

Who Owes Self-employment Tax?

If you earned \$400 or more of net profit during 2013 from work as a sole proprietor or independent contractor, you may owe self-employment tax. That's true no matter what your age – even if you're receiving social security benefits.

The tax is assessed on your net earnings from self-employment, which can include income from qualified joint ventures and partnerships, as well as fees you earn working as a director for a corporation. In this context, "earnings" generally means your income after deducting expenses incurred while operating your business. If you have multiple businesses, you combine the net income and losses.

For your 2013 return, the self-employment tax rate is 15.3% of the first \$113,700 that you earned. For 2014, the taxable base rises to \$117,000. Income above the base is still subject to Medicare tax at a 2.9% rate. In addition, a 0.9% Medicare surtax is assessed on all self-employment income in excess of \$200,000 for singles and \$250,000 for couples.

What happens when you earn social security wages or tips from an employer and also have a side business? Your wages count toward the taxable base. Depending on how much you earn as an employee, your self-employment income may be subject to part or all of the tax.

You pay self-employment tax on a quarterly basis as part of your estimated tax payments. One half of the total self-employment tax that you pay during the year is deductible on your income tax return, and you don't have to itemize to claim the deduction.

Are you new to self-employment? Give us a call. We are happy to help in the tax return preparation, and we offer proactive tax-saving strategies that may result in your paying less in taxes next year. inquiries@mangoldcpa.com or 512-327-0909