

SELF-EMPLOYMENT TAXES AND ESTIMATED TAX PAYMENTS



Self-employed individuals must pay self-employment tax (SE tax) as well as income tax on the net earnings from their business. SE tax is a Social Security and Medicare tax primarily for individuals who work for themselves.



HOW MUCH IS THE SE TAX?

For tax year 2022, the SE tax is 15.3% on net self-employment earnings. Net earnings are gross income minus business expenses.



WHY DO I NEED TO REPORT SE INCOME?

To qualify for Social Security and Medicare benefits later in life, a self-employed taxpayer receives one (1) work credit for every \$1,510 of earnings as of tax year 2022. The maximum credits earned per year are four (4). A minimum of forty (40) credits is needed to qualify for Social Security and Medicare benefits.



DO I NEED TO PAY ESTIMATED TAX PAYMENTS?

You may need to make quarterly estimated payments during the tax year to avoid a penalty for underpayment of taxes if: (a) you have self-employment earnings, (b) are not paying taxes through other wages earned, and (c) you expect to **owe** more than \$1,000 when you file your federal return.



HOW DO I CALCULATE ESTIMATED TAXES USING LAST YEAR'S TAX RETURN?

Step 1: Review last year's Form 1040. On page two of the 1040 see how much tax you paid or if you received a refund. For tax year 2021, look at Lines 23, 24, and 37. Line 23 includes the SE tax, and Line 24 is the total tax owed. Use line 37, amount owed, to calculate your estimated tax payment. (It may be the same as line 24, total tax.)

Step 2: *If you received a refund* and you view your situation as similar to last year and expect a refund then you may not need to make estimated tax payments. However, if you have a W-2 job, in addition to your self-employment, make sure that taxes are withheld.

Step 3: To calculate estimated tax payments, take the amount owed (for tax year 2021, Line 37) and divide by 4 (payments are to be made on a quarterly basis during the year).



I DON'T HAVE ACCESS TO MY LAST YEAR'S TAX RETURN, CAN I STILL CALCULATE ESTIMATED TAXES?

Yes, even if you don't have access to last year's tax return, you can estimate your SE tax. To do so, follow these steps:

Step 1: Determine a sample month of self-employment income and subtract your expenses.

Step 2: Multiply the amount in Step 1 by 12 months for your estimated annual self-employment income.

Step 3: Calculate an approximate annual SE tax by multiplying the amount in Step 2 by 15.3%, the rate of the SE tax.

Step 4: Divide the amount in Step 3 by 4. This equals your quarterly estimated tax payment.

Example: You have monthly income of \$2000 and expenses of \$500. You net \$1500 (2000-500). $\$1500 \times 12 = \$18,000$ (working with averages). $\$18,000 \times .15 = \2700 . This is your estimated self-employment tax for the year. Divide \$2700 by 4 which equals a quarterly estimated tax payment of \$675.



HOW AND WHEN DO I MAKE FEDERAL ESTIMATED TAX PAYMENTS?

Tax payments are due on the following dates:

1. April 15 (current year)
2. June 15 (current year)
3. September 15 (current year)
4. January 16 (following year)

The IRS expects you to pay by the deadline. If you miss one, make the quarterly tax payment as soon as you can. Once a due date has passed, the IRS will typically impose a 0.5% penalty of the **entire amount** you owe (not just the missed payment).

You can make payments using the following options:

1. Online using Direct Pay (<https://www.irs.gov/payments/direct-pay>),
2. Telephone using credit or debit cards ([888-729-1040](tel:888-729-1040)),
3. Direct transfer, or
4. Mail with Form 1040-ES payment voucher (<https://www.irs.gov/filing/where-to-file-paper-tax-returns-with-or-without-a-payment>).

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How to contact SEOLS:

www.seols.org or call 844-302-1800

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