



Self-Employed Guide



Welcome to the TaxSlayer Self-Employed Guide for tax year 2020. From small business owners to part-time side hustlers, this guide is for you. The information inside will help you get your maximum refund when you file with TaxSlayer Self-Employed.

Get helpful tips about everything from making quarterly estimated tax payments to which miles you can deduct for business travel.

Get ready to slay your taxes!

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In•come Tax

\ '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.



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.



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.



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.

Are You Self-Employed?

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 cannot deduct hobby-related expenses on your tax return.*

A Business...

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

**You can deduct certain expenses related to your business.*

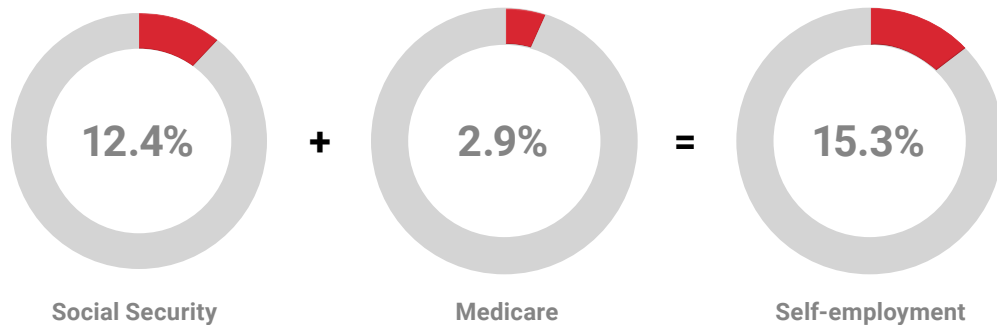
Do you host on Airbnb?

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](#)

1

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

2

Fill out the worksheet portion.

3

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.

Essential 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 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.

1099-B

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



1099-NEC

Replaces the 1099-MISC for reporting all non-employee compensation. Most often used by: self-employed individuals including independent contractors, freelancers, and vendors.

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.

Form 1099

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

1099-K

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

1099-S

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

What happened to the MISC?

Non-employee compensation (Box 7) has been removed from Form 1099-MISC for the 2020 tax season and beyond. The redesigned form should be used for reporting all other forms of compensation.

8 Self-Employed Deductions

TaxSlayer will help you claim your deductions.



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

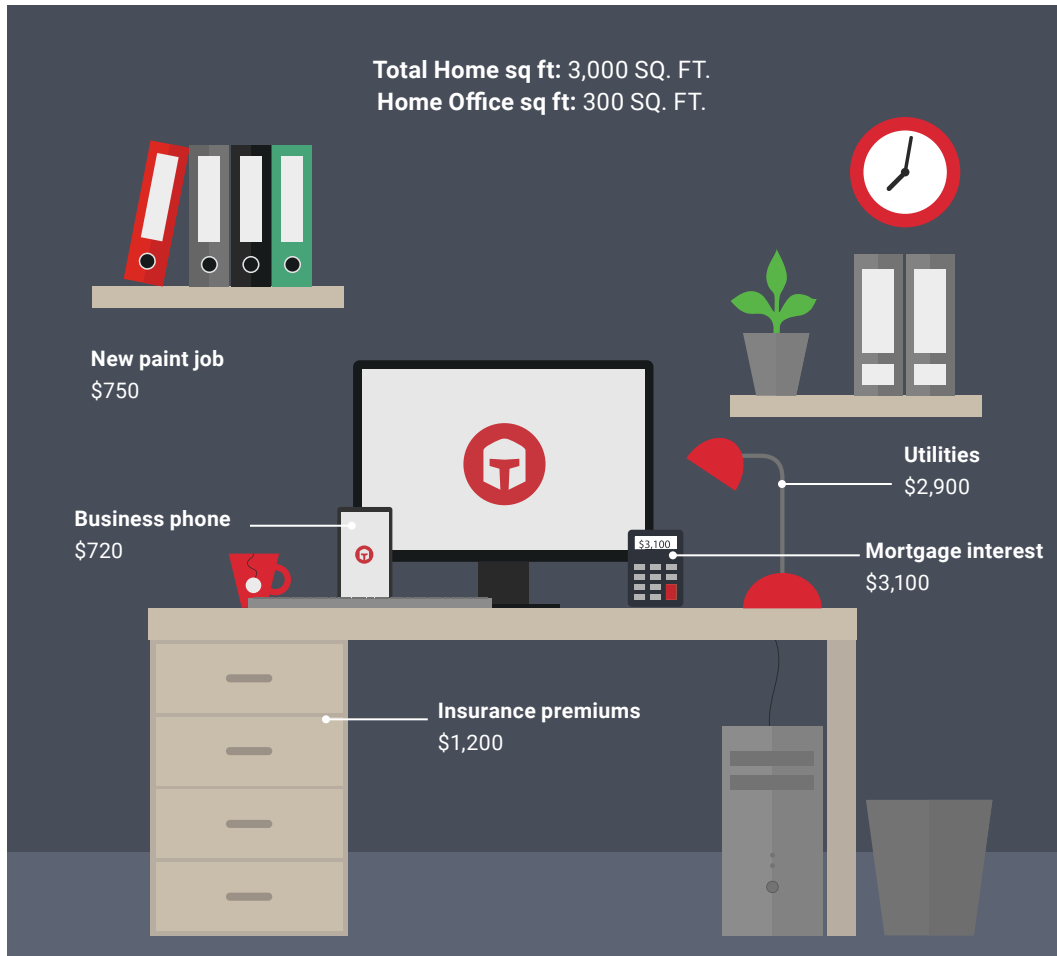
- Utilities
- Homeowners insurance
- HOA fees
- Security fees
- General repairs and maintenance

Can I deduct my home office expenses?

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.

[Learn more](#)

Regular Method Example



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

$$\begin{array}{l} \$720 \text{ Indirect Expenses} \\ (\$3,100 + \$1,200 + \$2,900) \times .10 \end{array} + \begin{array}{l} \$1,470 \text{ Direct Expenses} \\ \$720 + \$750 \end{array} = \mathbf{\$2,190 \text{ Total Deduction}}$$

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.

Vehicle and Mileage Deductions

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 2020 is .575 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

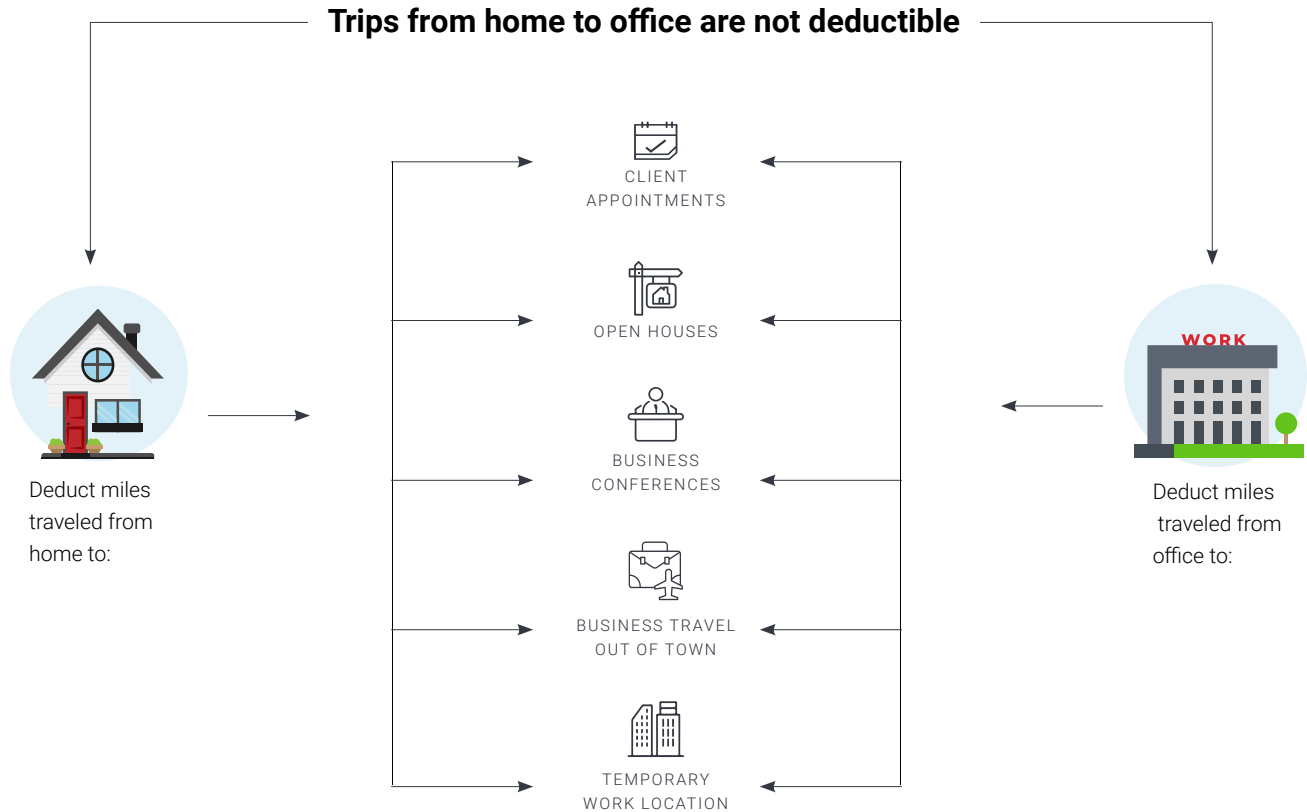
Standard Mileage Method: With these same numbers, you would first calculate your business miles. Then you would multiply by the standard mileage rate.

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

20,000 x \$.575 = \$11,500 total

In this case, you could deduct \$2,740 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

What other miles can I deduct?

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 Key Tax Law Changes This Year

1. Qualified sick leave credit

If you have had to take sick leave from your job for your own health or to care for a member of your family, you could receive a refundable tax credit to help make up for your loss in income.

2. Qualified family leave credit

If you were unable to send your child to school or daycare because the facility closed, you may claim a refundable credit for up to 50 days of income, at two-thirds the rate you would typically earn (maximum value: \$200 per day).

3. CARES Act economic relief payments

If you did not receive a stimulus check in 2020 or your check was not for the correct amount, you can report the discrepancy on your return and receive a refundable tax credit for the difference.

4. Early withdrawals and loans from retirement plans

There is no tax penalty for taking early withdrawals from retirement if you qualified for financial relief under the CARES Act.

5. A new \$300 above-the-line deduction for cash contributions

You can deduct up to \$300 for cash donations this year and you don't even have to itemize.

6. Reintroducing Form 1099-NEC

Beginning with tax year 2020, clients will use this form instead of Form 1099-MISC to report compensation paid to you as a non-employee.

7. The standard deduction

The standard deduction is adjusted for inflation every year. Here are the new amounts for 2020.

Filing Status	Standard Deduction Amount
Single	\$12,400
Married Filing Jointly and Widow(er)	\$24,800
Married Filing Separately	\$12,400
Head of Household	\$18,650



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*The information and tax laws discussed in this guide are up to date for tax year 2020 (returns filed in 2021).

