

TaxBrief

Keeping you informed

Tax Planning for Self-Employed Clients

Whether you are a sole proprietor, independent contractor, freelancer or gig worker, staying current on your tax obligations is essential for your financial health and peace of mind.

What's new

- **Social Security taxable earnings cap increased:** The maximum net self-employment earnings subject to the Social Security portion of self-employment tax is now \$176,100 for 2025. There is no cap on the Medicare portion.
- **Standard mileage rate:** In 2025, the standard mileage rate for business use of your car, van, pickup or panel truck is 70 cents-per-mile. If you use this method, be sure to keep detailed mileage logs.
- **Qualified business income (QBI) deduction:** The QBI deduction remains available for most self-employed taxpayers, allowing up to 20% of qualified business income. For 2025, the income threshold is \$197,300 for single filers and \$394,600 for joint filers. (Limitations may apply to amounts above these.)
- **Excess business loss limitation:** For the 2025 tax year, the excess business loss limitation threshold amount for noncorporate taxpayers is \$313,000 for single filers and \$626,000 for joint filers, both under current law and as amended by the *One Big Beautiful Bill Act* (OBBBA). However, starting with tax years beginning after Dec. 31, 2025 (i.e., for 2026 and beyond), the inflation adjustment for these thresholds will be based on the 2024 dollar amounts of \$250,000 for single filers and \$500,000 for married couples filing jointly, before an inflation adjustment.

Key reminders for self-employed taxpayers

- **Filing requirements:** You must file a tax return if your net earnings from self-employment are \$400 or more.
- **Estimated tax payments:** If you expect to owe \$1,000 or more in taxes (including self-employment tax), you are generally required to make quarterly estimated tax payments. Use *Form 1040-ES, Estimated Tax for Individuals*, and consider using the Electronic Federal Tax Payment System (EFTPS) for convenience. <https://www.eftps.gov/eftps/>

Note: You can schedule a meeting with me to discuss my recommendations for these payments.

- **Self-employment tax:** The self-employment tax rate is 15.3% (12.4% Social Security + 2.9% Medicare). An additional 0.9% Medicare tax may apply if your net earnings exceed \$200,000 (single filer) or \$250,000 (married filing jointly).
- **Deductible business expenses:** Ordinary and necessary expenses for your business are deductible, including office supplies, advertising, utilities, business insurance premiums, professional fees (legal, accounting), business travel, meals (50% deductible), vehicle expenses, retirement plan contributions and health insurance premiums.
- **Recordkeeping:** Keep thorough records of all income and expenses, including receipts, invoices, mileage logs and bank statements. Good records are essential for substantiating deductions and preparing your return.

- **Information returns:** If you pay \$600 or more to a non-employee (such as a subcontractor), you must issue Form 1099-NEC, *Nonemployee Compensation*. Be sure to collect a complete Form W-9, *Request for Taxpayer Identification Number and Certification* from each payee. This amount will change to \$2,000 after Dec. 31, 2025.

Tax planning tips

- **Retirement planning:** Consider contributing to a SEP IRA, SIMPLE IRA or a solo §401(k) to reduce your taxable income and save for retirement.
- **Health insurance:** If you pay for your own health insurance, you can deduct premiums for yourself, your spouse and dependents, subject to specific rules.
- **Home office deduction:** You may qualify if you use part of your home exclusively and regularly for business. The IRS offers a simplified method (up to \$1,500), or you can calculate actual expenses.
- **Vehicle expenses:** You can deduct either the standard mileage rate or actual expenses for business use of your vehicle. Keep detailed records to support your deduction.
- **Depreciation and §179:** You may be able to deduct the full cost of qualifying equipment and software purchased for your business, up to the annual §179 limit, or use bonus depreciation for certain assets.

Common pitfalls to avoid

- **Co-mingling personal and business finances:** Use a separate bank account for your business.
- **Missing estimated tax payments:** This can result in penalties and interest.
- **Not keeping receipts or documentation:** The IRS requires proof for all your deductions.
- **Forgetting to report all income:** All business income, even if not reported on Form 1099, must be included on your tax return.
- **Misclassifying workers:** Be sure you understand the difference between an employee and an independent contractor.

IRS watch

- **E-file mandate expansion:** More self-employed taxpayers may now be required to e-file certain returns or forms. Our office will guide you through compliance if this affects you.
- **IRS focuses on gig economy income:** The IRS is ramping up enforcement on unreported gig and freelance income. Make sure all business income, even from side work, is documented and reported.
- **Clean vehicle and energy credits:** If you have purchased an EV for business or made energy-efficient upgrades, ask about potential tax credits. Most clean-vehicle credits are available only if acquired by Sept. 30, 2025. Alternative fuel vehicle refueling property credit (§30C) is no longer allowed for property placed in service after June 30, 2026. Additionally, energy efficient commercial buildings deduction (§179D), is not allowed for property where construction begins after June 30, 2026.

Frequently asked questions (FAQs)

Q: Do I need to make estimated tax payments?

A: If you expect to owe \$1,000 or more in taxes (including self-employment tax), you generally must make quarterly estimated tax payments using Form 1040-ES.

Q: What is the self-employment tax rate?

A: The self-employment tax rate is 15.3% (12.4% Social Security + 2.9% Medicare). An additional Medicare tax applies if your net earnings exceed \$200,000 (single) or \$250,000 (married filing jointly).

Q: What records should I keep?

A: Keep thorough records of all income and expenses, including receipts, invoices, mileage logs and bank statements.

Q: Can I deduct health insurance premiums?

A: Yes. If you pay for your own health insurance, you can deduct premiums for yourself, your spouse and dependents, subject to certain conditions.