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SELF-EMPLOYMENT TAX 101 FOR SMALL BUSINESS OWNERS

When you have made the transition from someone else's employee to being your own boss, you gain the autonomy to create your own professional path. You get additional responsibilities, as well—including paying self-employment tax.

Self-employed individuals are required to not only directly submit the income tax they owe to the federal, state, and local governments, they must also remit self-employment tax to the IRS.

Who Is a "Self-Employed Individual"?

The IRS defines a self-employed individual as someone who conducts business as a sole proprietor, independent contractor, member of a partnership, or as someone who otherwise is in business for herself or himself.

What is Self-Employment Tax?

According to IRS.gov (<https://www.irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center>), "Self-employment tax is a tax consisting of Social Security and Medicare taxes primarily for individuals who work for themselves. It is similar to the Social Security and Medicare taxes withheld from the pay of most wage earners."

Employees of a company pay half of their Social Security and Medicare taxes (usually withheld from their wages) and the employer pays the other half. As a self-employed individual, however, a business owner must remit the entire amount. Most self-employed persons, because their tax typically is not withheld from paychecks, must estimate their self-employment and income tax amounts due and pay them on a quarterly basis.

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Similar to the FICA tax that wage earners working for employers pay, the self-employment tax rate for tax year 2018 is 15.3 percent on the individual’s first \$128,400 of net income and then 2.9 percent on net income beyond that. The rate consists of two parts: 12.4 percent for social security and 2.9 percent for Medicare.

To pay self-employment tax, an individual must have a Social Security number or an individual taxpayer identification number. Schedule SE (Form 1040) can be used to calculate self-employment tax. Self-employed individuals can deduct the employer-equivalent portion (half of the total self-employment tax) in computing their business’s adjusted gross income, reducing the business income subject to income tax.

Tips for Staying on Track with Your Self-Employment Tax

Neglecting to pay your taxes can result in fines and penalties, so it is critical to stay current. Talk with an accountant and/or tax professional for assistance in understanding your tax obligations.

Here are some additional tips for consideration:

- Talk with an accountant and/or tax professional for assistance in understanding your tax obligations.

- Check the IRS Calendar for upcoming deadlines (<https://www.tax.gov/calendar/>), and consider setting up reminders (<https://www.tax.gov/calendar/Reminders/>), so you are notified of approaching tax deadlines.
- Keep accurate and up-to-date accounting records to help you more accurately calculate your taxes and budget for them.
- Visit the IRS.gov website (<https://www.irs.gov/businesses/small-businesses-self-employed>) for additional information.

In addition, for guidance on all aspects of starting and running your business, contact SCORE to talk with a mentor. A SCORE mentor can help you navigate the uncharted territory of being self-employed.

Since 1964, SCORE “Mentors to America’s Small Business” has helped more than 10 million aspiring entrepreneurs and small business owners through mentoring and business workshops. More than 11,000 volunteer business mentors in over 320 chapters serve their communities through entrepreneur education dedicated to the formation, growth and success of small businesses. For more information about starting or operating a small business, contact SCORE TriCounty. You can call 610.327.2673, email tricity@scorevolunteer.org or visit the website at www.tricity.score.org. SCORE is funded in part through a Cooperative Agreement with the U.S. Small Business Administration. All opinions, conclusions, and/or recommendations expressed herein are those of the author and do not necessarily reflect the views of the SBA.



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