

FINANCIAL FRIDAYS nymeo Federal Credit Union

Self-Employed Income Tax Basics



Self-employment income tax basics

Working for yourself comes with a lot of freedom but can also increase complexity when filing taxes. Lay a foundation for successful tax planning by finding answers to your self-employment tax questions. Here are some of the top questions:



How does the IRS define self-employed?

Whether full-time or part-time, you are considered self-employed if any of the following situations apply to you:

- You work as a freelancer, sole proprietor or independent contractor.
- You own your own business (depending on what business structure you've created).
- You are self-employed, a partner in a partnership, or a member of an LLC (limited liability company).

What is the self-employment tax?

Self-employment taxes are Social Security and Medicare taxes, like the Social Security and Medicare taxes withheld from an employee's paycheck. As a self-employed individual, taxes are not withheld from your income. It is your responsibility to make quarterly payments.



What are my self-employment tax filing obligations?

- Generally, your tax obligations will include filing an annual tax return, in addition to paying estimated tax on a quarterly basis. You are required to file an income tax return if your net-earnings from self-employment were \$400 or more.
- If your net-earnings are less than \$400, you may still have to file a return if certain other filing requirements are met.
- If you're not sure how to accurately calculate self-employment tax or how much to save for self-employment tax, a financial advisor and a tax professional can help you.

What are quarterly tax payments?

As a self-employed individual or owner of a business, there are different kinds of taxes you must consider:

- The self-employed generally do not have federal and state income taxes, Social Security and Medicare taxes withheld from their income. Therefore, it's up to you to make those payments.
- To avoid potential tax implications, underpayment penalties, additional interest, or back taxes when you file your annual tax return, you will need to pay your estimated taxes on a quarterly basis and by the IRS deadline.
- Quarterly taxes are also known as estimated tax payments because they're calculated based on your projected net earnings.
- Keep in mind, if your business has employees, you will have additional tax obligations beyond estimated quarterly tax payments.



What are qualified business income deductions?

You may be able to deduct certain eligible business expenses, which may reduce taxable income. To be deductible, a business expense must fall into both categories below:

- **Necessary Business Expenses:** A necessary business expense is one that is helpful and appropriate for your trade or business. Necessary business expenses include taxes, employee compensation and insurance.

- **Ordinary Business Expenses:** An ordinary expense is one that is common and accepted in your trade or business. This can include uniforms, software or raw materials, depending on your line of business.

Track your expenses during the year and keep accurate records of each expense.

Work with a qualified tax advisor to determine which expenses may qualify as deductible.

**Schedule a Complimentary Consultation with Anna
& Irene**



**Anna A. Behnam
Financial Advisor**



**Irene Tata
Financial Advisor**

How much does a financial advisor cost?

Your initial meeting with Anna or Irene is complimentary! Depending on your specific need, as well as the complexity of your situation, you may choose to pay for additional options. [Schedule a time to speak with them at your convenience.](#)

Investment products are not federally or NCUA-insured, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.

The initial consultation provides an overview of financial planning concepts. You will not receive written analysis and/or recommendations.



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