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6 Tax Tips for the Self-employed

People who run their own businesses, are a sole proprietors of a trade or business or operate as independent contractors are considered self-employed. If you are self-employed you would typically file Form 1040 and in addition also IRS Schedule C, Profit or Loss From Business or Schedule C-EZ, Net Profit From Business.

Here are 6 tax tips for you:

1. Self-employment also includes work you do outside of your regular full-time job like a work-from-home part time activity done in addition to your regular job.
2. Your self-employment tax is a social security and Medicare tax similar to social security and Medicare taxes withheld from the salary of wage earners. You can calculate your own self-employment tax using Form 1040 Schedule SE. You can also deduct half of your self-employment tax when you calculate your adjusted gross income.
3. As a self-employed person, you should make quarterly estimated tax payments, otherwise you may be penalized at the end of the year for underpayment. These tax payments are payable even if you have a regular full-time job where your salary is subjected to withholding tax. The

quarterly estimated tax is the means to pay your taxes for income that is not subjected to withholding tax.

4. The running costs of your business, known as business expenses, are deductible. You do not have to capitalize them or include them in the cost of goods sold.

5. To deduct any business expense, make sure that the expense made is ordinary and necessary. Ordinary means it is commonly made in your industry. A necessary expense is one that is helpful and appropriate for your business. Necessary does not imply indispensable.

6. If you need more information, you can get it from IRS Publication 334, Tax Guide for Small Business, IRS Publication 535, Business Expenses and Publication 505, Tax Withholding and Estimated Tax.

These are available at the IRS website, www.irs.gov or by calling the IRS forms and publications order line at 800-TAX-FORM (800-829-3676).