

Are You Self-Employed?

Tips on Recordkeeping and Taxes

How do you know if you are self-employed?

If you earned income that was not reported on **Form W-2**, you may be self-employed. Self-employed workers generally have one or both of these:

- **Form 1099-NEC, Box 1** (or **Form 1099-MISC, Box 3** for tax years 2019 and earlier)
- Cash payments received from clients and customers

Examples of workers who are self-employed:

- gardeners/ landscaping
- freelance workers
- consultants
- painters
- sharing economy workers
- child care providers
- beauticians
- carpenters

You may be running a million-dollar business or just making some cash mowing lawns. If you have earned money and do not receive **Form W-2** from your employer, you are probably self-employed.

What's different about being self-employed?

Your tax return will be more complicated because your self-employment is considered a business that you own and operate. You will pay self-employment tax (Social Security and Medicare) when you file **Form 1040** (your tax return). You may be able to deduct any qualifying expenses from your gross self-employment income. You may need to make quarterly estimated tax payments during the year if your self-employment income exceeds certain thresholds.

What self-employment expenses can be deducted from gross earnings?

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

What kind of records should I keep?

You must keep records of your income and of any expenses to run your business for 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.

Rules for Good Record-keeping:

- Keep up-to-date records
- Track business income – Keep good income records, such as a log of payments received.
- Save and organize receipts – Set up a system and save and mark receipts for business expenses, such as an expense log organized by expense type.
- Regularly review your records – Conduct a monthly review of your records to make sure they are accurate and complete. If you find an item is missing that should have been recorded (for example, you forgot to get a receipt for a business expense), make one of your own to remind you of the expense.
- Track your time – Log the number of hours that you spend working. You may need this information during tax return preparation.
- Reconstruct missing information immediately – If you have not been keeping records, sit down with a calendar and notebook and estimate the hours you worked, the income you received, the miles you drove for business (if any), and the cost of any items purchased. Include as much detail as you can. Do this any time during the year if your record-keeping slips.
- Save your tax records for at least 3 years – Be prepared to justify any information on your tax return. Generally, the IRS has up to three years from the due date of a tax return to examine the return and any supporting records.

It's overwhelming! How do I get started?

Just do something! 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.