FIESTA AUTO INSURANCE

FIESTA TAX SERVICE

2019.20 Training

Subject: How do I file taxes if I'm self-employed? | Talking Points

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Are you self-employed? Here's how to determine if you are self-employed, what you can deduct from your self-employment income, and how self-employment affects your tax return.

Am I self-employed?

You are considered self-employed if you:

- Work as an independent contractor
- Are the sole proprietor of a business
- Practice a trade as your business
- Work a side gig that is based on your time and you provide the necessary tools to do the work
- Are, in some way or another, in business for yourself
- Receive a Form 1099-MISC instead of a W-2

Do I need to file a 1040 if I'm self-employed?

One of the changes after tax reform is the elimination of forms 1040EZ and 1040A, as well as the simplification of Form 1040. So yes, you will need to file Form 1040. You will also need to include the new Schedule 1 and Schedule C with your tax return. These are the required forms when you are self-employed; there are others you may need to include such as Schedule 4, Schedule SE, Form 4562 and others.

What is my tax ID number for my business?

Your tax ID number is your Social Security number (SSN). Businesses have a unique identifying number as well, but you must apply for the number. If you don't have any employees and your state doesn't require a separate number, you can use your SSN for your self-employment income. If you have employees, or are otherwise required to, you must complete an online Form SS-4 (the EIN application) with the IRS to get an Employer Identification Number (EIN). A best practice is to get an EIN for your business, even if you are not required to do so.

My husband and I are joint owners of a business – do we have to file as a partnership?

The IRS has special rules for a husband-and-wife business team. If you and your husband are the only members of a business you both operate and work, you can elect to be treated as qualified joint venture and file two Schedules C, or a Schedule F, splitting all income and expenses.

What can I deduct from my side job or self-employment income?

There are many expenses you can deduct from your business:

- If you use your vehicle for business purposes, you may be able to deduct expenses associated with such use. You may choose the actual expense method or use the standard mileage rate. If you choose the actual expense method, you must also keep track of your vehicle-related expenses for the year. Vehicle-related expenses include gas, oil, insurance, repairs, cleaning, and registration. The business portion of your personal property taxes and vehicle loan interest is also deductible. Whichever method you choose, you must keep track of the mileage on your car from the first day of the year or the first day you use your car for business through the end of the year.
- Your employees' wages and salaries are deductible if they are paid during the tax year for work directly related to your business and the pay is reasonable. You must be able to verify that the payments were made for duties actually performed. There are various types of withholding for different types of employees. Specific forms must be used for reporting payments made to employees.
- Advertising expenses including business cards, billboards, car wraps, ad agencies, etc. can all be deducted from your business income.
- Office supplies you purchase to operate your business.
- Rent paid for equipment, storage, or office space.

- Banking fees, credit card/debit card fees.
- Legal fees associated with your business.
- Professional fees such as bookkeeping, taxes, accounting, etc.
- Cleaning and maintenance. Maintenance includes little repairs, like having a plumber fix a leaky faucet.
- Dues paid such as Chamber of Commerce, local small business association or trade group.
- Publications and books on the business or for the business – like magazines in a waiting room.
- Storage.
- And other expenses that are common for your business.
- Costs that you have when setting up an active trade or business, investigating the possibility of creating or acquiring a business, and some legal fees are business start-up costs. You can choose to deduct up to $5,000 of business start-up costs now and claim a deduction of the remaining cost over 15 years. Franchise fees, goodwill, and customer-based intangibles are also amortizable.
- IRS regulations do not allow taxpayers to deduct the full cost of assets used in a business the year they are purchased, instead they allow depreciation, which is a percentage of the asset to be deducted each year over a pre-determined "life" of the asset. There are some rules in place that allow for a greater up-front deduction, Special Depreciation and Section 179 deduction.

What changed under tax reform?

- The Section 179 deduction allows taxpayers to deduct all or part of assets purchased and placed in service in a business for the year. The deduction was doubled to $2,000,000 (from $1,000,000) in assets and the type of assets allowed to be claimed, or expensed, under this method has increased as well.
- You may also claim a special depreciation of 100% of the value of the property you placed in service during the year. This is different from the Section 179 deduction but does increase your allowed deduction of tangible property.
- Up to 100 percent of medical insurance costs you pay for yourself, your spouse, and your dependents may be deductible as an adjustment to income on Form 1040, US Individual Income Tax Return. The deduction is subtracted directly from your total income and applies whether or not you itemize. If you purchase your health insurance through the Marketplace, you may have to adjust your deduction for your Premium Tax Credit you receive.
- Business tax credits can reduce your tax liability. There is a credit for providing access to the disabled and a work opportunity credit for providing work for members of groups with special employment needs or higher unemployment rates.
- Probably the largest change under tax reform is the new qualified business income (QBI) deduction. This deduction is taken after subtracting standard or itemized deductions on the tax

return. The deduction is equal to 20% of the total qualified business income. The QBI doesn't affect SE taxes, earned income calculations for EITC, or adjusted gross income (AGI).

Other benefits of self-employment

- You may be able to deduct the cost of health insurance for you and your family directly from your income.
- You can deduct one half of your self-employment taxes on your tax return.

Here are some additional taxes for small business owners:

- If your net profit is greater than $400, you must pay SE (Self-employment) taxes. Use Schedule SE, Self-Employment Tax, to calculate the taxes and report on Form 1040, Schedule 4, Other Taxes. The SE tax is a self-employed individual's equivalent of the payroll taxes withheld by employers. If you are self-employed, you must pay your own Social Security and Medicare taxes and you will pay the equivalent of the employee and employer's share, this is 12.4% for social security tax and 2.9% for Medicare taxes. Social Security taxes max out on wages and self-employment taxes of $128,400. You will still pay Medicare taxes on income greater than this but no social security taxes.
- There is an additional Medicare tax of .9 percent for self-employed taxpayers who have a total earned income of more than $200,000 ($250,000 if married filing jointly or $125,000 if married filing separately).