Becoming Self-employed - Tax Implications

If a taxpayer becomes self-employed in the last year, or that's the goal for the upcoming year, keep in mind that there are tax implications to consider.

1. Business income is taxable even if reinvested into the business.

A profit from your self-employed ventures is taxable by the government. These would include any profit not withdrawed from the business or reinvested for the business growth. However, the difference with being in business is that business expenses are deductible against the revenue received during the process of business.

2. Self-employment tax will be calculated against the net profit.

The net income from the business will be subject to the self-employment tax. This tax pays for contributions to both social security and Medicare. Currently, the self-employment tax is at 15.3% rate on the net earnings from self-employment of up to $127,200, and Medicare tax only at a 2.9% rate on the excess. An additional 0.9% Medicare tax will be imposed on self-employment income in excess of $250,000 for joint returns; $125,000 for married taxpayers filing separate returns; and $200,000 in all other cases. Self-employment tax is imposed in addition to income tax, but the tax can be deducted by half as an adjustment to income.

As an employed individual, the taxpayer pays these taxes through their paycheck. The self-employed tax actually intended to act the same means as the social security and Medicare taxes that would normally be withheld from the wages. The social security portion of the self-employed tax increases the potential social security benefits received at retirement.

If the business is a corporation, then payroll taxes must be deducted from any wages that the shareholders (owners) of the business withdraw for their services.

3. The filing requirements will change.

Normally, individuals with taxable income under specific threshold amounts are not required to file a tax a return for the year. Generally, in 2017 a single individual under age 65 only has to file if their adjusted gross income exceeds $10,400. However, a self-employed taxpayer is required to file a tax return if the net income from the business is $400 or more. If the $400 is the only income, and the taxpayer far below the normal filing threshold, a tax return must be filed.

4. Quarterly estimated payments are required.

An employed person will usually have the tax requirements satisfied by their employer for state, federal and social security taxes as it is withheld from their paychecks. A self-employed taxpayer must satisfy the tax obligations on their own by paying the taxes on a quarterly basis. This obligation is usually fulfilled by making estimated tax payments quarterly online or via the mail. If the taxpayer maintains a job as an employee for another company in addition to the self-employment venture, the required tax payments may be fulfilled by increasing the amount of withholding from the wages. If the self-employed taxpayer fails to make the required payments, they may be subject to an underpayment penalty. The penalty can be avoided at times by meeting certain specified exceptions or waivers. Taxpayers should be reminded that the penalty tax may also carry interest on top of the total.

5. New business tax scrutiny.

Unfortunately, being self-employed is one of the IRS' favorite audit target groups. Taxpayer should keep in mind that being audited does not mean something was done something wrong but it is best to be prepared for the possibility. A self-employed taxpayer should carefully record all revenue and allowable expenses in order to keep the records clear and avoidance of additional taxation by the IRS.

There are certain types of expenses that require special consideration because they are subject to unique record keeping requirements and limitations for its deductibility. Some of these expenses are in particular are automobile, travel, entertainment, meals, and office-at-home expenses.

Questions? Concerns? Contact:

Mir Taxes LLC

info@mirtaxes.com or check the website: **www.mirtaxes.com**