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.
- To qualify for Social Security and Medicare benefits, a self-employed taxpayer receives one work credit for every $1,220 of earnings (the maximum credits earned per year are 4). A minimum of 40 credits is needed to qualify for Social Security and Medicare benefits.

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.

**Line 11:** income tax owed
**Line 14:** SE tax owed
**Line 15:** This is the total tax of both income and SE tax.
**Line 22:** Will show the amount owed after subtracting tax withheld (line 16) and credits (line 17).

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 health insurance (Medicare) benefits.
STEP 2: Line 17 will list refundable credits such as the Earned Income Credit, Child Tax Credit and the refundable part of the Education Credit. Line 20 lists your refund after calculating tax owed and credits earned. If you have a refund on line 20 you may not need to pay estimated tax payments for the upcoming year if you expect your situation to be similar to last year’s. However, if you did owe tax, continue reading.

STEP 3:
If you received a refund (line 20), then estimated payments may not be required. However, if you:

- Made estimated payments (line 66 from Schedule 5) then you should consider making estimated payments again this year or adjust the payment amount based on your refund.
- Received refundable tax credits (back to line 17) and you are not eligible for those credits this year, then estimated payments should be considered.

If you owe taxes (line 22) then go to Step 4 to calculate your estimated tax payments.

STEP 4:
To calculate estimated tax payments, use the amount shown on line 22 (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.

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.

For example. You have monthly income of $2000 and expenses of $500. You net $1500 (2000-500). $1500 x 12 = $18,000 (working with averages). $18,000 X .15 = $2700. This is your estimated self-employment tax for the year. Divide $2700 by 4 which equals a quarterly estimated tax payment of $675. This will address the self-employment tax.

Note: This method takes into account only income from self-employment and calculates the SE Tax only. If you have a W-2 job, make sure you have tax withheld from that job for the purposes of paying both income and the SE tax.

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?

<table>
<thead>
<tr>
<th>Payments due dates:</th>
<th>Payment options:</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 18 (current year)</td>
<td>1. Online</td>
</tr>
<tr>
<td>June 15 (current year)</td>
<td>2. Telephone using credit or debit cards</td>
</tr>
<tr>
<td>September 15 (current year)</td>
<td>3. Direct transfer</td>
</tr>
<tr>
<td>January 16 (following year)</td>
<td>4. Mail with Form 1040-ES payment voucher</td>
</tr>
</tbody>
</table>

Welcome to Direct Pay

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.

**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.

- **Tax Year for Verification**

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

- **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)**

$300.00

**Confirm Payment Amount**

$300.00

**Payment Date (within 30 days)**

10/26/2017

### Your Bank Account Information

**Routing Number**

201070001

**TCF NATIONAL BANK MN**

**Account Number**

your account #

**Confirm Account Number**
The last step will be to print or record your online confirmation and payment.

2. Telephone payment

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

- **PayUSAtax.com**: 844-729-8298 Payment
- **Pay1040.com**: 888-729-1040 Payment
- **OfficialPayments.com/fed**: 888-872-9829 Payment
- **PayUSAtax.com**: 855-508-0159 Live Operator
- **Pay1040.com**: 888-658-5465 Service
- **OfficialPayments.com/fed**: 877-754-4420 Live Operator
- **OfficialPayments.com/fed**: 888-729-1040 Payment
- **PayUSAtax.com**: 844-825-8729 Service
- **Pay1040.com**: 888-658-5465 Service
- **OfficialPayments.com/fed**: 877-754-4413 Service

For the latest details on how to pay by phone, go to: 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.


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 2019. Note: there are 4 vouchers 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.

### 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.

[Minnesotan Department of Revenue](http://www.revenue.state.mn.us)

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