



# FAQ on Self-Employment Taxes

By TurboTax

## FAQ on Self-Employment Taxes

If you were self-employed this year, you have a few special forms to fill out, and a few more records to keep than a regular wage earner would. Here are the answers to some common questions about filing income taxes as a self-employed person.

### What Forms Do I Need?

If you're self-employed, you must file Schedules C and SE in addition to Form 1040.

#### Schedule C

This form is part of the 1040 package that the IRS mails every year. You use this form to report your gross revenue and to detail your expenses. The result is your net profit or loss.

#### Schedule SE

Use this form to calculate how much self-employment tax you owe and to apply the annual earnings limits. You report the total tax calculated on Schedule SE in the Other Taxes section of Form 1040. This differentiates the self-employment tax from the income tax. If you have additional questions about the self-employment tax, see [The Self-Employment Tax](http://www.turbotax.com) at [www.turbotax.com](http://www.turbotax.com).

### What Information Do I Need to Do My Return?

Gathering and organizing your tax information is perhaps the most critical step to filing your income tax return. If you have a record keeping system for your business (and yes, some people really do use the "shoebox system"), then separate your income from your expenses, and categorize the expenses.

Determine:

- Which expenses you can deduct immediately
- Which expenses are inventory purchases (which may still be unsold)
- Which expenses are asset purchases that must be depreciated

For more information about which expenses are immediately deductible and which expenses must be capitalized, see [Taking Business Deductions](#). If you do have a shoebox system, be sure to save the contents in an envelope with a copy of the income tax return you filed.



If you use accounting software such as the Quicken® or QuickBooks® programs, be sure to enter all of your business transactions for the year, then print financial statements to save with your income tax return files. If you want more information about using software to organize your income and expenses, see [www.quickbooks.com](http://www.quickbooks.com).

### How Do I Prepare My Return?

When you're ready to prepare your return, you must decide if you want to prepare it yourself or use the services of a professional tax preparer.

If you have good records of your business transactions and understand the details of the different types of expenses, you can probably save yourself some time and money by preparing your own return. Preparing your own tax return doesn't necessarily mean that you have to get out your pencil and start filling out forms. You can also use tax preparation software such as the TurboTax® programs.

There are many advantages of preparing your return using tax preparation software such as TurboTax® programs, including:

- **Increased Accuracy:** Computer-prepared income tax returns virtually eliminate common clerical mistakes and mathematical errors.
- **Increased Efficiency:** Because basic information transfers from your previous year's return if you used the program the year before, you save a lot of time by not having to reenter your personal and business information.
- **It's Comprehensive:** Most consumer-based Web and desktop tax preparation programs utilize an interview-like feature that asks you questions as you go along. This helps to ensure that you are considering all pertinent matters involved with your income tax return.
- **It's Electronic:** You can file your return electronically. If you're expecting a refund, you will get it much more quickly if you file electronically (e-filing). Refunds from tax returns filed on paper typically take anywhere from two to six weeks to be delivered, depending on the time of year you filed the tax return. Last tax season, the average wait for taxpayers that used a TurboTax program to eFile their returns and chose to have their refunds deposited directly into their bank accounts was nine to sixteen days.

If you want a professional to prepare your return, consult a local accountant (Certified Public Accountant (CPA)) or enrolled agent ([\(EA\)](#)). These professionals can also prepare financial statements, and many offer e-Filing.

You can also take advantage of free tax services. See the [IRS Small Business website](#).

### What Records Do I Have to Keep & How Long?

You don't have to keep your tax records forever.

The general rule is to keep all records that are required to support your federal income tax return for three years. This holding period is known as the statute of limitations for taxes.

**Caution:** If by some mistake or oversight you didn't report income that you should have, and if that income is greater than 25% of the gross income shown on your return, the period becomes six years. If you file a fraudulent income tax return or don't file a tax return at all, then the statute of limitations never starts and the IRS has an unlimited period of time to examine your income tax return.



If you have employees, you must keep the records related to employment taxes for four years.

If you sell a business asset, keep the records related to that property for three years after you receive the last payment related to the sale.

For more information on self-employment, take a look at the [IRS Publication 583: Starting a Business and Keeping Records](#).

### What if I Owe More Than I Can Pay?

If you owe a large amount of tax that you can't pay when your income tax return is due, consider borrowing from family, taking a cash advance from a credit card, or taking a bank loan or home equity loan. If none of these alternatives work for you, consider establishing an installment agreement with the IRS. While the IRS is generally required to accept tax payments in installments, they do charge you interest based on the unpaid amount of tax you owe.

To request an installment agreement from the IRS, complete [Form 9465](#). You should receive a response within 30 days. The IRS should accept your installment agreement request as long as:

1. Your total taxes (not counting interest, penalties, additions to the tax, or additional amounts) do not exceed \$10,000.
2. In the last five years, you (and your spouse if the liability relates to a joint return) have not:
  - Failed to file any required income tax return,
  - Failed to pay any tax shown on any such return, or
  - Entered into an installment agreement to pay income tax
3. You prove that you cannot pay your income tax in full when it is due.
4. The tax will be paid in full in three years or less.
5. You agree to comply with the tax laws while your agreement is in effect.

### Tips

Be sure to file your return. If you don't have enough time to prepare a return, hire a professional, or get an extension using [Form 4868: Application for Extension of Time to File](#).

The time you spend now will offset the vast amounts of time and money that you would have to spend later if the IRS audits your return.



Tax laws change frequently, so be sure to check [www.turbotax.com](http://www.turbotax.com) for the most up-to-date information and tips. TurboTax also has a range of solutions to help you do your taxes quickly, easily, and accurately. To learn more visit: [www.turbotaxdirect.com/qbntw05](http://www.turbotaxdirect.com/qbntw05)



At QuickBooks, we've spent more than 10 years working with small businesses to develop tools that will help them succeed—tools so intuitive and useful, our customers can't imagine running their businesses without them. Today, our products and services support over 2.6 million small businesses.