

TAXGUIDE

for self-employed



If you're self-employed, consider the following tax-saving ideas:

Retirement plans

If you have earnings from self-employment, whether full-time or part-time, check out the benefits of a retirement plan.

A retirement plan can reduce your tax bill and build a nest egg. Retirement plan choices include an IRA, SEP, SIMPLE, or 401(k). If you have employees, a plan can be a valuable part of your overall compensation package.

Hiring family

As a boss, you may hire family members and pay reasonable salaries for the work they do in your business.

For example, you could hire your son or daughter to perform routine clerical or cleanup tasks. Your child's salary would be a tax-deductible business expense, and your child's income would be tax-free up to that year's standard deduction amount for a single taxpayer. Income in excess of that amount would be taxed at your child's rates, which are probably lower than yours. You can compound the benefits of this strategy

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by having your child contribute to an IRA, which is likely to enjoy many years of tax-deferred growth.

Wages paid to a spouse by a sole proprietor are subject to payroll taxes; those paid to your children who are under the age of 18 are not. Compensation paid has to be reasonable for the services performed.

Health insurance premiums

Check the deduction you're allowed for health insurance premiums paid for you and your family.

Write off equipment

Most business equipment is depreciated over five or seven years. However, small businesses are allowed to expense a certain dollar amount of equipment costs in the year of purchase. Even equipment purchased at year-end is eligible, but it must be used more than 50 percent for business. Only the business-use percentage can be written off. You should keep records to prove business usage for equipment that can also be used for personal purposes (computers, for example).

Business mileage

If you use your personal car for business purposes, keeping track of your mileage throughout the year can mean a lower tax bill. You can deduct a standard mileage allowance for business miles or the business percentage of actual expenses.

Tax credits

Don't miss business tax credits that are still available. Congress often uses tax credits to encourage certain activities. Regularly investigate those credits that might benefit your business.

Finding every
tax deduction
for which you qualify
is like
finding money

Travel costs

Stay alert to ways you can structure your expenses to gain tax breaks. For example, if you plan your vacation to combine business with pleasure, you might be able to deduct part of your travel costs.

Self-employment tax

Self-employed individuals pay a self-employment tax which is the equivalent of both the employer and employee portions of FICA tax. Don't overlook the deduction you're allowed for 50 percent of the self-employment tax you pay.

Home office

If you conduct business from your home, you may be entitled to a deduction for home-office expenses. You may deduct the business portion of your home expenses, or you may use the simplified method for calculating the home-office deduction. Get details if you think you qualify.

Good records

Good recordkeeping is essential, not only for tax reporting purposes, but also for the success of your business. Contact us for details on what business records you need and how long they should be kept.

Estimated taxes

There is no income tax withholding on self-employment income, but that doesn't mean you're not required to pay taxes during the year. Self-employed individuals generally are required to pay taxes through quarterly estimated payments due April 15, June 15, September 15, and January 15 of the following year.

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