



A FREE GUIDE FROM ARDENT SELLER

Tax Deduction Cheat Sheet

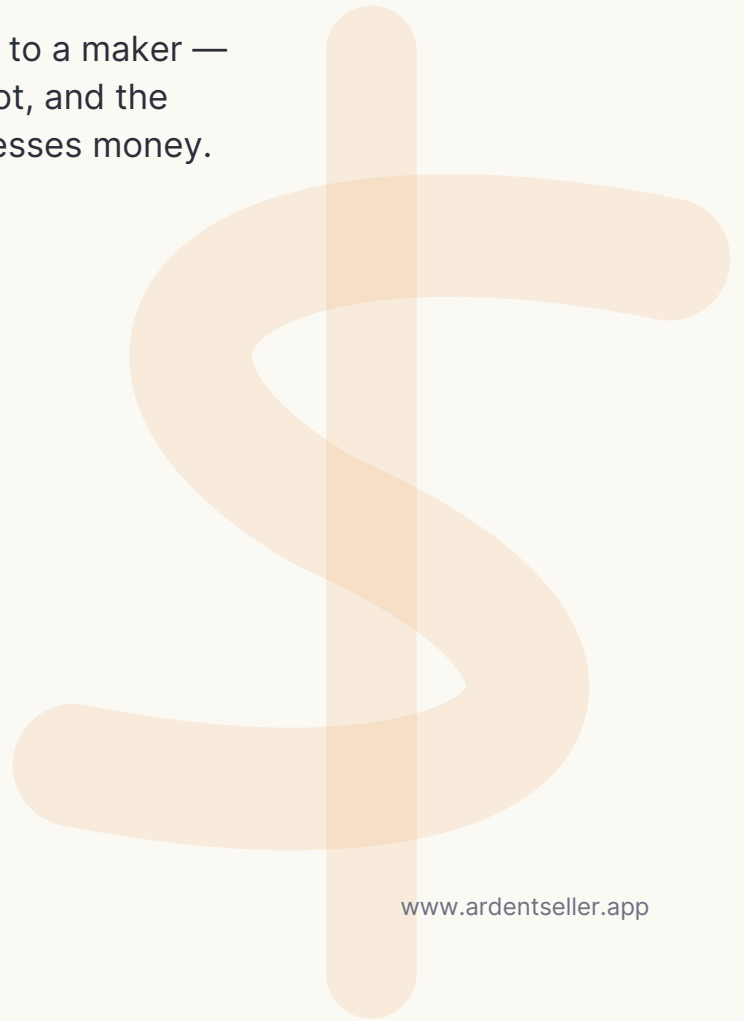
for makers, bakers, and creators

Every Schedule C category that matters to a maker — what belongs on each line, what does not, and the common mistakes that cost small businesses money.

DEDUCTIONS

COGS

RECORDS



WELCOME

Stop missing deductions.

Most makers, bakers, and creators leave hundreds — sometimes thousands — of dollars on the table at tax time, not because they do anything wrong, but because they don't know what they're allowed to deduct. Schedule C is the IRS form sole proprietors and single-member LLCs use to report business income and expenses. Every line on it is a category of deduction.

This cheat sheet walks through every line that matters to a maker, with concrete examples of what belongs there, what doesn't, and the mistakes that trip up first-time filers. Use it as a reference during the year as you categorize expenses, and again in March before you hand everything to your CPA.

IMPORTANT — READ THIS FIRST

This guide is general educational information, not tax advice. Tax rules change every year, and your specific situation may differ from the examples shown. Verify current limits, rates, and rules with the IRS or a CPA before filing. When in doubt, ask a tax professional — a one-hour consult costs less than one missed deduction.

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Lines 8, 10, 17, 18, 22, 23, 27a — the categories you'll touch most.
- 02** Workspace, Vehicle & Equipment
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- 03** Travel, Meals, People & Education
Lines 11, 24a, 24b, 26 — the rules people most often get wrong.
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The most important section for makers — and the one most often filled out wrong.
- 05** Common Mistakes & What to Keep
What doesn't belong on Schedule C, and the records that protect you in an audit.

SECTION 01

Operations & Marketing

These are the lines you'll touch most. Every Etsy fee, every roll of receipt paper, every CPA invoice — they all land in this group. Get these right and you've captured 60-70% of a typical maker's deductions.

LINE 8

Advertising

WHAT GOES HERE

Etsy promoted listings, Meta and Google ads, promotional photography, business cards, branded packaging inserts, sponsored posts, sample products sent to influencers.

WATCH OUT

Time you spend creating content for social media isn't deductible — only the production costs are.

LINE 10

Commissions & Fees

WHAT GOES HERE

Etsy transaction fees, listing fees, payment processor fees (Stripe, Square, PayPal), Shopify subscription, marketplace commissions, sales agent commissions.

WATCH OUT

Don't double-count: if Etsy nets fees from your payout, your gross income should still reflect the full sale price, with the fees deducted here.

LINE 17

Legal & Professional

WHAT GOES HERE

CPA and bookkeeper fees, attorney fees, business consulting, trademark filings, tax software (TurboTax, FreeTaxUSA), accounting software (QuickBooks, Wave).

WATCH OUT

Personal tax prep isn't deductible — only the portion specifically related to your Schedule C business.

LINE 18

Office Expense

WHAT GOES HERE

Printer paper, ink, pens, file folders, shipping label paper, small office supplies under your capitalization threshold (typically \$2,500).

WATCH OUT

Raw materials that go INTO your products do NOT belong here — they go in Cost of Goods Sold (Part III).

LINE 22**Supplies****WHAT GOES HERE**

Cleaning supplies for your workspace, sanitation products, general workspace supplies that don't fit elsewhere and aren't part of your finished products.

WATCH OUT

This line confuses everyone. If it goes into the product, it's COGS. If it's for running the business, it's here.

LINE 23**Taxes & Licenses****WHAT GOES HERE**

Business license fees, sales tax permits, state registration fees, professional licenses, state franchise taxes, employer share of payroll taxes.

WATCH OUT

Federal income tax and self-employment tax do NOT go here. Sales tax you collected and remitted is also not a deduction if you didn't include it in gross receipts.

LINE 27a**Other Expenses****WHAT GOES HERE**

Software subscriptions (Canva, Adobe, design tools), industry publications, professional dues, online courses related to your business, conference tickets, bank fees, postage on non-product mail.

WATCH OUT

Anything personal — gym, Netflix, personal Spotify — is not deductible no matter how it helps your 'creative process.'

PRO INSIGHT

Marketplace fees (Line 10) are the single most-missed deduction for new Etsy sellers. If Etsy charged you \$1,200 in fees last year, that's \$1,200 you don't pay tax on. Pull your full annual fee report from Etsy's 'Legal & Tax Information' page in shop settings — most of it's deductible.

SECTION 02

Workspace, Vehicle & Equipment

If you work from home, drive to the post office, or own equipment worth more than a few hundred dollars, this section probably represents thousands of dollars in deductions. It also has the most rules — read carefully.

LINE 9

Car & Truck Expenses

WHAT GOES HERE

Mileage to suppliers, post office, craft fairs, the bank, client meetings. Use the IRS standard mileage rate (published annually) OR actual expenses — pick one method per vehicle and stay consistent.

WATCH OUT

Commuting from your home to a regular workplace is NOT deductible. A mileage log with date, destination, purpose, and miles is required if audited.

LINE 13

Depreciation & Section 179

WHAT GOES HERE

Sewing machines, kilns, stand mixers, ovens, computers, cameras, vehicles, cabinetry — assets you use over multiple years. Section 179 lets you deduct the full cost in year one (within annual limits).

WATCH OUT

Items under your capitalization threshold (\$2,500 typical) can be expensed directly under Supplies or Office Expense instead. Track each asset with purchase date, cost, and use.

LINE 15

Insurance (other than health)

WHAT GOES HERE

Product liability insurance, business owner's policy, commercial general liability, professional liability, business auto, business interruption, cyber liability.

WATCH OUT

Health insurance for self-employed people goes on Schedule 1 of Form 1040, not here. Personal auto and homeowner's also do not belong on Line 15.

LINE 20

Rent or Lease

WHAT GOES HERE

Studio rent, booth fees at craft fairs, kiosk leases, co-working space, equipment leases (commercial mixer, industrial sewing machine), storage unit used for inventory.

WATCH OUT

Home office rent is NOT here — it goes on Line 30 via Form 8829. Personal storage of non-business items doesn't qualify even if mixed in the same unit.

LINE 21**Repairs & Maintenance****WHAT GOES HERE**

Sewing machine servicing, oven calibration, kiln element replacement, computer repairs, equipment tune-ups, cleaning service for studio space.

WATCH OUT

Improvements that extend an asset's life or value (new motor, major upgrade) must be capitalized and depreciated (Line 13), not expensed here.

LINE 25**Utilities****WHAT GOES HERE**

Business phone line, business internet, electricity for rented studio space, water for studio, gas for industrial kitchen. If shared with personal use, allocate the business percentage.

WATCH OUT

If you work from home, utilities for your home office are claimed via Form 8829 (Line 30), not here. Don't deduct the same utility twice.

LINE 30**Home Office (Form 8829)****WHAT GOES HERE**

Workspace used regularly and exclusively for business. Two methods: simplified (\$5/sq ft up to 300 sq ft, max \$1,500), or actual expenses (% of home utilities, mortgage interest, insurance, depreciation).

WATCH OUT

"Exclusive use" is the trip-up. The kitchen table where the family eats dinner doesn't qualify. A converted spare bedroom with no other use does.

MILEAGE METHOD VS. ACTUAL EXPENSES

If you drive a personal vehicle for business, the simpler 'standard mileage rate' method (track miles, multiply by the IRS published rate) is what most makers use. The 'actual expenses' method (gas, repairs, insurance, depreciation, prorated for business %) requires more record-keeping but can yield a bigger deduction for high-cost vehicles. Pick one method in year one and stick with it for that vehicle.

SECTION 03

Travel, Meals, People & Education

These are the lines the IRS scrutinizes most. The rules look simple on the surface and have a hundred edge cases underneath. When in doubt, document the business purpose at the time of the expense — not at tax time.

LINE 11

Contract Labor

WHAT GOES HERE

Payments to 1099 contractors: photographer hired for your lookbook, freelance designer, virtual assistant, bookkeeper who isn't a CPA (CPAs go to Line 17), seasonal craft fair helpers paid as contractors.

WATCH OUT

If you pay any individual \$600+ in a year, you must issue them a Form 1099-NEC. Misclassifying employees as contractors carries serious penalties.

LINE 26

Wages

WHAT GOES HERE

W-2 employees only — money paid to people for whom you withhold payroll tax. Includes their gross wages, NOT the employer share of FICA (which goes on Line 23) or your own draws as a sole proprietor.

WATCH OUT

You cannot pay yourself wages on Schedule C. An owner's draw isn't a deduction — it's how you take profit out of the business.

LINE 24a

Travel

WHAT GOES HERE

Overnight business trips: airfare, hotel, rental car, rideshare, baggage fees, business mileage to/from the airport. Tradeshow travel, supplier visits out of state, conference attendance.

WATCH OUT

If a trip mixes business and personal days, only the business portion is deductible. The IRS looks at the 'primary purpose' of the trip, so document it before you go.

LINE 24b

Meals

WHAT GOES HERE

50% of business meals where you discuss business with a client, supplier, or collaborator. Food at conferences, meals while traveling overnight for business. Keep receipts and note the attendees and topic.

WATCH OUT

Entertainment is no longer deductible (since 2018). A meal alone at home or in your studio isn't deductible — there has to be a business purpose and usually a business associate.

LINE 27a**Education****WHAT GOES HERE**

Courses, workshops, and books that maintain or improve the skills you use in your current business. Industry conferences, Skillshare for your craft, professional certifications.

WATCH OUT

Education that qualifies you for a NEW trade or profession isn't deductible — only what improves what you already do. A pottery class for a candlemaker is a stretch.

LINE —**Self-Employment Tax****WHAT GOES HERE**

Self-employment tax (Social Security + Medicare on your net profit) is calculated on Schedule SE. You can deduct half of it as an adjustment to income on Schedule 1 — not on Schedule C.

WATCH OUT

This isn't a Schedule C deduction at all, but every maker asks about it. The half-SE deduction is automatic — make sure your tax software is taking it.

SECTION 04

Cost of Goods Sold (Part III)

If you make physical products, this is the most important section of Schedule C — and the one most often filled out wrong. COGS is the cost of the materials and labor that actually went into the products you sold this year. It is NOT the same as what you spent on supplies.

The COGS formula

Beginning inventory + Purchases + Direct labor + Materials & supplies + Other costs – Ending inventory = Cost of Goods Sold

LINE 35

Beginning Inventory

WHAT GOES HERE

The dollar value of all raw materials, work-in-progress, and finished goods you had on hand on January 1. This must equal last year's ending inventory exactly.

WATCH OUT

Year-one businesses enter \$0 here. Mismatched beginning/ending values are a top reason for IRS questions.

LINE 36

Purchases

WHAT GOES HERE

Raw materials and supplies that became part of the products you sold or are still holding as inventory: yarn, fabric, flour, beads, wax, fragrance oils, jars, packaging that ships with the product.

WATCH OUT

Don't double-count — purchases captured here should not also appear as Supplies (Line 22) or Office Expense (Line 18).

LINE 37**Cost of Labor****WHAT GOES HERE**

Wages paid to employees who directly produced your inventory (not selling, marketing, or admin labor). For most solo makers, this is \$0 — your own time isn't deductible.

WATCH OUT

Contract labor used to produce inventory goes here, not on Line 11. Owner's labor is never on Schedule C.

LINE 38**Materials & Supplies****WHAT GOES HERE**

Production-related supplies that don't end up in the final product but are consumed making it: wax paper, parchment, molds, kiln shelves, sewing thread used in production.

WATCH OUT

Office supplies, packing tape for outbound shipping, etc. stay on Line 18 or 22 — Line 38 is production-floor only.

LINE 39**Other Costs****WHAT GOES HERE**

Freight-in (shipping you paid to receive raw materials), manufacturing equipment rental, contract production costs, necessary inspection/testing for regulated products.

WATCH OUT

Outbound shipping (what you spend sending products to customers) is NOT in COGS — it goes on Line 27a or is netted against shipping income.

LINE 41**Ending Inventory****WHAT GOES HERE**

The dollar value of all raw materials, WIP, and finished goods on hand at midnight December 31. Count it. Value it at lower of cost or market.

WATCH OUT

This is why inventory tracking matters. A higher ending inventory means lower COGS and higher taxable income — and vice versa. The number must be defensible.

WHY MAKERS GET COGS WRONG

The most common mistake: deducting all material purchases as expenses in the year you bought them. You can't. If you bought \$5,000 of yarn but only used \$3,000 in products that sold, your COGS is \$3,000 — the other \$2,000 is ending inventory. Spreadsheet tracking breaks down here fast. A real inventory system pays for itself the first year you use it.

SECTION 05

Common Mistakes & What to Keep

The fastest way to lower your tax bill next year is to stop making these mistakes this year. The fastest way to survive an audit is to keep the records below.

Things that do NOT belong on Schedule C

- Personal expenses dressed up as business.**
The Spotify subscription that 'helps me focus' isn't deductible. Coffee on the way to your home office isn't deductible. Business clothing isn't deductible unless it's a uniform you can't wear elsewhere. The IRS calls this 'ordinary and necessary' — apply that test ruthlessly.
- Federal income tax and self-employment tax.**
These are calculated FROM your net profit, not deducted from it. Self-employment tax has its own form (Schedule SE) and gets a half-deduction on Schedule 1, not Schedule C.
- Owner's draws and personal salary.**
The money you transfer from your business account to your personal account isn't a deduction — it's simply how you withdraw your profit. Sole proprietors don't pay themselves a deductible salary.
- Charitable contributions from the business.**
If you operate as a sole proprietor or single-member LLC, charitable donations are personal — they go on Schedule A, not Schedule C. Donating product can be limited to your COGS, not retail value.
- Hobby losses.**
If the IRS reclassifies your business as a hobby (typically after 3+ consecutive years of losses), you can't deduct losses against other income. Keep records that demonstrate profit motive.

Records to keep (and for how long)

- All receipts, three years minimum — seven if substantial.**
The IRS generally has three years to audit. If they suspect substantial under-reporting (25%+), that extends to six. For fraud, no statute. Phone-photo every receipt the day of purchase.
- A mileage log with date, destination, purpose, miles.**
'Reconstructed' mileage logs created at tax time don't hold up under audit. Use an app (MileIQ, Stride, or your accounting software) that captures mileage in real time.

Bank and credit card statements for business accounts.

Keep them as long as the underlying tax returns. A separate business account is the single biggest record-keeping investment you can make — it's effectively a free audit defense.

 Inventory records: counts, values, and the math behind them.

The IRS can disallow your COGS if you can't support beginning and ending inventory values. Photo evidence + a system of record covers you.

 Form 1099s issued to contractors and received from platforms.

Etsy, Shopify, Stripe, and PayPal will issue 1099-Ks for sales above current thresholds. You issue 1099-NECs to contractors you paid \$600+. Keep both for at least three years.

BEFORE YOU FILE

Take this cheat sheet to your CPA on the first meeting of the year, not the last. Most tax-saving moves require action DURING the year — buying equipment before year-end for Section 179, establishing a SEP-IRA, choosing accounting methods. If you only see your CPA in March, you're too late to optimize the year they're filing for.

YOUR NUMBERS, READY.

Make tax season a non-event.

Most of what makes tax season miserable is reconstructing data you didn't track during the year — what each product cost to make, what your inventory was worth on December 31, which fees ate into which sales, and which expenses were really business.

Ardent Seller tracks all of it as you go, so on April 15 you're not panicking — you're exporting.



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