

Tax Tips for the Self-Employed

If you are a self-employed business owner, you know that self-employment (SE) taxes can represent a significant expense. SE taxes are the counterpart of the Social Security and Medicare (FICA) taxes paid by employees and their employers. SE taxes are due if annual self-employment income is more than a minimal amount.



SE Tax Calculation

For 2009, the combined SE tax rate is 15.3%. The Social Security portion of the tax is 12.4% on self-employment earnings up to \$106,800. This earnings cap is adjusted yearly for inflation. The Medicare portion is 2.9% on *all* earnings. The same SE tax rates have been in place since 1990.

Pay as You Go

To avoid penalties and interest — as well as a big bill when you file your taxes — you probably should plan to make quarterly estimated tax payments to the IRS. The quarterly due dates for 2009 estimated tax payments are April 15, June 15, and September 15, 2009, and January 15, 2010. Your estimated tax payments should take into account both SE taxes and federal income taxes. We can help you determine how much to pay.

Save SE Taxes

To minimize SE taxes, plan to take as many deductions as possible on Schedule C (the business schedule) of your return. For example, professional fees should be claimed on Schedule C to the extent the expenses are business related.

Another possibility: Hire your school-age child to work for you part-time. Provided the pay rate is reasonable, the amount you pay your child for work actually performed will be deductible as a business expense. The deduction will lower your self-employment income — and your SE taxes. And there will be no liability for FICA taxes if your child is under 18. A child may earn up to \$5,700 in 2009 and pay no federal income taxes on the earnings because of the standard deduction