

SELF-EMPLOYMENT TAXES & 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. The SE tax could be renamed the Social Security/Medicare Tax as these tax payments qualify you for Social Security and Medicare programs.

- 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%) – the 15.3%. When you work for yourself, Social Security and Medicare taxes are all paid by filing your tax return.
- To qualify for Social Security and Medicare benefits, a self-employed taxpayer receives one work credit for every \$1,410 of earnings as of tax year 2020. 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.

STEP 1: Review last year's Form 1040. On page two of the 1040 (2020) see how much tax you paid or if you received a refund.

23	Other taxes, including self-employment tax, from Schedule 2, line 10	23
24	Add lines 22 and 23. This is your total tax	24

Line 23 includes the SE tax

Line 24 total tax owed

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

Refund	34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid	34	
	35a	Amount of line 34 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	35a	
	▶ b	Routing number <input type="text"/>	▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	▶ d	Account number <input type="text"/>		
Direct deposit? See instructions.				
	36	Amount of line 34 you want applied to your 2021 estimated tax	36	
Amount	37	Subtract line 33 from line 24. This is the amount you owe now	37	

Use line 37, amount owed, to calculate your estimated tax payment. (It may be the same as line 24, total tax.)

STEP 2: *If you received a refund* and you view your situation as similar to last year and expect a refund then you may not need to make estimated tax payments. However, keep in mind the following:

- If you have a W-2 job, in addition to your self-employment, make sure that taxes are withheld.
- Life changes may affect your taxes too. The Child Tax Credit is only for children on the return 17 years old and under. If your child is 18 at the end of the tax year, goodbye Child Tax Credit. The Earned Income Credit will vary based on income, number of children and if the dependent children are 19 to 23 they must be full-time students in order for their parents to claim them as dependents. The refundable education credit, the American Opportunity Credit, is only for the first 4 years of study at a university or community college. Now, let's take a look at payments on the 2020 1040.

25	Federal income tax withheld from:			
a	Form(s) W-2	25a		
b	Form(s) 1099	25b		
c	Other forms (see instructions)	25c		
d	Add lines 25a through 25c		25d	
26	2020 estimated tax payments and amount applied from 2019 return		26	
27	Earned income credit (EIC)	27		
28	Additional child tax credit. Attach Schedule 8812	28		
29	American opportunity credit from Form 8863, line 8	29		
30	Recovery rebate credit. See instructions	30		
31	Amount from Schedule 3, line 13	31		
32	Add lines 27 through 31. These are your total other payments and refundable credits		32	
33	Add lines 25d, 26, and 32. These are your total payments		33	
34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid		34	
35a	Amount of line 34 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>		35a	

Payments include taxes withheld (lines 25a to 25c) with the total on line 25d. Line 26 lists estimated tax payments made for this tax year. Credits, such as the Earned Income Tax Credit, Child Tax Credit, American Opportunity Credit, lines 27 to 31, will be totaled on line 32. Add lines 25d, 26, and 32 together then subtract that total from line 24, total tax owed. More payments than tax? A refund. More tax than payments? You owe.

STEP 3: To calculate estimated tax payments, use the amount shown on line 37 (amount owed) and divide by 4 (payments are to be made on a quarterly basis during the year). As mentioned before, and your tax situation last year could be different than this year's.

Amount	37	Subtract line 33 from line 24. This is the amount you owe now	37	
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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). $\$1500 \times 12 = \$18,000$ (working with averages). $\$18,000 \times .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.

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)

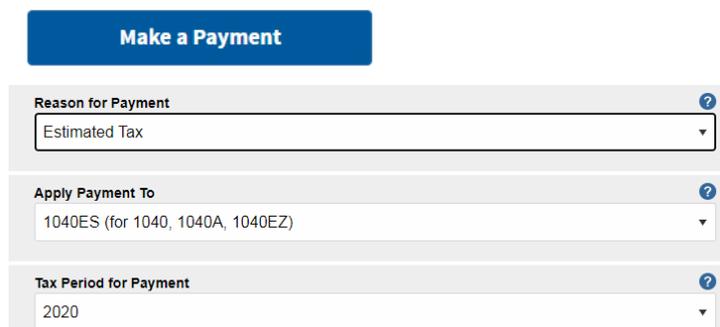
Payment options:

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

Online payment – Direct Pay www.irs.gov

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

Direct Pay With Bank Account



The screenshot shows the IRS Direct Pay interface. At the top is a blue button labeled "Make a Payment". Below it are three dropdown menus, each with a question mark icon in the top right corner. The first dropdown is labeled "Reason for Payment" and has "Estimated Tax" selected. The second dropdown is labeled "Apply Payment To" and has "1040ES (for 1040, 1040A, 1040EZ)" selected. The third dropdown is labeled "Tax Period for Payment" and has "2020" selected.

After that, you will enter, your information, your payment, bank account information, etc. and virtually sign the payment. Print or save your online confirmation and payment. You can also look up previous payments.

Pay Your Taxes by Debit or Credit Card

Fees and Information

The IRS uses third party processors for payments by debit or credit cards. Your information is used solely to process your payment. Choose the card payment processor that offers you the best fees for your card type and payment amount. Access at irs.gov

Direct transfer

Use the Electronic Federal Tax Payment System (EFTPS). You can elect to use this method to make electronic monthly payments if you wish. Enroll online.

WELCOME TO EFTPS®

New to our site?

The Electronic Federal Tax Payment System® tax payment service is provided free by the U.S. Department of the Treasury. After you've enrolled and received your credentials, you can pay any tax due to the Internal Revenue Service (IRS) using this system.

MAKE A PAYMENT

ENROLL

Mail with Form 1040-ES at www.irs.gov

This is a simple form to complete. Provide your name, address, and Social Security number and the amount you are paying. In the memo section of your check write your Social Security Number and the tax year (e.g., 2021) and there are 4 vouchers to mail in – one for each quarter. However, as of now – 2021 and 2022 – **the IRS highly discourages mailing in estimated tax payments.** The backlog on processing mailed in payments is taking months and is not as reliable as online payments.

Form 1040-ES Department of the Treasury Internal Revenue Service		2021 Estimated Tax		Payment Voucher 4		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 "2021 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 Jan. 18, 2022				Amount of estimated tax you are paying by check or money order.	
						Dollars		Cents	
Print or type e at gov/ . t.	Your first name and middle initial			Your last name		Your social security number			
	If joint payment, complete for spouse								
	Spouse's first name and middle initial			Spouse's last name		Spouse's social security number			
	Address (number, street, and apt. no.)								
	City, town, or post office. If you have a foreign address, also complete spaces below.					State		ZIP code	
	Foreign country name			Foreign province/county			Foreign postal code		
For Privacy Act and Paperwork Reduction Act Notice, see instructions.						Form 1040-ES (2021)			
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Minnesota residents mail the 1040-ES to Internal Revenue Service, PO Box 931100, Louisville KY 40293-1100. As mentioned above, we discourage mailing this.

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.

You can pay Minnesota estimated tax through any of the following ways:

- [Pay through our e-Services Payment System](#) - It's secure, easy, and convenient. You can make a single payment or schedule all four payments at once.
 - On the Welcome page, select "No, I am not using a Letter ID."
 - On the next page, select "Individual" for Type of Taxpayer and "Individual Income Tax" for the Type of Tax. Complete the other required fields and select the Next button.
- [Pay by credit or debit card](#)^{ca} - Value Payment Systems LLC processes one-time credit and debit card payments. They charge a convenience fee for this service.
- [Pay by check or money order](#) - Create and print a payment voucher to include with your check or money order. Make your check payable to Minnesota Revenue and include the last four digits of your Social Security number in the memo line.

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 (e.g., 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 Social Security and 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.