



SELF-EMPLOYMENT BASICS

Getting Ready for Tax Time

How do you know if you are self-employed?

If you earned income that was not reported on a W-2, you may be self-employed. Most, but not all, self-employed workers have at least two sources of income.

- ♦ Form 1099-MISC with income in box 7, nonemployee compensation
- ♦ Cash payments received from clients and customers

Examples of workers who are self-employed:

- ♦ gardeners/ landscaping
- ♦ freelance workers
- ♦ consultants
- ♦ painters
- ♦ cab drivers/ bike messengers
- ♦ child care providers
- ♦ beauticians
- ♦ carpenters

You may be running a million-dollar business or just making some cash mowing lawns. If it's earned and not on a W-2, you're probably self-employed.

What's different about being self-employed?

- ♦ You must keep records of your income and expenses *all year long*.
- ♦ Your tax return will be more complicated.
- ♦ You can take lots of deductions.
- ♦ You need to pay self-employment tax (social security and Medicare) when you file your 1040.
- ♦ Since you don't have withholding, you may need to make quarterly estimated tax payments during the year.

Good records are a must. They keep you out of trouble with the IRS and save you time and money at tax time.

What expenses are deductible?

Just about any money that you spend to run your business is deductible. For example:

- ♦ supplies
- ♦ repairs
- ♦ advertising
- ♦ license costs
- ♦ professional fees
- ♦ transportation expenses
- ♦ business insurance
- ♦ office or equipment rental

It's better to keep too much, than not enough.

What kind of records should I keep?

You need documents that show income, expenses, and general business activities.

- ♦ receipts
- ♦ log book
- ♦ bank statements
- ♦ invoices
- ♦ mileage journal
- ♦ credit card bills
- ♦ bills
- ♦ check books
- ♦ planning calendars

Keep a journal and record everything. Even if you lose a receipt once in a while, you'll have the journal as your record.

What's special about child care providers?

There are special rules for child care providers, such as the method to compute a deduction for using their home. This means special records, too.

- ♦ Record the number of hours you work in your home on your business.
- ♦ Know which parts of your home are used for business.
- ♦ Have receipts for all rent, utilities, and home maintenance expenses.
- ♦ Keep attendance records to reflect number of meals and snacks served to each child.
- ♦ Use a receipt book to record payments made by parents.



It's overwhelming! How do I get started?

Just do something! Here's some simple ways to get started.

- ♦ Throw your receipts in a box.
- ♦ Grab an old notebook and write down your income and expenses.
- ♦ Keep a calendar in your car and record your business trips.

Don't wait until the end of the year.

What do I bring to get my taxes prepared?

Add things up beforehand and bring totals of income, expenses (broken down by category), and business mileage.

Most tax preparers don't want to add up all your receipts.