**Tax Tips**

**Tax Aspects of Self-Employment**

If you are considering going into business for yourself, as a sole proprietor, there are several important rules that you should be aware of:

**(1) For income tax purposes, you will report your income and expenses on Schedule C of your Form 1040.** The net income will be taxable to you regardless of whether you withdraw cash from the business. Your business expenses will be deductible against gross income (i.e., “above the line”) and not as itemized deductions. If you have any losses, the losses will generally be deductible against your other income, subject to special rules relating to hobby losses, passive activity losses, and losses in activities in which you weren't “at risk.”

**(2) You may be able to deduct office-at-home expenses.** If you will be working from an office in your home, performing management or administrative tasks from an office-at-home, or storing product samples or inventory at home, you may be entitled to deduct an allocable portion of certain of the costs of maintaining your home. And if you have a office-at-home, you may be able to deduct commuting expenses of going from your home to another work location.

**(3) You will be required to pay self-employment taxes.** For 2015, you will pay self-employment tax (social security and Medicare) at a 15.3% rate on your net earnings from self employment of up to $118,500 ($117,000 for 2014), and Medicare tax only at a 2.9% rate on the excess. An additional 0.9% Medicare tax (for a total of 3.8%) will be imposed on self-employment income in excess of $250,000 for joint returns; $125,000 for married taxpayers filing separate returns; and $200,000 in all other cases. Self-employment tax is imposed in addition to income tax, but you can deduct half of your self-employment tax as an adjustment to income.

**(4)** **You will be allowed to deduct 100% of your health insurance costs as a trade or business expense.** This means your deduction for medical care insurance won't be subject to the limitation on your medical expense deduction that is based on a percentage of your adjusted gross income.

**(5)** **You will be required to make quarterly estimated tax payments.** We can work with you to minimize the amount of your estimated tax payments while avoiding any underpayment penalty.

**(6)** **You will have to keep complete records of your income and expenses.** In particular, you should carefully record your expenses in order to claim the full amount of the deductions to which you are entitled. Certain types of expenses, such as automobile, travel, entertainment, meals, and office-at-home expenses, require special attention because they are subject to special recordkeeping requirements or limitations on deductibility.

**(7) If you hire any employees, you will have to get a taxpayer identification number and will have to withhold and pay over various payroll taxes.**

 **(8) You should consider establishing a qualified retirement plan.** The advantage of a qualified retirement plan is that amounts contributed to the plan are deductible at the time of the contribution, and aren't taken into income until the amounts are withdrawn. Because of the complexities of ordinary qualified retirement plans, you might consider a simplified employee pension (SEP) plan, which requires less paperwork. Another type of plan available to sole proprietors that offers tax advantages with fewer restrictions and administrative requirements than a qualified plan is a “savings incentive match plan for employees,” i.e., a SIMPLE plan. If you don't establish a retirement plan, you may still be able to make a contribution to an IRA.

If you have any questions concerning this matter, please do not hesitate to call me at (562) 698-9891.

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