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## **Answers to Tax Questions for the Self-Employed**

Will 2015 be the year when you take the leap into self-employment? Even if you're going to start out small with an office in a spare bedroom, there are some important tax issues you should keep in mind before you take the plunge. The Tennessee Society of CPAs offers answers to some common questions.

### **What's the Self-Employment Tax?**

When you strike out on your own, tax considerations can get a little more complicated – and potentially more expensive. For example, the self-employment tax will loom large in your plans. That's because you will now have to pay your entire Social Security and Medicare taxes each year, instead of splitting them with an employer. The good news is that you can deduct 50 percent of those self-employment taxes from your net income.

### **How Do Tax Payments Work?**

Since an employer is no longer withholding your federal, state and local taxes for you, you will also have to figure out what income tax you will owe based on your earnings and make quarterly estimated tax payments.

If you don't pay enough in taxes either through withholding or estimated payments, you may be subject to a penalty. Keep in mind, though, that if you are earning self-employment income while still holding onto a staff job, you will get credit for Social Security and other taxes that your employer withholds, which may lower the self-employment taxes you must pay.

### **What Deductions Can I Take?**

There are many business-related deductions available to the self-employed. Whether you own or rent, you may be able to take a home office deduction for space in your house that is set aside exclusively for regular business use and that is your principal place of business. Related costs that you may be able to deduct include a percentage of your rent or depreciation on a home you own, property taxes, utilities, home maintenance costs and home insurance. Of course, you may also be eligible to deduct a variety of other expenses related to running your business, including internet and phone use, the costs of equipment or supplies, travel, meals and entertainment. Talk to your CPA about ensuring you're taking all the deductions available to you.

### **How does the ACA Affect Me?**

If you've left a job, and the medical insurance it provides, you should know that, as of Jan. 1, 2014, the Affordable Care Act required all individuals to have minimum essential health care coverage or pay an individual shared responsibility payment when they file their tax return. With the implementation of the ACA, self-employed individuals are able to shop for flexible coverage through the government's Health Insurance Marketplace. Check with your CPA for more information about what the law might mean in your situation.

## **How Do I Save for Retirement?**

Self-employed people do have some appealing retirement savings choices that can help minimize their tax outlays and set them up for a secure future. For example, you can contribute up to 25 percent of your net earnings from self-employment – up to \$53,000 in 2015 – to a simplified employee pension (SEP). Alternatively, you can set aside up to \$12,500 of self-employment net earnings in a savings incentive match plan for employee (SIMPLE IRA Plan), plus an additional \$3,000 if you're 50 or older. Be sure to ask your CPA about more details of all your retirement plan options.

## **Your Local CPA Can Help**

Running your own show can be exciting, but it can bring on added tax complications. Turn to your CPA to find out the best ways to lower your tax bite and reduce the complexity of complying with new tax requirements. He or she can provide the advice you need for a successful future on your own.

## **About Money Management**

Money Management is a column on personal finance that is a joint effort of the AICPA and the Tennessee Society of CPAs, as part of the profession's nationwide 360 Degrees of Financial Literacy program. Members of TSCPA are CPAs residing and practicing primarily in Tennessee in all areas of public accounting, education, government, business and industry. TSCPA offers a speakers bureau for many types of business and educational engagements. For details, visit [www.tscpa.com](http://www.tscpa.com). TSCPA is headquartered in Brentwood, Tenn.