

## SELF-EMPLOYMENT & ESTIMATED TAX PAYMENTS

Self-employed individuals must pay self-employment tax (SE tax) as well as income tax on the profits from their business. SE tax is a Social Security and Medicare tax primarily for individuals who work for themselves.

- Currently, the SE tax is 15.3% on net self-employment earnings. Net earnings is gross income minus business expenses.
- When an individual works for a company or business and receives wages reported on Form W-2, the Social Security and Medicare tax that is paid is split 50/50 between the employer (7.65%) and the employee (7.65%).
- When you work for yourself, Social Security and Medicare taxes (15.3%) are paid via the SE tax when you file your tax return.

You may need to make quarterly estimated payments during the year to avoid a penalty for underpayment of taxes and improve your cash flow - If you (a) have self-employment earnings, (b) are not paying taxes through other wages earned, and (c) expect to owe more than \$1,000 when you file your federal tax return.

### How do I calculate estimated taxes using last year's tax return?

If you anticipate your sources of income and personal situation to be similar to the previous year; you can use last year's tax return as a guide to determine the amount of estimated taxes to pay for this year.

*Be aware* that life changes, such as marital status, a child born during the year, or an older child becoming ineligible for the Child Tax Credit or the Earned Income Credit will affect your tax situation.

**STEP 1:** Review last year's Form 1040. On page two of the 1040 see how much tax you paid.

## SOCIAL SECURITY BENEFITS

Social security benefits are available to self-employed persons just as they are to wage earners. Your payments of the SE tax contribute to your coverage under the Social Security system.

Social Security coverage provides you with retirement benefits, disability benefits, survivor benefits, and hospital insurance (Medicare) benefits

|             |  |  |     |
|-------------|--|--|-----|
| Other Taxes | 56   | Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-  | 56  |
|             | 57   | Self-employment tax. Attach Schedule SE  | 57  |
|             | 58   | Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919                       | 58  |
|             | 59   | Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required  | 59  |
|             | 60a  | Household employment taxes from Schedule H   | 60a |
|             | 60b  | b First-time homebuyer credit repayment. Attach Form 5405 if required  | 60b |
|             | 61   | Health care: individual responsibility (see instructions) Full-year coverage <input type="checkbox"/>  | 61  |
|             | 62   | Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s) | 62  |
| 63          | Add lines 56 through 62. This is your <b>total tax</b> | 63   |     |

Line 56: income tax owed

Line 57: SE tax owed on net income

Line 61: penalty tax for not having health insurance

Line 63: total taxes owed before adding refundable credits and subtracting tax withheld from W-2 income

Lines 58, 59, 60 & 62: generally do not apply to most taxpayers

**STEP 2:** Check lines 64 through 73 on your Form 1040 to see if you had federal tax withheld or were eligible for refundable tax credits. If the answer is yes, then go to Step 3. If the answer is no, then use the amount shown on line 63 to calculate your estimated tax payments shown in Step 4.

**STEP 3:**

If you received a refund (line 76a), then estimated payments may not be required. However, if you:

- Made estimated payments (line 65) then you should consider making estimated payment again this year or adjust the payment amount based on your refund.
- Received refundable tax credits (lines 66 to 73) and you are not eligible for those credits this year, then estimated payments should be considered.

If you owe taxes (line 78) then go to Step 4 to calculate your estimated tax payments.

|                                   |     |   |     |
|-----------------------------------|-----|---|-----|
|                                   | 63  | Add lines 56 through 62. This is your total tax   | 63  |
| <b>Payments</b>                   | 64  | Federal income tax withheld from Forms W-2 and 1099   | 64  |
|                                   | 65  | 2017 estimated tax payments and amount applied from 2016 return   | 65  |
|                                   | 66a | <b>Earned income credit (EIC)</b>   | 66a |
|                                   | b   | Nontaxable combat pay election <b>66b</b>   |     |
|                                   | 67  | Additional child tax credit. Attach Schedule 8812   | 67  |
|                                   | 68  | American opportunity credit from Form 8863, line 8  | 68  |
|                                   | 69  | Net premium tax credit. Attach Form 8962  | 69  |
|                                   | 70  | Amount paid with request for extension to file  | 70  |
|                                   | 71  | Excess social security and tier 1 RRTA tax withheld   | 71  |
|                                   | 72  | Credit for federal tax on fuels. Attach Form 4136   | 72  |
|                                   | 73  | Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/> | 73  |
|                                   | 74  | Add lines 64, 65, 66a, and 67 through 73. These are your total payments   | 74  |
| <b>Refund</b>                     | 75  | If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid   | 75  |
|                                   | 76a | Amount of line 75 you want refunded to you. If Form 8888 is attached, check here  | 76a |
| Direct deposit? See instructions. | b   | Routing number  |     |
|                                   | d   | Account number  |     |
|                                   | 77  | Amount of line 75 you want applied to your 2018 estimated tax   | 77  |
| <b>Amount You Owe</b>             | 78  | Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions  | 78  |
|                                   | 79  | Estimated tax penalty (see instructions)  | 79  |

- Line 64: taxes withheld from your Forms W-2 and 1099
- Line 65: estimated taxes you paid during the year.
- Lines 66 – 73: refundable tax credits
- Line 76a: tax refund, if any
- Line 78: amount owed

**STEP 4:**

To calculate estimated tax payments, use the amount shown on line 78 (amount owed) and divide by 4 (payments are to be made on a quarterly basis during the year). As mentioned before, life changes and your tax situation last year could be very different than this year's. You may want to consider calculating estimated taxes without using last year's tax return and compare the two calculations.

**How do I calculate estimated taxes without using last year's tax return?**

1. Determine a sample month of self-employment income and subtract your expenses.
2. Multiply that amount by 12 months for your annual self-employment income.
3. Calculate an approximate rate of 15% of SE tax.
4. Then divide by 4 quarters.

**TIP:** Another option is to search the internet using the term "Income Tax Calculator" for a helpful tool to determine estimated tax payments.

# How and when do I make federal estimated tax payments?

## Payments due dates:

- April 18 (current year)
- June 15 (current year)
- September 15 (current year)
- January 16 (following year)

## Payment options:

1. Online
2. Telephone using credit or debit cards
3. Direct transfer
4. Mail with Form 1040-ES payment voucher

### 1. Online payment – Direct Pay [www.irs.gov](http://www.irs.gov)

## Welcome to Direct Pay

**Direct Pay is free; the money is debited through your checking or savings account.**

Use this secure service to pay your taxes for **Form 1040 series, estimated taxes** or [other associated forms](#) directly from your checking or savings account at no cost to you.

You can easily keep track of your payment by signing up for email notifications about your tax payment, each time you use IRS Direct Pay.

- Email notification will contain the confirmation number you receive at the end of a payment transaction.
- The IRS continues to remind taxpayers to watch out for [email schemes](#). You will only receive an email from IRS Direct Pay if you've requested the service

If you have already made a payment through Direct Pay, you can use your confirmation number to access the Look Up a Payment feature. You can also modify or cancel a scheduled payment until two business days before the payment date.

You can also view your payment history by accessing your online account with the IRS.

Make a Payment

Look Up Payment

|                        |                                  |
|------------------------|----------------------------------|
| Reason for Payment     | Estimated Tax                    |
| Apply Payment To       | 1040ES (for 1040, 1040A, 1040EZ) |
| Tax Period for Payment | 2017                             |

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### Just 5 easy steps to make a payment:

- 1 Provide your tax information
- 2 Verify your identity
- 3 Enter your payment information
- 4 Review and electronically sign the transaction
- 5 Print or record your online confirmation number

## Verify Identity

Direct Pay verifies your identity using information from your 1040 filing history. Please provide the following information from a 1040 tax return you filed during the previous six years.

Note: the Tax Year for Verification you enter here does not have to match the tax year for your payment.

Tax Year for Verification \*

The information you enter must match the information from your tax return for the tax year you selected above.

Filing Status \*

First Name \*

## Your Payment Information

Please enter and confirm the payment amount below.

Select a date for your payment to be processed. The payment date selected is the date you will get credit for the payment although the payment may settle on a future date.

Payment Amount (example: 12345.00)

Confirm Payment Amount

Payment Date (within 30 days)

## Your Bank Account Information

Routing Number

TCF NATIONAL BANK MN

Account Number

Confirm Account Number



## Electronic Signature

When you complete this electronic signature and select "Submit" below, your payment will be submitted.

First Name

Last Name

SSN or ITIN



Date

10/06/2017

### [Debit Authorization Agreement](#)

I accept the Debit Authorization Agreement.

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SUBMIT >

The last step will be to print or record your online confirmation number.

## 2. Telephone payment

To pay by phone you must have a debit or credit card and a convenience fee is charged.

[PayUSAtax.com](http://PayUSAtax.com)

844-729-8298 Payment

855-508-0159 Live Operator

844-825-8729 Service

[Pay1040.com](http://Pay1040.com)

888-729-1040 Payment

888-658-5465 Service

[OfficialPayments.com/fed](http://OfficialPayments.com/fed)

888-872-9829 Payment

877-754-4420 Live Operator

877-754-4413 Service

For the latest details on how to pay by phone, go to: [irs.gov/payments](http://irs.gov/payments).

## 3. Direct transfer

Use the Electronic Federal Tax Payment System (EFTPS). A debit or credit card is required. You can enroll in the EFTOS system online or have an enrollment form mailed to you. To use EFTPS, you must be enrolled.

To make a payment call 1-800-555-4477 (English) or 1-800-244-4829 (Español). People who are deaf, hard of hearing, or have a speech disability and who have access to TTY/TDD equipment can call 1-800-733-4829. For more information about EFTPS, go to [www.irs.gov/payments](http://www.irs.gov/payments).

## 4. Mail with Form 1040-ES at [www.irs.gov](http://www.irs.gov)


|  |   |                         |   |                     |
|--|---|-------------------------|---|---------------------|
| Form<br><b>1040-ES</b><br>Department of the Treasury<br>Internal Revenue Service | <b>2017 Estimated Tax</b>   |                         | <b>Payment Voucher 1</b>  | OMB No. 1545-0074   |
|  | File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2017 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher. |                         | Calendar year—Due April 18, 2017                                |                     |
|  |   |                         | Amount of estimated tax you are paying by check or money order. | Dollars Cents       |
| Print or type  | Your first name and initial   | Your last name          | Your social security number                                     |                     |
|  | If joint payment, complete for spouse   |                         |   |                     |
|  | Spouse's first name and initial   | Spouse's last name      | Spouse's social security number                                 |                     |
|  | Address (number, street, and apt. no.)  |                         |   |                     |
|  | City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.)  |                         |   |                     |
|  | Foreign country name  | Foreign province/county | Foreign postal code   |                     |
| For Privacy Act and Paperwork Reduction Act Notice, see instructions.            |   |                         |   | Form 1040-ES (2017) |

This is a simple form to complete. List your name, address, and Social Security number and the amount you are paying.

In the memo section of your check or money order write your Social Security number, and the tax year 2017. Note: there are 4 voucher for each quarter of the year.

Minnesota residents mail the 1040-ES vouchers to:  
 Internal Revenue Service, PO Box 802502, Cincinnati OH 45280-2502

Use this handy IRS table found at [www.irs.gov](http://www.irs.gov) to track your payments and due dates. Keep this record with your canceled checks and any other proof of payments.

**Record of Estimated Tax Payments** (Farmers, fishermen, and fiscal year taxpayers, see *Payment Due Dates*.) *Keep for Your Records* 

| Payment number | Payment due date | (a) Amount due | (b) Date paid | (c) Check or money order number, or credit or debit card confirmation number | (d) Amount paid (do not include any convenience fee) <sup>*</sup> | (e) 2016 overpayment credit applied | (f) Total amount paid and credited (add (d) and (e)) |
|----------------|------------------|----------------|---------------|--|---|-------------------------------------|--|
| 1              | 4/18/2017        |                |               |  |   |                                     |  |
| 2              | 6/15/2017        |                |               |  |   |                                     |  |
| 3              | 9/15/2017        |                |               |  |   |                                     |  |
| 4              | 1/16/2018**      |                |               |  |   |                                     |  |
| Total          |                  |                |               |  |   |                                     |  |

\* You can deduct the convenience fee charged by the service provider in 2017 as a miscellaneous itemized deduction (subject to the 2%-of-AGI limit) on your 2017 income tax return.

### Should I make estimated tax payments to the State of Minnesota?

Because Minnesota does not have a separate self-employment tax, taxpayers who work for themselves only pay income tax on the compensation they receive. By only paying income tax, and not a separate SE tax, the tax bill from Minnesota is usually lower. However, estimated taxes may need to be made to the state if the following applies:

1. You expect to owe at least \$500 in Minnesota income tax (not including your withholding or refundable credits); and
2. You expect your combined withholding and refundable credits to be less than either of the following:
  - 90% of your Minnesota tax liability for the current year; or
  - 100% of your Minnesota tax liability for the previous year

Like federal payments, Minnesota estimated tax payments are due four times a year – April 15, June 15, and September 15 of the current year and January 15 of the following year.

### How to make and pay estimated payments to Minnesota Revenue.



In your search browser type Minnesota Department of Revenue, then select make a payment under the Individuals tab.


**m DEPARTMENT OF REVENUE** CONTACT US | SEARCH


Home Individuals Businesses Tax Professionals Local Governments Law & Policy Research & Reports


Individual Income Tax >


**Make a Payment for Individuals** Share Text Size A A A Printer Friendly


[¿Cómo se hace para pagar? \(Spanish\)](#)  
[Kuv vuaj them se rov qab li cas? \(Hmong\)](#)  
[Sidee Iskaga Bixiyaa Lacaqta? \(Somali\)](#)

 **Pay electronically from your bank account**  
 ■ You can also pay by phone at 1-800-570-3329.

 **Pay electronically with your credit or debit card (fee)**  
 ■ Value Payment Systems LLC is a third-party vendor. **There is a convenience fee for this service.** Use the [Convenience Fee Calculator on the Value Payment Systems LLC website](#) to calculate their fee.  
 ■ Paying by phone at 1-855-9-IPAY-MN (1-855-947-2966) is available Monday through Friday, from 7 a.m. to 7 p.m. Central time.

 **Pay with check and voucher**  
 ■ Mail your check and payment voucher to the address given on the voucher. You must include all information requested on the voucher for your payment to be processed.

 **Pay with money order and voucher**  
 ■ Follow the same steps as paying with a check (see above).

 **Pay in-person with cash**  
 ■ Cash payments must be made in person at 600 N. Robert St., St. Paul, MN.

Similar to the federal system, you can pay by direct debit from a bank account, using your credit or debit card (fees apply), or by check, money order or in person with cash. Note: to pay by check or money order you will first need to go online, fill out vouchers then print them to accompany your check payment.

## New businesses, self-employment and estimated taxes

Proper planning and the right financial steps can help put your business or service on the road to success. Here are some recommendations to help you with your business finances and taxes.

- Plan to allocate money for both taxes and an emergency savings fund.
- Set aside **at least 25%** of your income into a separate account for taxes (the SE tax, federal and state income taxes). Many financial experts recommend 30% or more for this allocation. Do what you can. At least 25% is a good place to start and put it into a separate account. Keeping a separate account for taxes means it's more likely to be there when you need it.
- Get educated about business expenses and deductions. Find out what's deductible, keep good records to lower your net income and simultaneously lower your tax bill.
- Establish separate business checking and credit card accounts from your personal accounts.
- If you make estimated tax payments during the year but at tax time owe little or no tax (no profit that year) the overpayment of tax will be returned to you by way of a tax refund. It may not be the most efficient cash flow strategy, but will keep the tax monster at bay.

It is better to pay some estimated tax payments than none at all. If you only made two or three payments instead of the recommended four, you still are ahead of the game and may avoid the penalty for underpayment of taxes.

Remember that all of your federal self-employment taxes paid are your contributions to the Social Security pension fund and for determining your eligibility for Medicare. These are payments that will pay off in the long run as Social Security and Medicare should be part of your overall retirement planning process.

For more information about federal estimated taxes, see IRS Publication 505, Tax Withholding and Estimated Taxes.