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Tackling Taxes If You're Self-Employed

Tax time is tough, there's no question about it, but it's even more challenging when you're self-employed and trying to deal with the sometimes confusing rules and recordkeeping that can go hand-in-hand with running your own show. The New Jersey Society of Certified Public Accountants (NJSCPA) answers some of the most frequent questions about taxes and self-employment and offers tips that can help you lower your tax bill.

What qualifies as Self-Employment Income?

Self-employment (SE) income is money you earn as an independent contractor or in running your own business. It may include earnings from part-time work even you are employed elsewhere in a staff job. Your taxable SE income is what's left after you deduct qualified expenses. If you make \$50,000 selling jewelry, for example, and your ordinary and necessary costs of doing business total \$21,000, your SE income is \$29,000. Your taxes on that amount will include SE tax, which includes your Social Security and Medicare taxes. Be aware that the SE tax returned to 15.3 percent in 2013 after being reduced to 13.3 percent through 2012. Since you don't have an employer withholding your taxes, you generally must pay estimated taxes quarterly.

What's One Great Way to Minimize Your SE Taxes?

Contributing to a tax-advantaged retirement plan enables you to accomplish two important goals. First, the money you deposit into a qualified plan is deducted from your SE income, which immediately reduces any taxes you might owe. Second, it offers you a tax-beneficial way to build up a nest egg you can tap into upon retirement. This is particularly important for self-employed workers who don't participate in an employer-sponsored plan. Self-employed people or business owners are eligible for several different kinds of tax-advantaged retirement plans, including a 1 participant 401(k), Simplified Employee Pension IRA or Simple IRA. Please ask your Financial Planner/ CPA at Shapiro Financial Security Group for more details about retirement savings options and how they can help to lower your tax bill.

What Other Deductions Are Available?

If you use part of your home for your business, you can deduct expenses related to that portion of your home. Beginning with your 2013 taxes, you can even use a simplified option that makes it easier to calculate your proper deduction. To qualify for the deduction, the home office must be your principle place of business and it must be used regularly and exclusively for that business. You can also generally deduct any other business related costs, including office or storage space rental or purchase, supplies and equipment, phone, travel, automobile mileage, advertising and salaries for any employees or contractors you may use. Expenses for education that relates to your self-employment also may be deductible. Consult your Financial Planner/ CPA to be sure you are taking all of the deductions for which you qualify.

How Can I Make My Business More Successful?

Whether you are just starting out or considering how to take your business to the next level, there are many tax and business planning considerations that can put you on a sound financial footing. Remember, taxes aren't the only important issue if you're self-employed or own a small business. Have you also considered the possible advantages to adopting a more formal business structure to your enterprise? Limited liability companies work well for many one person businesses and they generally don't complicate your income tax filing requirements. If you have a plan to add a partner or other investors, then a partnership or a C or S corporation may better suit your needs. Your Shapiro Financial Security Group Financial Planner or CPA can explain your options and the benefits and potential drawbacks of each one.

Turn to Shapiro Financial Security Group

Don't tear your hair out when tax season rolls around. If you are on your own, we can offer the perspective and expertise you need to reduce your tax bill and plan for a successful future.

Please call the Shapiro Financial Security Group at 732-739-8991 for more information on this topic or for assistance with any of your financial concerns.

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