

Taxes 101

A comprehensive Tax Guide

for Self-employed,
Freelancers,
and Digital Service
Professionals

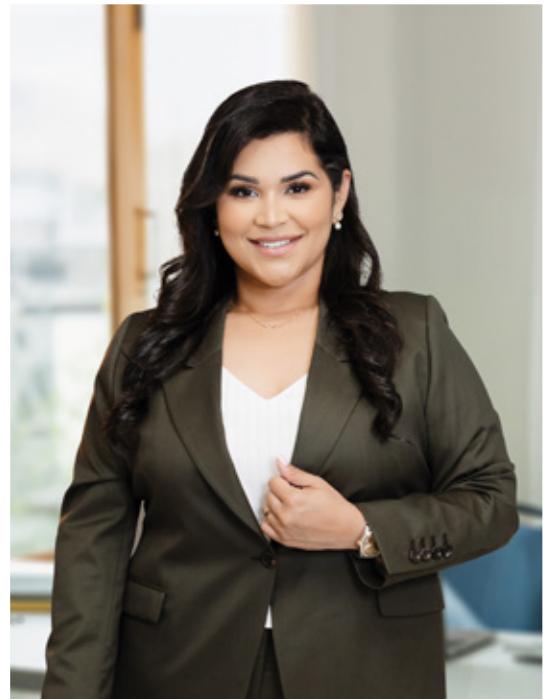


Are you ready to dive into taxes?

Let's get started!

Navigating the tax landscape can be intimidating, especially those in dynamic fields such as Self-employed, freelancers, and digital services.

This comprehensive guide will cover everything you need to know to stay compliant and maximize your tax benefits.



Jessenia Velazquez

Here's what we'll guide you through:

Understanding Your Tax Obligations:

- Self-employment Tax
- Estimated Taxes
- Income Tax

Record Keeping:

- Income Tracking
- Expense Tracking

Business Structure:

- Sole Proprietorship
- Limited Liability Company (LLC)
- S Corporation

Tax Deductions and Credits:

- Qualified Business Income (QBI) Deduction
- Retirement Contributions
- Health Insurance Premiums

Tax Forms:

- Schedule C (Form 1040)
- Form 1040-ES
- Form 1099-NEC

Additional Tips:

- Consult a Tax Professional
- Stay Organized
- Plan for Taxes
- Stay Updated

Understanding your tax obligations



Self-employment Tax

What is Self-employment Tax?

Self-employment tax is a Social Security and Medicare tax primarily for individuals who work for themselves. It is similar to the Social Security and Medicare taxes withheld from the pay of most wage earners.

Rate:

The Self-employment tax rate is 15.3%. This rate consists of two parts: 12.4% for Social Security and 2.9% for Medicare.

Who pays:

You must pay Self-employment tax if your net earnings from Self-employment are \$600 or more.

How to Calculate:

Use Schedule SE (Form 1040 or 1040-SR) to figure out the amount of Self-employment tax you owe.

Estimated Taxes

What are Estimated Taxes?

Estimated taxes are periodic advance payments to the IRS for income not subject to withholding. This includes self-employment income, interest, dividends, rents, and other sources of income.

Due Dates



Estimated taxes are typically paid quarterly. The due dates are:

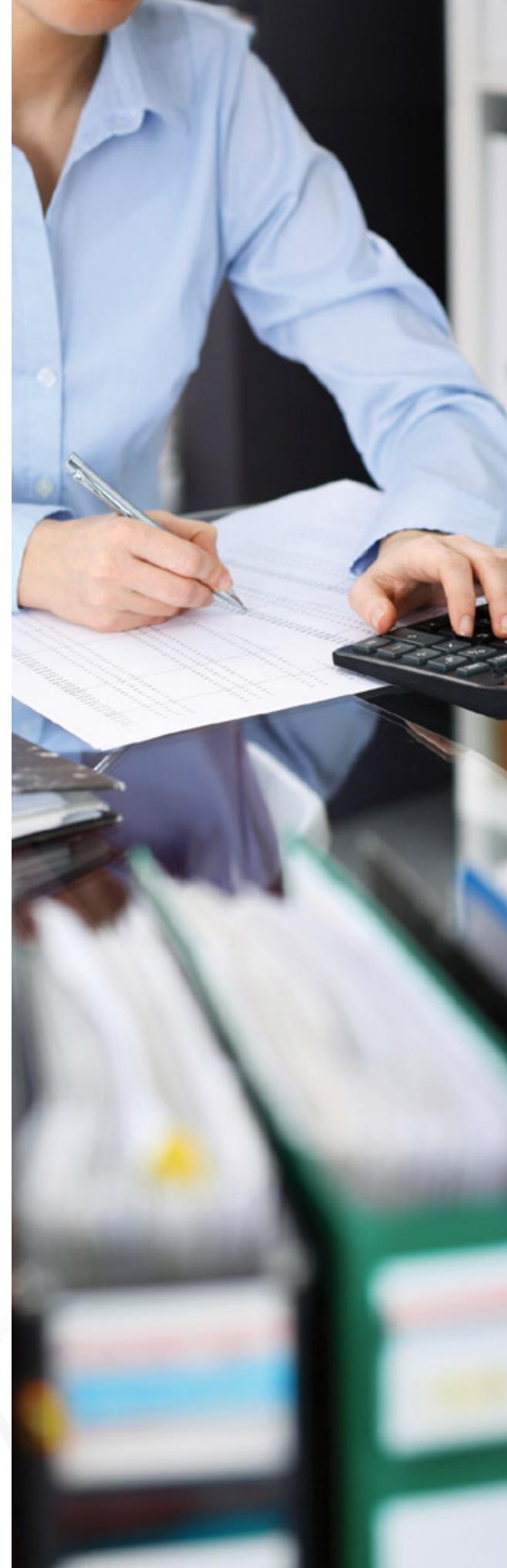
- April 15
- June 15
- September 15
- January 15 of the following year

How to Pay:

Use Form 1040-ES to calculate and pay your estimated taxes. Payments can be made online via the IRS website.

Penalties for Underpayment:

Failing to pay enough tax through withholding and estimated tax payments may result in a penalty. The IRS may impose this penalty if you owe more than \$1,000 in tax after subtracting your withholding and refundable credits.



Income Tax

Federal Income Tax:

Your federal income tax rate depends on your total income and filing status. The IRS provides tax rate schedules that are updated annually.



State and Local Taxes:

State and local taxes vary by location. Some states have no income tax, while others have rates that can be significant. It's important to check with your state's tax authority for specific information.

Record Keeping

Good record keeping is essential for accurate tax reporting and maximizing deductions.

Here's what you need to know:

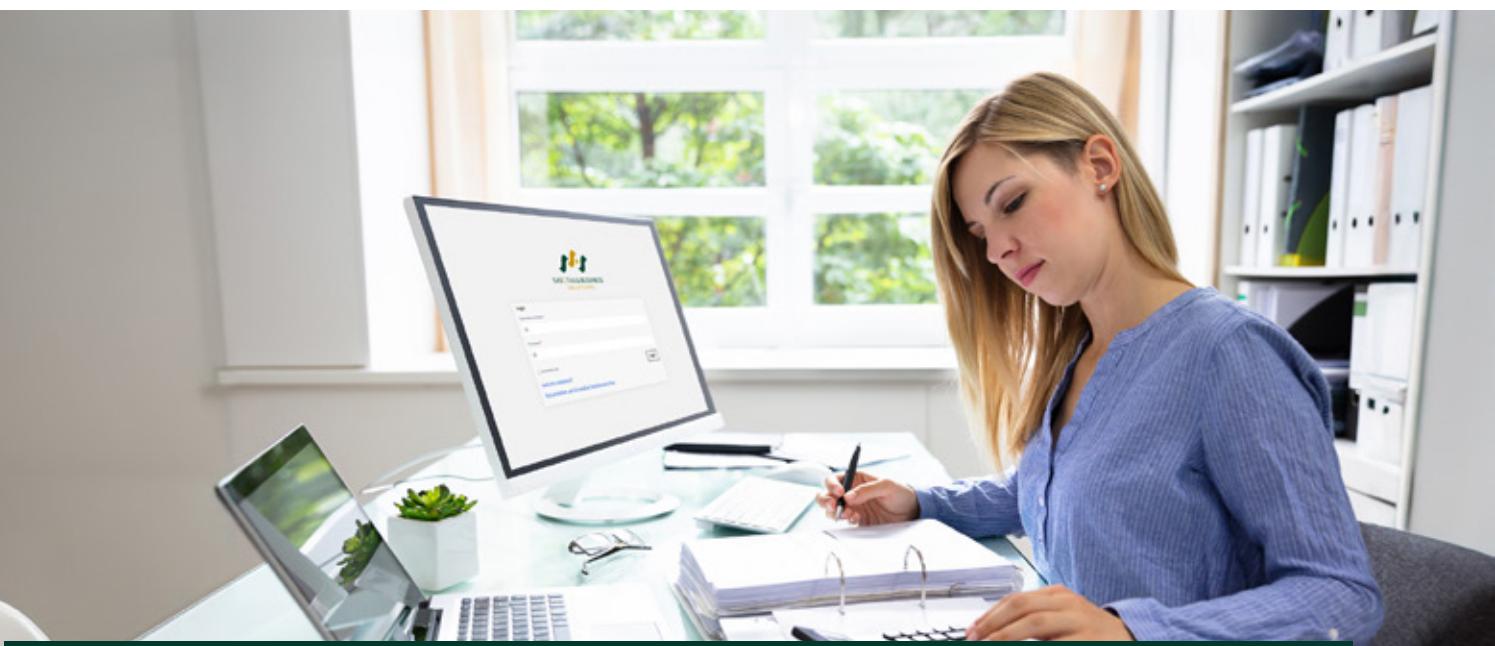
Income Tracking

Types of Income:

- **Self-employed Fees:** Payments received for coaching sessions, whether in-person or virtual.
- **Freelancers Sales:** Revenue from selling online courses, webinars, and workshops.
- **Digital Services:** Payments for services like graphic design, web development, content creation, and other digital services.
- **Affiliate Income:** Commissions from promoting other people's products or services.
- **Advertising Revenue:** Income from ads on your blog, YouTube channel, or other platforms.

Tracking Methods:

- Use accounting software such as QuickBooks to track income. This tool can connect to your bank accounts and automatically categorize transactions.
- Maintain a separate business bank account to make tracking easier and avoid mixing personal and business expenses.



Expense Tracking



Keeping detailed records of your business expenses is crucial for maximizing your tax deductions.

Deductible Expenses:

- **Home Office:** If you use a portion of your home exclusively for business, you can deduct a portion of your rent/mortgage, utilities, and internet. Use Form 8829 to calculate the home office deduction.
- **Equipment and Software:** Deduct the cost of computers, cameras, microphones, editing software, and any other tools necessary for your business.
- **Professional Services:** Fees paid to accountants, lawyers, and other professionals. **Marketing and Advertising:** Costs associated with promoting your services, including online ads, website expenses, and promotional materials.
- **Travel and Meals:** Business-related travel and meals with clients (50% deductible). Keep detailed records, including receipts, dates, and the business purpose of each expense.
- **Education and Training:** Expenses for courses, seminars, and conferences that improve your skills and knowledge in your business area. **Office Supplies:** Pens, paper, printers, and other supplies used in your business.

Record keeping methods:

- Keep digital and physical copies of all receipts and invoices.
- Use apps like Expensify or Shoeboxed to scan and organize receipts.
- Maintain a spreadsheet or use accounting software to categorize expenses.



Business Structure

Choosing the right business structure can impact your taxes, liability, and administrative requirements. Here's an overview of the most common structures:

Sole Proprietorship

Pros:

- Simple to set up and operate.
- Minimal paperwork and administrative burden.
- Full control over business decisions.

Cons:

- No liability protection. Personal assets are at risk if the business is sued or incurs debt.
- Self-employment taxes on all profits.

Tax considerations:

- Report income and expenses on Schedule C (Form 1040).
- Subject to self-employment tax on net income.

Limited Liability Company (LLC)

Pros:

- Provides liability protection. Personal assets are generally protected from business debts and lawsuits.
- Flexibility in tax treatment. Can choose to be taxed as a sole proprietorship, partnership, or corporation.
- Potential for tax savings, especially if electing S Corporation status.

Cons:

- More paperwork and administrative requirements compared to a sole proprietorship.
- State-specific filing fees and ongoing compliance requirements.

Tax considerations:

- By default, a single-member LLC is taxed as a sole proprietorship (disregarded entity), while a multi-member LLC is taxed as a partnership.
- Can elect to be taxed as an S Corporation to potentially reduce self-employment taxes.

S Corporation

Pros:

- Potential tax savings on self-employment taxes. Only wages paid to shareholders are subject to self-employment taxes, while distributions are not.
- Liability protection for shareholders.

Cons:

- No liability protection. Personal assets are at risk if the business is sued or incurs debt.
- Must pay reasonable compensation to shareholder-employees, which is subject to payroll tax.

Tax considerations:

- File Form 2553 to elect S Corporation status.
- Report income, expenses, and distributions on Form 1120-S.
- Shareholders report their share of income on Schedule K-1 and include it on their personal tax returns.

Tax Deductions and Credits

Maximizing deductions and credits can significantly reduce your taxable income. Here are some key opportunities:

Qualified Business Income (QBI) Deduction

What is QBI Deduction?

- The QBI deduction allows eligible self-employed and small business owners to deduct up to 20% of their qualified business income.

Eligibility:

- Available to sole proprietors, partnerships, S corporations, and some trusts and estates.
- Subject to income thresholds and phase-out limits.

How to Claim:

- Calculate the deduction using Form 8995 or Form 8995-A, depending on your income level and complexity.

Retirement Contributions

Tax-Advantaged Retirement Plans:

- **TSEP IRA (Simplified Employee Pension):** Allows contributions up to 25% of net earnings from self-employment or \$61,000 for 2023, whichever is less.
- **SIMPLE IRA (Savings Incentive Match Plan for Employees):** Allows contributions up to \$14,000 for 2023, with an additional \$3,000 catch-up contribution if you are 50 or older.
- **Solo 401(k):** Allows contributions as both employer and employee, up to \$61,000 for 2023, with an additional \$6,500 catch-up contribution if you are 50 or older.

Benefits:

- Contributions are tax-deductible, reducing your taxable income.
- Investment earnings grow tax-deferred until withdrawn.

Health Insurance Premiums

Self-Employed Health Insurance Deduction:

- Self-employed individuals can deduct the cost of health insurance premiums for themselves, their spouses, dependents, and children under 27 years old.
- Deduction is available whether or not you itemize deductions on your tax return.

How to Claim::

- Deduct the premiums on Schedule 1 (Form 1040), Line 17.

Tax Forms



Understanding the key tax forms you'll need is crucial for compliance. Here are the most important ones:

Schedule C (Form 1040)

Purpose:

- Used to report income or loss from a business you operated or a profession you practiced as a sole proprietor.

What to Include:

- Gross receipts or sales
- Cost of goods sold (if applicable)
- Business expenses
- Net profit or loss

Form 1040-ES

Purpose:

- Used to calculate and pay estimated taxes.

What to Include:

- Expected income, self-employment tax, and any other taxes you expect to owe.

How to File:

- Complete the worksheet in Form 1040-ES to determine your estimated tax payments.
- Submit quarterly payments using the vouchers included in the form or pay online via the IRS website.

Form 1099-NEC

Purpose:

- Used to report payments made to independent contractors if you paid \$600 or more during the year.

What to Include:

- Name, address, and taxpayer identification number of the recipient.
- Total amount paid.

How to File:

- File Form 1099-NEC with the IRS and provide a copy to the recipient by January 31st of the following year.

Additional Tips

Managing taxes effectively requires ongoing attention and planning. Here are some additional tips to help you stay on track:

Consult a Tax Professional at SAS

Why Consult a Professional?

- Tax professionals can provide personalized advice, help you navigate complex tax issues, and ensure you're taking advantage of all available deductions and credits.

When to Consult:

- When starting your business
- When considering a change in business structure
- When dealing with complex tax situations or significant income

Stay Organized

Tools and Strategies:

- Use accounting software to automate income and expense tracking.
- Maintain a separate bank account for your business.
- Keep digital copies of all receipts and invoices using apps like Expensify or Shoeboxed.

Plan for Taxes

Set Aside Funds:

- Regularly set aside a percentage of your income to cover your tax obligations. A good rule of thumb is to save 25-30% of your gross income.

Budget for Estimated Taxes:

- Use your income projections and previous year's tax return to estimate your tax liability and budget accordingly.

Stay Updated

Why It's Important:

- Tax laws and regulations can change, impacting your tax obligations and opportunities for deductions and credits.

How to Stay Informed:

- Subscribe to IRS updates and newsletters.
- Follow reputable tax blogs and websites.
- Attend webinars and seminars on tax topics relevant to your business.

Understanding and managing your tax obligations as a Self-employed, freelancer, or digital service professional is crucial for staying compliant and maximizing your financial success. By keeping detailed records, choosing the right business structure, taking advantage of deductions and credits, and consulting with tax professionals at SAS, you can navigate the tax landscape with confidence.



This guide provides a comprehensive overview, but individual circumstances may vary. Always consult with a tax professional for personalized advice.





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