

The Basics Of Self Employment Tax

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Owning your own business means that you are probably going to have to pay more taxes than you did when you were working for someone else. In addition, you will also have to be aware of the large number of taxes and deductions that you will have to pay on a regular basis each year. One of these taxes is the self-employment tax that the IRS levies against owners of home businesses.

The self-employment tax is really the same tax that you would pay if you were earning money working for another business, but the code is reworked for the self-employed individual. People who work for someone else are responsible for paying half of the Federal Insurance Contributions Act themselves, while their employers pay the other half. FICA is calculated at 15.30% of total earnings for the year, and under payment for another company the individual will contribute 6.2% to Social Security and 1.45% to Medicare tax. With the self-employment tax, the individual business owner is expected to pay the full 15.30% tax themselves to support both of the federal programs.

There are a couple of ways that an individual can legally alleviate some of the burden of this tax. One way is to file for a deduction on one half of the FICA amount as described on Form 1040. This deduction is considered to be a business expense. Form 1040 SE will then work out the entire formula by which the total amount of money is determined. Incorporated businesses can also reduce the tax burden, although it is important to know exactly what the laws are regarding distributions in your state. Owners of big home businesses will be happy to know that there is a limit on the amount of FICA taxes that can be paid, but as that limit is currently \$94,200, only the most successful businesses can hope to benefit.

One of the best ways that an individual business owner can avoid a lot of worry, hassle, and complications when it comes time to pay the taxes on their business earnings is to hire a professional accountant. These services will of course add some additional expenses, but remember that professional fees are deductible. The added peace of mind will also make the services worth it, as no one person can ever hope to wade through all of the complications of taxes without a lot of training and background. Remember that the self-employment tax is not the only thing to consider when it comes time to pay Uncle Sam. Business owners will also need to be aware of possible deductions, the period for which they are calculating their taxes (fiscal or calendar year), what category their business falls under (sole proprietorship or partnership).

Remember to keep careful records of your transactions so that you do not have to waste a lot of time come tax time, and also so that you do not lose any important information. If you miss some money owed, rest assured that you will be caught and pay up with interest. However, if you miss some deductions, no one will ever tell!