



SELF-EMPLOYED GUIDE



Welcome to the TaxSlayer Self-Employed Guide for tax year 2018. Whether you own a small business or work part-time as a rideshare driver, this guide is for you. Find personalized information inside that will help you get your maximum refund by filing with TaxSlayer's Self-Employed Edition.

In addition to discussing unique credits and deductions, find everything from the definition of income tax to details about the new tax laws.

The Tax Cuts and Jobs Act passed and was signed by President Donald Trump in December 2017. It is the biggest tax law overhaul since 1986. Many of the new tax rules are expected to benefit taxpayers, especially in the early years of the act. Some of the items are specific to the self-employed, and this guide accounts for them.

Now go slay your taxes!

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IN • C O M E T A X

\ 'IN KEM 'TAKS \ (NOUN): A TAX ON THE NET EARNINGS
OF AN INDIVIDUAL OR A BUSINESS



FEDERAL INCOME TAX: Federal income taxes pays for things like education, health programs, and other services that benefit the American public. Your tax rate depends on your filing status and how much you earn. It can be as little as 10% or as much as 37% of your taxable income.



STATE INCOME TAX: Depending on the tax laws in your state, you could be required to fill out a state return and pay tax on your income. If you earn income in more than one state, you might have to pay taxes to each state.



FICA: FICA stands for the Federal Insurance Contributions Act. It is a federal payroll tax that pays for Social Security and Medicare benefits. A percentage of an employee's income is deducted from each paycheck to pay for FICA.



SELF-EMPLOYMENT TAX: Self-employment tax is only for individuals who don't have Social Security or Medicare contributions (FICA) withheld from their income during the year. It is a single tax that covers both obligations. [See page 5 for more details.](#)

SO WHAT SHOULD YOU PAY?

When you receive a W-2:

You pay 6.2% of your earnings to Social Security, and your employer pays another 6.2%, for a total of 12.4%. The current rate for Medicare is 1.45% for the employer and 1.45% for the employee, or 2.9% total.

You pay:



When you receive a 1099:

No income is withheld for Social Security, Medicare, state or federal income taxes. You are responsible for knowing and paying your tax liabilities.

You pay:



When you self-report your income:

This is relevant to small business owners in particular. You are responsible for tracking all your income and expenses and paying taxes throughout the year.

You pay:



What if I get a 1099 and a W-2?

If you work as an employee in one job but you are also self-employed (a side gig, for example), you can increase the withholdings on your W-4 to cover what you owe for your independent income. If you have enough withheld, you may not have to pay estimated taxes for your self-employment income.

WHAT'S YOUR TYPE?

THE FOLLOWING ARE COMMON EXAMPLES OF
SELF-EMPLOYED PROFESSIONS:

Professional Services

Hairstylist
Cosmetologist
Esthetician
Nail technician
Lawn and landscaping
Maintenance
Housekeeping

Teaching and Childcare

Home daycare provider
Nanny
Tutor
Teaching assistant
Substitute teacher

Food and Beverage

Bartender
Caterer
Personal chef
Food truck

Performance Arts and Entertainment

Musician/Vocalist
Dancer
Athlete
Event planner
Wedding planner

Telework

Underwriter
Transcriptionist
Translator
Paralegal
Virtual assistant
Customer service rep
Travel agent
Accountant
Insurance sales
Independent contractor

Property and Real Estate

Real estate agent
Short-term rental
(Airbnb, HomeAway, VRBO)
Landlord
Property manager

Health and Lifestyle Services

Therapist
Counselor
Massage therapist
Personal trainer

Clergy

Minister
Pastor
Priest

Freelance Creative and IT

Graphic designer
Web designer
Artist
Photographer
Writer
Programmer
Videographer

Drivers

Uber and Lyft
Truck driver
Delivery driver

Independent Retail

Etsy shop owner
Independent consultant

IS IT JUST A HOBBY?

A HOBBY...

- is done for enjoyment.
- does not make a profit.

**You are unable to deduct hobby-related expenses on your tax return.*

A BUSINESS...

- tries to make a profit and succeeds for three out of five years.

**You are able to deduct business-related expenses.*

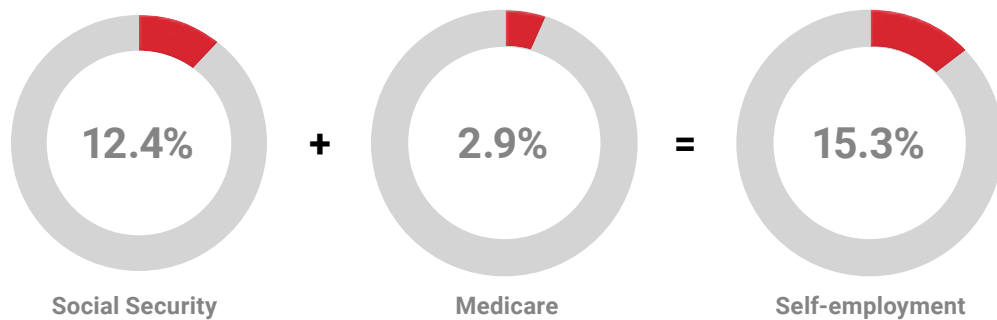
Do you host on Airbnb?

If you rent your home, apartment, or spare room for more than 14 days in a year, you should report the income.

[Learn more](#)

UNDERSTANDING THE SELF-EMPLOYMENT TAX

SELF-EMPLOYMENT TAX IS PAID BY PEOPLE WHO WORK FOR THEMSELVES AND DON'T HAVE AN EMPLOYER WITHHOLDING TAXES FROM THEIR PAYCHECKS YEAR-ROUND. THE CURRENT RATE IS 15.3%.



YOU MUST PAY THE SELF-EMPLOYMENT TAX IF:



You make more than \$400 net earnings from being self-employed.



You are employed by a church and make more than \$108.28.

SHOULD YOU MAKE ESTIMATED PAYMENTS?

If your tax bill is \$1,000 or more when you file, the IRS may charge you a penalty. Estimated payments are a way to pay your tax bill throughout the year so you aren't penalized. It's easy. [Learn more](#)



Estimate how much you will owe in taxes with Form 1040-ES.



Fill out the worksheet portion.



Pay the estimated amounts by the due dates listed on the form.

Didn't get a 1099?

You should receive a Form 1099 from anyone who paid you \$600 or more to perform a service. If you earned less than \$600, you may not receive the form, but you are still responsible for self-employment taxes.

THE ESSENTIAL LIST OF SELF-EMPLOYMENT FORMS

HERE IS A LINEUP OF COMMON FORMS AND SCHEDULES YOU'LL SEE AT TAX TIME.

SCHEDULE C

Fill out all five parts of this form to report how much money you made or lost in your business. Everyone with self-employed income needs to complete this form even if they don't own a business.

SCHEDULE SE

If you are required to pay the self-employment tax, fill out this form to calculate how much you owe. Most people who file a Schedule C will also need to complete this form.

SCHEDULE K1

Fill out this schedule to report pass-through taxation for a business partnership, S corporation, or a trust or estate beneficiary. Also used for: rental property investments.

FORM 1099

An informational form showing that someone other than an employer paid you. There are several types of Form 1099 listed below.

1099-B

Shows proceeds from broker exchange transactions. Most often used for: selling stocks, options, and commodities.

1099-K

Reports merchant card and third-party network payments. Most often used by: rideshare drivers, eBay, and PayPal.

1099-MISC

Reports the total payments you received from a single person or entity for your services. Most often used by: independent contractors, freelancers and professional services.

1099-S

Shows profit made from selling a home and other real estate transactions. Most often used by: real estate agents.

8 DEDUCTIONS YOU SHOULD CONSIDER

TAXSLAYER'S DEDUCTION FINDER WILL SUGGEST THESE FOR YOU.



MEALS & ENTERTAINMENT

Whether you dine out or order in, you can deduct 50% of your meal costs as long as they are business-related. However, you can't deduct entertainment expenses, like taking clients to a sporting event for example.



ELECTRONICS

Deduct work-related electronic expenses, like a business cell phone or a new laptop. You can depreciate the value of your device over several years or deduct the full value one time.



SOFTWARE

Deduct any one-time or monthly software fees if the program is directly related to your line of work. Some examples are Microsoft Office Suite for a freelance writer or Adobe Creative Suite for a freelance designer.



TRAVEL

If you travel out of town for business, you can deduct expenses, including transportation, lodging, and meals. You must sleep away from home to take this deduction.



PROFESSIONAL DEVELOPMENT

Deduct course-related expenses if you enroll in a program for professional development. Some examples are a portrait photography class for a freelance photographer or a pastry decorating course for an independent baker.



ADVERTISING

The IRS says you can deduct "ordinary and reasonable" advertising expenses. That means your business cards, newspaper ads, and even your website can be a tax write-off.



HEALTH INSURANCE

If you pay for your own health insurance, you can deduct the cost of premiums paid for you as well as your spouse and your dependents. You can also deduct a portion of unreimbursed medical expenses.



SUPPLIES

Deduct work-related office or creative supplies, such as paint, canvases, pencils, and even paper clips.

SPOTLIGHT ON THE HOME OFFICE

THERE ARE **TWO WAYS** TO CALCULATE THIS DEDUCTION: USING A PERCENTAGE OF YOUR HOME OR USING THE SQUARE FOOTAGE.

SIMPLIFIED METHOD



Use this method and deduct \$5 per square foot of the area you use for business, up to 300 ft.

300 sq. ft. x \$5= \$1,500 MAXIMUM POSSIBLE DEDUCTION

REGULAR METHOD

Deduct the full amount of each direct expense and a percentage of each indirect expense. The percent is calculated based on how many square feet of your home you use for work.

$$\frac{\text{HOME OFFICE SQUARE FEET}}{\text{TOTAL SQUARE FEET}} = \frac{300 \text{ FT}^2}{3000 \text{ FT}^2} = .10 \text{ OR } 10\% \text{ DEDUCTION FOR INDIRECT EXPENSES}$$

ITEMS THAT QUALIFY

for the Regular Method

DIRECT EXPENSES

- Painting the office
- Repairs to the office
- A business telephone line
- Long distance business calls

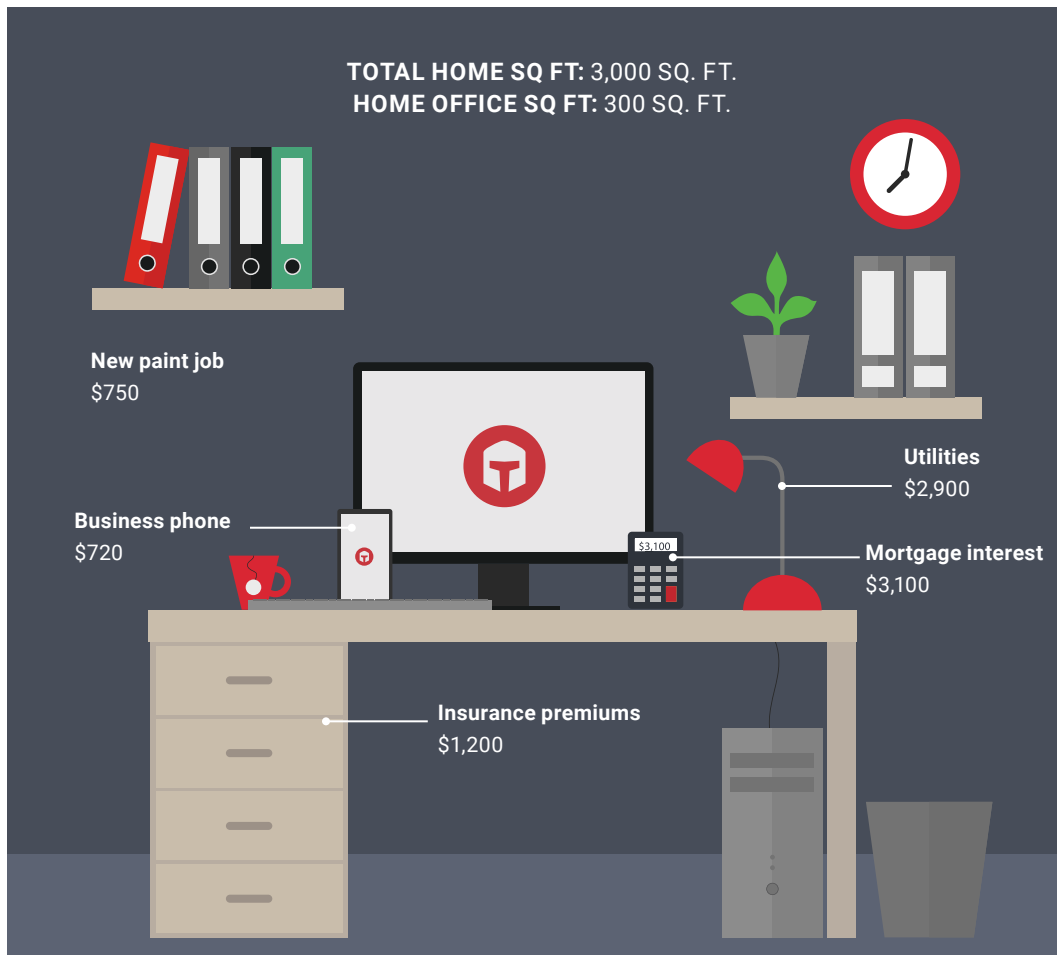
INDIRECT EXPENSES

- Utilities
- Homeowners insurance
- HOA fees
- Security fees
- General repairs and maintenance

Home Office Rules

You may only deduct a home office if the sole purpose of the space is for business use. You must use that portion of your home both regularly and exclusively for business.

SEE HOW THE REGULAR METHOD WORKS



$$\frac{300 \text{ FT}^2 \text{ OFFICE}}{3000 \text{ FT}^2 \text{ TOTAL}} = 10\% \text{ DEDUCTION FOR INDIRECT EXPENSES}$$

$$\begin{aligned}
 & \$720 \text{ Indirect Expenses} + \$1,470 \text{ Direct Expenses} = \$2,190 \text{ Total Deduction} \\
 & (\$3,100 + \$1,200 + \$2,900) \times 0.10 \qquad \qquad \qquad \$720 + \$750
 \end{aligned}$$

What about storage?

If you keep inventory in your home, you can add the area used for storage space to your home office deduction. If some or all of your inventory is kept in an off-site location, you cannot deduct the storage space in your home.

SHOULD YOU DEDUCT YOUR MILEAGE OR YOUR VEHICLE?

IF YOU USE YOUR CAR TO GET AROUND FOR BUSINESS, YOU CAN DEDUCT A CERTAIN DOLLAR AMOUNT FOR EXPENSES RELATED TO YOUR VEHICLE.

THERE ARE **TWO WAYS** TO CALCULATE YOUR DEDUCTION:

STANDARD MILEAGE METHOD

The standard mileage rate for 2018 is 54.5 cents per business mile.



Reasons to Use This Method

- Easy to track
- Easy to calculate
- Frequently means a bigger deduction

ACTUAL EXPENSE METHOD

Add up all your vehicle-related expenses like repairs, oil, and insurance and deduct a percentage based on the number of miles you traveled for business (only).

Reasons to Use This Method

- Your vehicle needs repairs
- You spend a lot on gas
- You used this method the first year you claimed the deduction

HOW IT WORKS :

In one year, you drove 25,000 miles.

Actual Expense Method: You kept excellent records and receipts, so you know how much you spent on your vehicle:

\$5,000 gas + \$600 repairs + \$1,000 insurance + \$200 oil changes+ \$4,000 lease payments + \$150 car washes
= \$10,950

You also use your vehicle to get around when you're not driving for your business. Only 80% of the miles on the odometer were for business. Using the Actual Expense Method, your deduction would be \$8,760:

\$10,950 x .80 = \$8,760 total

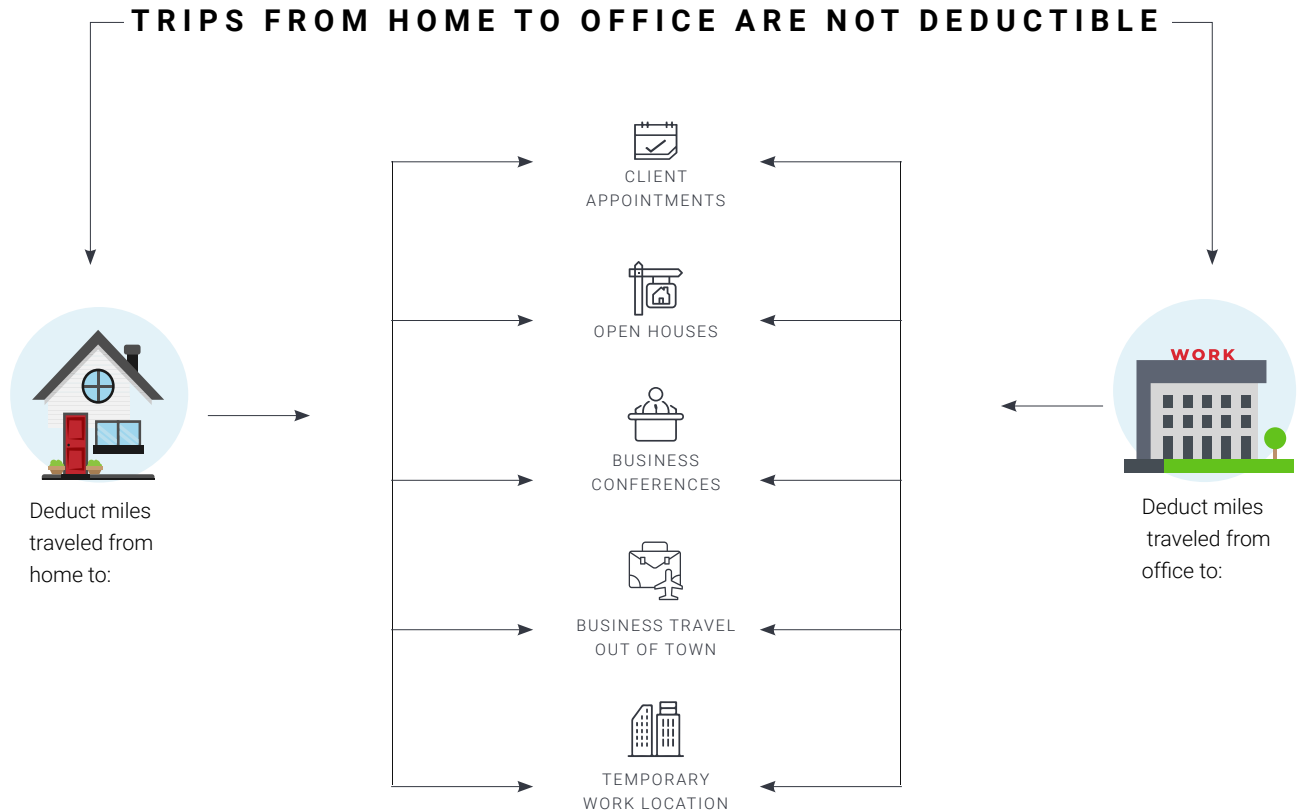
Standard Mileage Method: With these same numbers, you would first calculate your business miles. Then you would multiply by the standard mileage rate.

1) 25,000 x 80% = 20,000 business miles traveled

2) **20,000 x \$.545 = \$10,900 total**

In this case, you could deduct **\$2,140 more** by using the Standard Mileage Method than if you chose to use the Actual Expense Method.

THE PLACES YOU'LL DRIVE



RIDESHARE DRIVERS:

Deduct these common operating expenses in addition to your mileage.



Your phone, accessories, and monthly cellular plan



Light refreshments for your passengers



Car washes and cleaning supplies



Roadside assistance plan like AAA

Extra Miles Tip:

You are allowed to include the miles you travel to pick up a passenger in your mileage deduction. These are not typically tracked by your rideshare employer app, so you'll want to keep your own record of additional miles traveled.

7 NEED-TO-KNOW TAX LAW CHANGES

- 1 FEDERAL INCOME TAX RATES ARE LOWER FOR MOST.**

There are still seven income tax brackets, but the range of incomes in each bracket has been changed. The bottom income tax bracket will still be taxed at 10%, but the rates for most others have dropped. The top tax rate was lowered from 39.6% to 37%. [Learn more](#)
- 2 A NEW 20% DEDUCTION FOR SMALL BUSINESSES.**

Pass-through entities (S-Corps, LLCs, partnerships, Sole proprietorships) may deduct up to 20% of qualified business income. Limitations to the law do apply. [Learn more](#)
- 3 THE AFFORDABLE CARE ACT TAX PENALTY IS GONE.**

Beginning in January 2019, there will be no tax penalty for not having healthcare coverage. [Learn more](#)
- 4 THE CHILD TAX CREDIT DOUBLED.**

You can now get up to \$2,000 in tax credit for each qualifying dependent. The credit is partially-refundable up to \$1,400. [Learn more](#)
- 5 A NEW FAMILY TAX CREDIT IS WORTH \$500.**

A new \$500 non-refundable credit is available for children who are over age 17 or do not have an SSN. The credit can also be claimed for elderly and disabled dependents.
- 6 THE PERSONAL EXEMPTION WENT AWAY.**

Beginning with the tax return you will file in 2019 (for tax year 2018), you will not be able to take a personal exemption for yourself or anyone in your household.
- 7 THE STANDARD DEDUCTION INCREASED.**

The federal standard deduction amount has almost doubled for all filing statuses. See chart below for new amounts. [Learn more](#)

Tax Year 2017 (Filed in 2018)	Filing Status	Tax Year 2018 (Filed in 2019)
\$6,350	Single	\$12,000
\$12,700	Married Filing Jointly and Widow(er)	\$24,000
\$6,350	Married Filing Separately	\$12,000
\$9,350	Head of Household	\$18,000

Thank you for being a



TaxSlayer

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*The information and tax laws discussed in this guide are up to date for tax year 2018 (returns filed in 2019).

