

What You Need to Know About Independent Contracting

Business Taxes for the Self-Employed

Filing Tax Returns

As a self-employed individual, generally a taxpayer is required to file an annual federal income tax return. A return is required if their net earnings from self-employment are \$400 or more. If their net earnings are less than \$400, they still need to file an income tax return if they meet any other filing requirement listed in the [Form 1040](#) instructions.

Self-Employment Tax

Taxpayers must generally pay self-employment tax as well as income tax. Self-employment tax is Social Security and Medicare. It's similar to the Social Security and Medicare taxes withheld from the pay of most wage earners. Taxpayers figure self-employment tax using Form 1040, [Schedule SE](#). Taxpayers can deduct half of their self-employment tax in computing their adjusted gross income. If a taxpayer has more than one business, use one Schedule SE and combine the profits and losses from all businesses.

Estimated Tax Payments

Taxes must be paid as you earn or receive income during the year, either through withholding or estimated tax payments. If the amount of income tax withheld from your salary or pension is not enough, or if you receive income such as interest, dividends, alimony, self-employment income, capital gains, prizes and awards, you may have to make estimated tax payments. If you are in business for yourself, you generally need to make estimated tax payments. Estimated tax is used to pay not only income tax, but other taxes such as self-employment tax and alternative minimum tax.

Quarterly estimated tax payments are due:

April 15, June 15, Sept. 15, Jan. 15

How To Figure Estimated Tax

Individuals, including sole proprietors, partners, and S corporation shareholders, generally use Form 1040-ES (PDF), to figure estimated tax.

To figure your estimated tax, you must figure your expected adjusted gross income, taxable income, taxes, deductions, and credits for the year.

Penalty for Underpayment of Estimated Tax

If you didn't pay enough tax throughout the year, either through withholding or by making estimated tax payments, you may have to pay a penalty for underpayment of estimated tax. Generally, most taxpayers will avoid this penalty if they owe less than \$1,000 in tax after subtracting their withholdings and credits, or if they paid at least 90% of the tax for the current year, or 100% of the tax shown on the return for the prior year, whichever is smaller.

Recordkeeping

Taxpayers must keep receipts, sales slips, invoices, bank deposit slips, cancelled checks and other documents. These documents, either electronic or paper files, can substantiate items of income, deductions and credits. Keeping these records will help a taxpayer pay only the tax they owe.

Paying Taxes

IRS [Direct Pay](#) is a free, secure service that enables individual taxpayers to electronically pay a tax bill or make an estimated tax payment directly from a checking or savings account. Alternatively, individuals and businesses can pay their taxes electronically, free of charge, through the Treasury Department's Electronic Federal Tax Payment System ([EFTPS](#)).

Deducting Business Expenses

Business Use of Your Car

If you use your car in your business, you can deduct car expenses. If you use your car for both business and personal purposes, you must divide your expenses based on actual mileage. Refer to [Publication 463, Travel, Entertainment, Gift, and Car Expenses](#). For a list of current and prior year mileage rates see the [Standard Mileage Rates](#).

Business Use of Your Home

If you use part of your home for business, you may be able to deduct expenses for the business use of your home. These expenses may include mortgage interest, insurance, utilities, repairs, and depreciation. Refer to [Home Office Deduction](#) and [Publication 587, Business Use of Your Home](#), for more information.