

Tax Alert for Seniors on Self Employment

Many Tax-Aid clients are now supplementing their income by driving for ridesharing services like Lyft and Uber or delivering groceries with DoorDash or Instacart. Some are also selling products online to make some extra money through Etsy and other places. However, many do not know that if they earned over \$400 there will be tax due. Here are important things to know about the federal Self-Employment Tax (SE Tax).

Self- Employment Tax

The Self Employment Tax (SE Tax) is for those who work as independent contractors or provide/sell services or products for a living. The IRS has several definitions as to what constitutes self-employed but generally if you work on your own hours and not working in an office performing typical office duties (such as a receptionist), you meet the definition. The tax is based on your self-employed income and not other income you are reporting on your tax return. While your total income from all sources is used to determine your taxable income, the SE Tax will only apply to self-employed income that is reported on Schedule C. The current rate is 15.3% (2023).

Calculating the SE Tax

The easiest way is to base your income on a prior year return where you reported self-employed income. If you have never reported it before, make a reasonable estimate of what the yearly self-employed income will be. Take that total and multiply it by 15.3% using a calculator to get the tax due.

Example:

Sheila made \$10,000 driving for Uber. She then multiplied it by 15.3% (0.153) using her calculator to get \$1,530. That figure is the total estimated SE Tax due.

How to Pay the SE Tax

The best way to pay the SE Tax is by **estimated taxes** paid quarterly (April, June, September, and January of the following year). That means you pay a small amount of the tax due each quarter. The \$1,530 tax gets broken up into four payments of \$383 each. Although the exact amount is \$382.50, the IRS rounds up half cents to the nearest dollar. The IRS prefers you follow this method and will assess an underpayment penalty if you do not make the payments during the year. If you don't do this, the entire tax becomes due on April 15. Tax Aid has seen clients with large amounts due, so avoid this mistake and make estimated taxes or expect a large tax bill come April.

How is Self-Employed Income Reported

Most employers will issue you a 1099-K or 1099-NEC reporting the income you received from them once your income is \$400 and above. This information is reported to the IRS and shared

with the California Franchise Tax Board. You then will report the income on your tax return so that it matches up. There are some circumstances where the employer does not issue a 1099 form. When that happens, you should total up the pay received and report it on your return. Be sure to have documents to back it up as you might be asked to prove that was the income you received. Keep all information about the employer as well because the IRS will want to track them down for non-compliance.

There Are Deductions to Reduce the Tax

For those who are ridesharing and delivery drivers, you can deduct mileage, gas, and related expenses for using the vehicle. You must keep a log of miles driven (some ridesharing companies provide this to you at tax time) and receipts of the costs of gasoline and car maintenance. Auto insurance is not deductible, and you cannot try to claim home office deduction either since you drive. If you are truly working out of your home (selling products online, operating a consulting business, selling insurance), then you can make such claims. However, Tax-Aid only handles simple self-employed returns. We cannot prepare returns for home office deductions, business depreciation, and related deductions or credits. Please see a professional in those circumstances.

Special Note About Social Security

Social Security has restrictions on income earned in addition to receiving benefits from them. So be sure to make sure your self-employed income does not tip you over the threshold. Otherwise, Social Security will demand you repay back the excess they paid out to you. They have access to tax returns of recipients and will know if you are over the threshold. Another situation we have seen at Tax-Aid is one spouse is retired but the other is still working. The retired spouse is receiving Social Security while the other still works and earns money. The combined income though takes them above the threshold for Social Security and then they send a formal demand to repay back the excess. You need to make sure that all the money when combined does not take you over the threshold. It is recommended in these situations you file Married Filing Separately to avoid getting an unpleasant letter from Social Security demanding repayment.

Tax-Aid is Here to Help!

If you have questions about self-employment and taxes, please contact us for assistance. As long as you meet our income and other qualifications, we can assist you. We will prepare estimated tax vouchers so you can pay the SE Tax each quarter.

Important Links & Information

IRS

Self-Employment Tax (Social Security and Medicare Taxes)

<https://www.irs.gov/businesses/small-businesses-self-employed/self-employment-tax-social-security-and-medicare-taxes>

FTB

Self-employed

<https://www.ftb.ca.gov/file/personal/filing-situations/self-employed.html>

Articles

Self-Employment Tax: What It Is, How To Calculate It (NerdWallet)

<https://www.nerdwallet.com/article/taxes/self-employment-tax>

All About Self-Employment Tax (Smart Money)

<https://smartasset.com/taxes/self-employment-tax>

Self-Employment Tax Hub (Intuit)

<https://turbotax.intuit.com/personal-taxes/self-employment-taxes/>

Tax-Aid Self-Employment worksheet:

<https://tax-aid.org/wp-content/uploads/2023/03/Business-Expense-Form-Trilingual.pdf>