Self-Employment Tax Guide

A Practical Guide for Sole Proprietors and Small Business Owners

This guide explains how to report self-employment income, identify business deductions, estimate taxes, maintain records, and evaluate retirement savings options.

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Disclaimer: This guide is intended for general informational purposes only and does not constitute individualized tax advice. Tax laws and individual circumstances vary, and not all information may apply to your situation. Please consult your tax professional before making tax-related decisions.

1. Who This Guide Is For

This guide is for people earning income outside a traditional W-2 job, particularly sole proprietors and owners of single-member LLCs taxed as sole proprietorships. It also introduces the filing treatment of multi-member LLCs.

- Freelancers, consultants, independent contractors, and people receiving Form 1099-NEC
- People selling goods or services as a side business or main source of income
- New business owners who want to understand deductions, tax payments, and recordkeeping
- Self-employed taxpayers exploring retirement contributions

Form 1099-K or another information return may report payments associated with your business, but the taxability of the underlying transactions depends on their nature. Business income generally must be reported even if you do not receive a tax form.

2. Business Structure and Filing Requirements

Business type	Typical federal income tax filing	Usual calendar-year deadline
Sole proprietor / default single-member LLC	Form 1040, Schedule C	April 15 (October 15 with timely extension)
Default multi-member LLC	Form 1065 and Schedule K-1	March 15 (September 15 with timely extension)
LLC taxed as S corporation	Form 1120-S and Schedule K-1	March 15 (September 15 with timely extension)

Due dates move to the next business day when the deadline falls on a weekend or legal holiday. Extensions generally extend the time to file, not the time to pay.

What Is an LLC?

An LLC is a legal business structure created under state law. A single-member LLC is generally disregarded for federal income tax purposes unless it elects corporate treatment; the owner normally reports its activity on Schedule C. A multi-member LLC is generally taxed as a partnership unless it makes a different valid tax election. Limited exceptions may apply, including certain arrangements involving spouses.

Starting an LLC Midyear

Forming a single-member LLC during the year generally does not require two Schedule Cs if the taxpayer simply continues operating the same business and does not elect corporate taxation. Combine the pre-LLC and post-LLC results on one Schedule C. Separate businesses or an effective corporate election may change the filing requirement.

3. Business Income and Deductible Expenses

Business profit generally equals business income minus deductible business expenses. Most sole proprietors report these amounts on Schedule C. Expenses must ordinarily be both ordinary and necessary to operating the business, and records should support the amounts claimed.

Common Business Expenses

- Office supplies, software, computers, and subscriptions
- Advertising, website costs, professional licenses, and business insurance
- Accounting, bookkeeping, and legal services related to the business
- Contractor payments, eligible employee wages, and related payroll costs
- Business-use portion of phone, internet, vehicle, and qualifying home office expenses
- Business-related travel, meals, and training that maintains or improves skills used in the current business

Some larger purchases must be depreciated or may qualify for special expensing rules rather than being deducted as routine supplies. Equipment, inventory, and startup costs can require special treatment.

Expenses That Are Limited or Not Deductible

Expense	Typical treatment	Important consideration
Business meals	Generally 50% deductible	Document the business purpose and participants
Business gifts	Generally limited to $25 per recipient per year	Exceptions and incidental-cost rules can apply
Vehicle costs	Deductible business-use portion	Personal and commuting miles are not business miles
Phone and internet	Deductible business-use portion	Exclude personal use
Travel	Business expenses only	Personal vacation expenses are not deductible
Regular clothing	Generally not deductible	Ordinary everyday clothing remains personal
Entertainment	Generally not deductible	Separately stated qualifying meals may be deductible

Personal groceries, household spending, regular commuting, personal vacations, and most fines and penalties are not business expenses. A payment made from a business bank account does not make it deductible.

4. Home Office Deduction

A home office may qualify when part of your home is used regularly and exclusively for your business and meets an eligible business-use test. A common qualifying situation is a space used as your principal place of business, including for administrative activities when you have

no other fixed location for substantial administrative work. Other qualifying situations and limited exceptions exist.

Simplified Method

The simplified method generally permits $5 per qualifying square foot, up to 300 square feet (maximum $1,500), subject to applicable limits. You still need an accurate measurement of the qualifying business space.

Actual Expense Method

The actual-expense method generally allocates eligible home costs based on business use. For example, a 200-square-foot qualifying office in a 2,000-square-foot home may represent 10% business use.

- Rent, or qualifying mortgage interest and real estate taxes
- Utilities, insurance, and eligible general repairs
- Direct expenses related only to the qualifying office
- Depreciation for homeowners, when applicable

The two methods have different rules and consequences. Homeowners should consider the effect of depreciation on a later home sale. We can review which method is appropriate for your circumstances.

5. Vehicle Deduction

If you use your vehicle for business, you may be eligible to deduct vehicle expenses. You must document business mileage and separate business driving from personal driving and commuting.

Standard Mileage Method

Multiply qualifying business miles by the applicable IRS business mileage rate for the year and period driven. You may generally also deduct qualifying business parking, tolls, and certain separately allowable expenses. Keep a mileage log showing the date, destination, business purpose, and miles driven.

Actual Expense Method

Deduct the business-use percentage of eligible actual costs, such as fuel, repairs, insurance, lease payments, and depreciation. Business use is generally measured as business miles divided by total miles. Vehicle loan principal is not a deduction; qualifying interest may be separately deductible.

Standard mileage method	Actual expense method
Simpler expense tracking; mileage log still required	Detailed receipts and mileage log required

Deduction follows a published mileage rate	Deduction follows actual eligible costs and business-use share
Often practical for inexpensive or fuel-efficient vehicles	May benefit vehicles with higher operating costs

Choosing or Changing Methods

For an owned vehicle, the standard mileage method generally must be chosen in the first year the vehicle is available for business use if you want to preserve that option. If you start with mileage, you can generally switch to actual expenses in a later year, subject to depreciation rules. If you first claim certain accelerated depreciation or Section 179 deductions, you generally cannot switch to standard mileage later. Leased vehicles have separate consistency rules: choosing standard mileage generally requires its use for the full lease period.

6. Self-Employment and Income Taxes

Self-employed individuals generally pay both federal income tax and self-employment (SE) tax. SE tax finances Social Security and Medicare and is separate from regular federal and state income taxes.

Self-Employment Tax

Component	General rate	Notes
Social Security	12.4%	Applies only up to the annual combined wage and SE earnings limit
Medicare	2.9%	Generally applies without the Social Security wage cap
Additional Medicare Tax	0.9%	May apply above filing-status income thresholds

Generally, 92.35% of net self-employment profit is included in the standard SE tax calculation, subject to applicable adjustments. The combined basic SE tax rate is 15.3%, but it is not simply 15.3% of gross business receipts. Taxpayers generally may deduct one-half of their regular SE tax in computing adjusted gross income.

Additional Medicare Tax thresholds are generally $200,000 for single filers and $250,000 for married couples filing jointly. The Social Security earnings ceiling changes each year. Self-employment tax generally applies once net earnings from self-employment reach $400, subject to special rules.

Income Tax

Federal income tax depends on your overall taxable income, filing status, deductions, and credits. State and local taxes can also apply. Your business profit may also qualify for the qualified business income deduction, depending on the business and your individual circumstances.

7. Estimated Tax Payments

Unlike employees with regular payroll withholding, many self-employed taxpayers must arrange their own tax payments. Estimated payments may be required when withholding and other credits are not enough to cover the expected tax bill. Increasing withholding from a W-2 job is another possible approach.

Typical Federal Estimated Tax Due Dates

Payment period	Usual due date
First installment	April 15
Second installment	June 15
Third installment	September 15
Fourth installment	January 15 of the following year

Dates may shift for weekends, holidays, or special circumstances. Payments are not always equal if income varies significantly during the year. Safe-harbor rules may help you avoid an underpayment penalty even when your final tax liability is higher.

Paying Federal and State Estimated Taxes

We generally recommend making estimated payments electronically and saving the confirmation numbers. When paying federal estimated tax for a sole proprietorship, select the individual income tax payment type and the correct tax year rather than a separate business income tax return.

- Federal payments: IRS Direct Pay or your IRS Online Account
- Maryland payments: Comptroller of Maryland online individual tax payment services
- Virginia, DC, Pennsylvania, and other states: use the applicable state revenue department’s official individual estimated tax payment system

Before submitting, confirm the taxpayer, payment type, tax year, and payment amount. An extension to file does not eliminate the requirement to pay tax on time.

We can prepare a tax projection, determine estimated payment targets, and review whether adjusting W-2 withholding would be more convenient. Contact us before a payment deadline if your income changes materially.

8. Records and Tax Preparation

What You Should Keep

Maintain complete records for income, purchases, and expenses. Digital records are acceptable when they clearly document the transaction and business purpose.

- Bank and credit card statements, sales summaries, and invoices

- Forms 1099, merchant processor statements, and records reconciling payment platform deposits
- Receipts or electronic supporting records for significant expenditures
- Mileage logs and documentation of business travel or meals
- Payroll and contractor records, plus required Forms 1099
- Records of equipment purchases, inventory, and capital improvements

Bank statements can help substantiate payment but may not alone show exactly what was purchased or whether an expense was business-related. Retain supporting documentation when needed.

What We Need for Your Tax Return

Our Self-Employment Organizer collects the totals needed to prepare your return, including gross income, expense categories, vehicle information, and applicable home office information. You are responsible for totaling and supporting your figures; we do not ordinarily audit or independently verify every transaction.

Unusual losses, recurring losses, substantial deductions, or unclear transactions may require follow-up and supporting documentation. Additional bookkeeping or investigative work may result in additional fees.

9. Self-Employment Retirement Options

Self-employed individuals may have retirement plan options that offer substantial opportunities to save and potentially reduce income taxes. Contribution amounts depend on net earnings, other retirement plan participation, employees, and annual limits.

Solo 401(k)

A one-participant 401(k) can permit employee elective deferrals plus an employer contribution, subject to annual limitations and plan rules. It is generally designed for a self-employed owner with no eligible employees other than a spouse.

SEP IRA

A SEP IRA generally permits employer contributions based on eligible compensation. For a sole proprietor, the effective maximum contribution is generally calculated using a special self-employed worksheet and is commonly approximately 20% of adjusted net earnings, subject to the annual dollar limit. It is not simply 25% of Schedule C net profit.

Catch-Up Contributions and Timing

Eligible individuals age 50 or older may qualify for additional 401(k) catch-up contributions; special limits may apply at certain ages. SEP IRAs do not have an elective deferral catch-up

feature. Plan setup and contribution deadlines differ and should be reviewed before year-end and before filing.

You can generally open an eligible retirement account with a financial institution of your choice. We can help calculate permitted contributions and estimate tax savings, and can provide investment advisory and retirement planning services through our affiliation with Glover Park Wealth Management, LLC.

10. Self-Employment Tax Organizer

We use our Self-Employment Organizer to collect the annual income and expense information needed for Schedule C, as well as your qualifying vehicle and home office details when applicable.

Organizer: https://marylandtaxservice.com/sch-c-self-employment

Please contact Maryland Tax Service, Inc. with questions about reporting business income, deducting expenses, estimated tax payments, or retirement plan contributions.

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