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North Carolina Low-Income Taxpayer Clinic

Self-employment Basics

This presentation is for informational purposes only. It is not meant to provide legal or tax advice specific to the facts of your situation.

Winter Community Tax Talks

Reminders for Tax Season

December 5, 2024, at 6 pm

This Tax Talk will cover essential tips and reminders for the upcoming tax season, including:

- How to avoid tax scams
- Filing requirements, you need to know
- Free resources for filing your taxes

Tax Topics for Immigrants

January 16, 2025, at 6 pm

In this session, we'll cover topics relevant to immigrant taxpayers, including:

- ITINs vs. SSNs and how to merge the two
- Eligibility for tax credits

The North Carolina Low-Income Taxpayer Clinic (Tax Clinic) provides low-income North Carolina taxpayers with free* representation in federal and state tax controversies and educates individuals about their rights and responsibilities as U.S. taxpayers. Our attorneys are dedicated to helping taxpayers understand and manage their tax issues, regardless of language barriers. The Tax Clinic is part of Charlotte Center for Legal Advocacy, a non-profit law firm located in Charlotte, NC dedicated to pursuing justice for those in need.

Cases We Work

Collection issues, including Offers-in-Compromise, installment agreements and

Currently-Not-Collectible status

Examination, including audit reconsideration

Earned Income Tax Credit

Innocent and injured spouse claims

Appeals

Liens

Levies

Tax Court litigation

Identity theft

Cancellation of debt

Employment classification

WHAT IS SELF-EMPLOYMENT?

According to the IRS a person is self-employed if any of the following apply:

1. Taxpayer works in a trade or business as a sole proprietor or an independent contractor with the intention to make a profit.
2. You are a member of a partnership that carries on a trade or business.
3. You are otherwise in business for yourself, i.e. your own boss.

Examples of self-employment

Rideshare Driver

Housekeeping (cleaning homes)

Gig workers

Photographer

Odd jobs

Hairdresser

Construction worker

Barber

Selling items/products online to make a profit.

AM I SELF-EMPLOYED?

If you are a business owner or contractor who provides services to other businesses, then you are generally considered self-employed.

The IRS considers various facts regarding the degree of control and independence in three categories to determine if a taxpayer is self-employed or an employee. The three categories are:

- 1. Behavioral:** Does the company control or have the right to control what you do and how you do the job?
- 2. Financial:** Are the business aspects of your job controlled by the payer? (these include things like how you are paid, whether expenses are reimbursed, who provides tools/supplies, etc.)
- 3. Type of relationship:** Are there written contracts or employee type benefits (that is, pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the payer's business?

AM I SELF-EMPLOYED?

In other words

- You determine how the job is done.
- You control the hours you work.
- You may control where the work is performed.
- You are paid only if you work.
- You pay for your own expenses to carryout the job, i.e., gas, buying tools or supplies.
- You are paid for providing a service. This could be flat fee or based on time it takes to complete the job.
- You are paid be in cash, check, or payment app.
 - Examples of payment apps, Zelle, Cash App, PayPal, and/or Venmo.
- The payer does not withhold taxes (income, Medicare, or Social Security).

AM I SELF-EMPLOYED?

The factors from the previous page are not the only facts to consider. So, if you are still unsure if you are in employee or self-employed, then you can file **IRS Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding** with the IRS. The IRS will review your information and determine if you should be classified as an employee or self-employed.

Form SS-8 (Rev. December 2023) Department of the Treasury Internal Revenue Service	Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding Go to www.irs.gov/FormSS8 for instructions and the latest information.	OMB. No. 1545-0004 For IRS Use Only: Case Number: Earliest Receipt Date:
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Disclosure of Information

The information provided on Form SS-8 may be disclosed to the firm, worker, or payer named below to assist the IRS in the determination process. For example, if you are a worker, we may disclose the information you provide on Form SS-8 to the firm or payer named below. The information can only be disclosed to assist with the determination process. See *Privacy Act and Paperwork Reduction Act Notice* in the separate instructions for more information. **If you do not want this information disclosed to other parties, do not file Form SS-8.**

IMPORTANT THINGS YOU SHOULD KNOW

- The Form SS-8 must be fully completed. If you provide incomplete information, we may not be able to process your request.
- All questions in Parts I through IV must be explained with clear concise answers.
- Part V must be completed if the worker provides a service directly to customers or is a salesperson.
- If you cannot answer a question, enter "Unknown" or "Does not apply."
- If you need more space for a question, attach another sheet with the part and question number clearly identified. Write your firm's name (or worker's name) and employer identification number (or social security number) at the top of each additional sheet attached to this form.
- You MUST include copies of the Forms W-2, 1099-MISC, and/or 1099-NEC for each year you are contesting. See instructions.

Name of firm (or person) for whom the worker performed services		Worker's name	
Firm's mailing address (include street address, apt. or suite no., city, state, and ZIP code)		Worker's mailing address (include street address, apt. or suite no., city, state, and ZIP code)	
Trade name		Worker's daytime telephone number	Worker's alternate telephone number
Firm's tax number	Firm's website	Worker's tax number	Worker's social security number
Firm's telephone number (include area code)	Firm's employer identification number	Worker's employer identification number (if any)	

Note: If the worker is paid for services performed for a business or individual not listed above, enter the name, address, and taxpayer identification number of that business/individual who paid the worker, if known. Explain the relationship between the firm and the business/individual who paid the worker.

Part I General Information

1 This form is being completed by: Firm Worker
for services performed from beginning date MM/YYYY to ending date MM/YYYY

Caution: Filing Form SS-8 does not prevent the expiration of the time in which a claim for refund must be filed.

2 Explain your reason(s) for filing this form.

You received a bill from the IRS You believe you erroneously received a Form 1099 or Form W-2
 You are unable to get workers' compensation benefits You were audited or are being audited by the IRS
 Other (specify)

Don't complete this form if payment was received for reasons unrelated to Form SS-8. See instructions.

**Did you remember to answer all questions and
refer to the Instructions for Form SS-8 at www.irs.gov/pub/irs-pdf/iss8.pdf?**

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 16106T Form **SS-8** (Rev. 12-2023)

OK, I AM SELF-EMPLOYED. NOW WHAT?!

You are responsible to accurately report your gross self-employment income and expenses.

- Self-employment income and expenses are reported on 1040 Schedule C.
- You can **ONLY CLAIM EXPENSES** on the Schedule C related to the self-employment.

You will not receive a W-2 for your self-employment income. You may receive a 1099-NEC (Non-Employee Compensation) or 1099-K (Payment Card and Third Party Network Transactions). Not everyone will receive a 1099-NEC for self-employment, especially if you are not providing services to another company.

IF YOU DO NOT RECEIVE A 1099-NEC or 1099-K, YOU ARE STILL RESPONSIBLE FOR REPORTING THE SELF-EMPLOYMENT INCOME YOU RECEIVED.

OK, I AM SELF-EMPLOYED. NOW WHAT?!

The IRS allows self-employed taxpayers to claim business related expenses. However, you are responsible for keeping business records.

Business Records

- Keep and maintain proof of income and expenses.
 - Bank records
 - Invoices
 - Receipts
 - Record payments you receive for your service
 - Expenses for items purchased for your business.
 - Tools, supplies, inventory, or etc
 - Mileage logs
 - If you claim the standard mileage deduction
 - Vehicle expenses
 - Statements from payment apps or online marketplaces, if applicable.

OK, I AM SELF-EMPLOYED. NOW WHAT?!

Self-Employment Income = Business Income



Tracking Business Records

- Record business income and expenses regularly.
- Use accounting software.
- Use apps or computer software that help small businesses and independent contractors track income and expenses, i.e. QuickBooks.
- Keep records of any refunds received.
- Keep passwords to apps and software in more than one location in case you forget or misplace.
- Keep a contemporaneous record your work.
 - Appointments
 - Work locations (if offsite)

SELF-EMPLOYMENT AND TAXES

When you are an employee (W-2 wages) the employer withholds taxes from your gross income and submits the money to the IRS. However, when you receive self-employment income NO taxes (income, Medicare, or Social Security taxes) are withheld.

You are responsible for paying both income and self-employment taxes on self-employment income.

What's the difference between income taxes and self-employment taxes?

- **Income taxes** federal and state taxes that are withheld from pay to cover an amount of tax one may owe on their income for the year. Income tax is paid solely by an employee. The amount of taxes levied against income may range between 10% and 37% based on a person's filing status and amount of income.
- **Self-employment taxes** are Federal taxes comprised of Social Security tax and Medicare tax.
 - "You can deduct the employer-equivalent portion of your self-employment tax in figuring your adjusted gross income. This deduction only affects your income tax. It does not affect either your net earnings from self-employment or your self-employment tax." <https://www.irs.gov/businesses/small-businesses-self-employed/self-employment-tax-social-security-and-medicare-taxes>

SELF-EMPLOYMENT AND TAXES

Taxes must be paid as you earn or receive income during a year. An employee pays income and payroll taxes each pay period via their employer.

Persons who are self-employed too often wait until they file their tax return to pay taxes on self-employment income. However, waiting to pay taxes until you file a tax return may lead to a huge tax liability and an underpayment penalty.

Advice: Do not try to avoid owing taxes by erroneously increasing business expenses to decrease self-employment income.

Self-employed persons can their taxes throughout the year via quarterly estimated tax payments.

ESTIMATED TAXES

Estimated Tax “is a method used to pay tax on income that is not subject to withholding”. *IRS Form 1040-ES.*

- As you recall self-employed individuals do not have taxes withheld from their pay.

How do I know the amount of ***Estimated Taxes*** to pay?

1. Review prior year tax return if you had self-employment income and the amount you earned is approximately the same amount?
 - Your tax return will include a [Schedule SE](#) (Self-Employment Tax).
 - The Schedule SE states the amount of employment tax you paid the prior year.
 - You will also need to review the income tax you paid on the income.
 - See Tax and Credits on the prior year 1040.
2. To get the most accurate figure of your estimated taxes, complete [IRS Form 1040-ES](#).
 - To complete the 1040-ES you will need the approximate amount of your net self-employment for the year.

ESTIMATED TAX PAYMENTS

Do I need to pay my estimated tax in a lump sum?

- **NO**

- You can pay the **Estimated Tax** quarterly.
 - In other words, you can pay the estimated tax due over year in quarterly payments.
 - Divide the annual amount by four and that will give you the amount of estimated tax payment you will need to send to the IRS each quarter.
- **Quarterly estimated tax payments** are due every year in the following months:
 - January 1 to March 31 – **April 15**
 - April 1 to May 31 – **June 15**
 - June 1 to August 31 - **September 15**
 - September 1 to December 31 – **January 15** of the following year.
- If the 15th falls on a weekend or holiday, then quarterly payments are due the next business day.

ESTIMATED TAX PAYMENTS

Am I required to pay estimated taxes?

- Yes, if you expect to owe \$1,000 or more in taxes when you file a tax return.
- You may also be assessed an underpayment penalty for failure to estimate taxes, even if you are entitled to a refund.

What will happen if I do not make quarterly estimated tax payments?

1. You may have to pay an underpayment penalty when you file your tax return.
2. You may owe the IRS when you file your tax return.
3. Failure to pay quarterly estimated taxes can limit your IRS collection options if you owe taxes for prior tax years.

SELF-EMPLOYMENT AND SOCIAL SECURITY

The Social Security Administration uses information from Schedule SE to figure your future Social Security benefits.

- The Schedule SE list your net self-employment income.
 - So, your net earnings for Social Security are based on net self-employment income.
 - $\text{Gross self-employment} - \text{business expenses/depreciation} = \text{net self-employment income}$.
- If your only income is from self-employment, but you did not file a tax return, then you may not get credit with the Social Security Administration (SSA).
 - Under the SSA, you must file a tax return within 3 years, 3 months, and 15 days after the tax year in which you earned the income.
 - Example: A 2021 tax return with self-employment income must be filed by March 15, 2025, to count towards your future social security benefits.
 - Your Social Security earnings for that year may be 0.

WRAP-UP

We are hosting two more Tax Talks over the next two months.

- On December 5th we will present on [Reminders for Tax Season](#).
- On January 16th we will present on [Tax Topics for Immigrants](#).

1. Keep accurate and contemporaneous business records.
2. Timely file your tax returns.
3. Overstating your business expenses to lower your taxes can impact your Social Security earnings.
4. Make quarterly estimated taxes to avoid a large tax liability when you file your tax return.
5. The more sophisticated your business then the more sophisticated should your business recordkeeping.
6. Utilize available resources

RESOURCES

FOR MORE INFORMATION ON SELF-EMPLOYMENT INCOME

- IRS Publication 334, Tax Guide for Small Business
- IRS Small Business and Self-Employed Tax Center www.irs.gov/smallbiz
- United Way's My Free Taxes Self-Employed Tax Guides <https://myfreetaxes.com/taxguides>
- Taxpayer Advocate www.taxpayeradvocate.irs.gov

FREE TAX PREPARATION

- Low-income taxpayers may qualify for free tax preparation in 2025 via your local VITA site or IRS Direct File. More information will be available on the IRS website in early 2025.
- In 2025, VITA Latino will continue to offer free in-person tax preparation assistance in Spanish. QR code

The North Carolina Low-Income Taxpayer Clinic (Tax Clinic) provides low-income North Carolina taxpayers with free* representation in federal and state tax controversies and educates individuals about their rights and responsibilities as U.S. taxpayers.

If you need assistance with a tax matter, please contact us **980-353-3530** or schedule an appointment online

<https://charlottelegaladvocacy.org/what-we-do/tax-disputes/>

THANK YOU!

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