	5,693,640	6.3	2.7	17.2
Education services	148,570 <sup>b</sup>	1.6 <sup>b</sup>	1.0 <sup>b</sup>	0.4 <sup>b</sup>
Finance/insurance	734,191	3.7	2.0 <sup>b</sup>	2.2
Health care/social assistance	2,122,563	4.5	1.7	6.4
Information	403,100 <sup>b</sup>	3.4 <sup>b</sup>	1.1 <sup>c</sup>	1.2 <sup>b</sup>
Manufacturing	862,046	6.0	1.8 <sup>b</sup>	2.6
Mining	434,656 <sup>b</sup>	9.0 <sup>b</sup>	1.8 <sup>b</sup>	1.3 <sup>b</sup>
Other services	2,574,589	3.9	1.7	7.8
Professional/technical	3,120,335	3.1	1.5	9.4
Real estate/leasing	2,312,717	5.7	2.0	7.0
Religious/civic	83,271 <sup>c</sup>	2.2 <sup>c</sup>	0.9 <sup>c</sup>	0.3 <sup>c</sup>
Retail trade	2,900,314	3.7	1.3	8.8
Transportation/warehousing	4,967,507	13.4	7.0	15.0
Utilities	21,231 <sup>c</sup>	5.3 <sup>c</sup>	2.9 <sup>b</sup>	0.1 <sup>c</sup>
Wholesale trade	568,985	4.1	1.6 <sup>b</sup>	1.7 <sup>b</sup>
Unclassified	32,931 <sup>c</sup>	3.1 <sup>c</sup>	1.2 <sup>c</sup>	0.1 <sup>c</sup>
<b>Total<sup>d</sup></b>				<b>100%</b>

Source: GAO analysis of IRS data.

Note: Estimates in all columns have sampling errors of (+/-) 20 percent or less of the value of the estimates unless otherwise noted.

Note: This table shows the total depreciation expenses claimed by sole proprietors in tax year 2001 for all property depreciation classifications. Depreciation classification depends on the type of property being depreciated. For example IRS classifies automobiles, light trucks, copiers, and computers as 5-year property; office furniture, railroad track, and property not otherwise classified as 7-year property; and vessels, barges, and fruit-bearing trees as 10-year property.

<sup>a</sup>Some sole proprietors may claim expenses for multiple businesses, each of which may fall into a different industry category; only those amounts that could clearly be associated with a specific industry category are included in the table.

<sup>b</sup>Sampling error is between (+/-) 20 and (+/-) 50 percent of the value of the estimate.

<sup>c</sup>Sampling error exceeds (+/-) 50 percent of the value of the estimate.

<sup>d</sup>Totals may not add to 100 percent due to rounding.

# Comments from the Internal Revenue Service



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

January 13, 2004

Michael Brostek  
Director, Strategic Issues  
General Accounting Office  
441 G Street NW – Rm. 1T47  
Washington, DC 20548

Dear Mr. Brostek,

My office reviewed your draft report, TAX ADMINISTRATION: INFORMATION ON EXPENSES CLAIMED BY SMALL BUSINESS SOLE PROPRIETORSHIPS, GAO-04-304 (Job code: 450207) submitted for official IRS review and comments. We reviewed the data contained in the draft report. The tabulations by the General Accounting Office in the report accurately reflect the Statistics of Income sample data on which the tables are based for small business expenses claimed by taxpayers on Form 1040 Schedules C and F.

Please call me at (202) 874-0100 if you have any further data requests in connection with this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark J. Mazur".

Mark J. Mazur  
Director, Research, Analysis, and Statistics

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Michael Brostek (202) 512-9110  
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## Acknowledgments

In addition to those named above, Jennifer Gravelle, Samuel Scrutchins, Wendy Turenne, and Elwood D. White made key contributions to this report.

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# Glossary

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Information in this glossary was derived from various IRS publications, tax forms, and instructions.

***Accommodation/food services (Industry category)*** – includes accommodation, food services, and drinking places.

***Administrative/waste management (Industry category)*** – includes administrative services, support services, and waste management and remediation services.

***Agriculture/forestry (Industry category)*** – includes animal production, forestry, logging, hunting, trapping, fishing, and support activities for agriculture and forestry.

***Arts/recreation (Industry category)*** – includes amusement, gambling and recreation industries; museums, historical sites, and similar institutions; and performing arts, spectator sports, and related industries.

***Bad debts (Schedule C expense)*** – accounts receivable that the business cannot collect.

***Car/truck (Schedule C and Schedule F expense)*** – costs of operating and maintaining a vehicle used in a business.

***Construction (Industry category)*** – includes land development, construction of residential and nonresidential buildings, heavy construction, and specialty trade contractors.

***Custom hire (Schedule F expense)*** – includes machine work where the machine operator furnished the equipment.

***Depletion (Schedule C expense)*** – allows an owner or operator to account for the reduction of a natural resource's reserves used up by mining, quarrying, drilling, or felling.

***Depreciation (Schedule C and Schedule F expense)*** – property acquired by a business that has a useful life of more than 1 year must have its cost capitalized and deducted over more than 1 year.

***Education services (Industry category)*** – educational activities including schools, colleges, and universities.

***Employee benefit programs (Schedule C and Schedule F expense)*** – compensation to employees in the form of a benefit such as accident and health plans, dependent care assistance, educational assistance, and group life insurance coverage.

***Farming (Industry category)*** – includes crop production, animal production, and forestry and logging.

***Finance/insurance (Industry category)*** – includes credit intermediation and related activities; insurance agents, brokers, and related activities; and securities, commodity contracts, and other financial investments, and related activities.

***Health care/social assistance (Industry category)*** – includes ambulatory health care services, hospitals, nursing and residential care facilities, and social assistance.

***Home office (Schedule C expense)*** – expenses related to the part of home used exclusively for business.

***Information (Industry category)*** – includes publishing industries, broadcasting, telecommunications, data processing and information services, and motion picture and sound recording.

***Insurance (Schedule C expense)*** – premiums paid for insurance plans related to the business providing coverage for such things as fire, theft, flood, liability, malpractice, car, worker's compensation, group hospitalization and medical for employees.

***Legal/professional (Schedule C expense)*** – fees paid to accountants or lawyers directly related to operating the business.

***Manufacturing (Industry category)*** – includes general manufacturing, chemical manufacturing, food manufacturing, leather and allied product manufacturing, and nonmetallic mineral product manufacturing.

***Meals/entertainment (Schedule C expense)*** – business-related entertainment expenses for entertaining a client, customer, or employee.

***Mining (Industry category)*** – includes coal mining, metal ore mining, oil and gas extraction, and support activities for mining.

**Other (Schedule C and Schedule F expense)** – any ordinary and necessary business expenses not deducted elsewhere on the schedules.

**Other services (Industry category)** – includes personal and laundry services, and repair and maintenance.

**Pension/profit sharing plans (Schedule C and Schedule F expense)** – contributions made to retirement plans.

**Professional/technical (Industry category)** – includes legal services, accountants, tax preparation services, architectural, engineering, computer systems design, specialized design services, and other professional, scientific, and technical services.

**Real estate/leasing (Industry category)** – includes real estate and rental and leasing services.

**Religious/civic (Industry category)** – includes religious, grant making, civic, professional, and similar organizations.

**Retail trade (Industry category)** – includes building material, garden equipment and supplies dealers; clothing and accessories stores; electronic and appliance stores; food and beverage stores; furniture and home furnishing stores; gasoline stations; general merchandise stores; health and personal care stores; motor vehicle and parts dealers; sporting goods, hobby, book, and music stores; miscellaneous store retailers; and nonstore retailers.

**Supplies (Schedule C and Schedule F expense)** – cost of materials and supplies actually used and consumed during the tax year.

**Transportation/warehousing (Industry category)** – includes air transportation, bus transportation, freight trucking, pipeline transportation, rail transportation, taxi and limousine service, urban transit systems, water transportation, support activities for transportation, couriers and messengers, and warehousing and storage facilities.

**Travel (Schedule C expense)** – expenses of traveling away from home for business reasons.

**Wholesale trade (Industry category)** – includes wholesalers in durable and nondurable goods.

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