

# Self Employment & Taxes

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# Self Employment Income & Tax

- ▶ Income with no withholdings
- ▶ Income subject to additional 15.3% tax (employer & employee share of Social Security & Medicare tax)
- ▶ Tax planning is ideal to avoid surprises
- ▶ Most likely need to pay estimated taxes (15<sup>th</sup> of April, June, September & January)

**Example:** Donna is self-employed. After deducting business expenses, her net self-employment income is \$100,000. Her SE tax and deduction for one-half of SE tax are computed as follows.

1) Self-employment income .....	\$100,000
2) Multiply line 1 by 92.35 % .....	\$92,350
3) SE tax. Multiply line 2 by 15.3% .....	\$14,130

This tax is in addition to Donna's ordinary income tax. If she was single this could be an additional \$15,000 in ordinary Fed & CA tax (ordinary tax # can vary dramatically).

**Total taxes of close to \$29,000** when taking into account SE tax.

# Estimated Taxes

- ▶ General rule:
  - ▶ 100%/100% of prior year's tax (safe harbor), or
  - ▶ Must pay 90% of current year's tax throughout the year
- ▶ Pay with vouchers by mail (1040-ES & 540-ES) or online (CA can require)
- ▶ Penalties & interest related to underpayment (1<sup>st</sup> time & reasonable cause abatement )
- ▶ Pay taxes as you earn your income

2019 Estimated Payment Dates for Individuals		
<i>Installment</i>	<i>Tax Period Covered</i>	<i>Due Date</i>
First	January 1 to March 31, 2019	April 15, 2019
Second	April 1 to May 31, 2019	June 17, 2019
Third	June 1 to August 31, 2019	September 16, 2019
Fourth	September 1 to December 31, 2019	January 15, 2020



# Business Deductions

- ▶ Must be both ordinary and necessary
- ▶ Business deductions reduce income subject to income & S/E tax dollar for dollar
- ▶ Business use of home
- ▶ Vehicle deductions (standard mileage rate .58/mile)
- ▶ Pro-rata deductions (e.g. cell phone, internet, etc.)
- ▶ Health/Dental/Vision insurance can be deductible (this does not reduce SE tax)

# Record Keeping

- ▶ Must be able to substantiate deductions
- ▶ Keep receipts (statements not sufficient)
- ▶ Scanned copies of receipts are sufficient
- ▶ Avoid co-mingling funds
- ▶ Separate bank & credit card account(s)
- ▶ Accounting software or apps are ideal (QB's, Expensify, Wave, etc.)

Advertising
Appraisal Fees
Business cards
Bank charges
Clerical
Client Gifts
Courier Service
Fees:
Commissions Paid
Escrow/Loan Fees
Referrals
Film/Processing
Flowers/Cards
Keys/Locksmith
Lock Boxes
Map Books
Office Expense
Open House
Rent
Sales Assistants
Repairs
Signs, Flags, Banners
Food
Software
Photocopying
Printing
Tools
Stationery

Dues
E & O Insurance
Legal Fees
Licenses
Memberships
Multiple Listing
Publications

Seminars
Continuing Ed
Resumes
Other

Attache Case
Calculator
Desk
Camera
Chair
Filing Cabinet
Cell Phone
Recorder
Telephone

## Business Use of Home Expenses

Some expenses are deductible whether or not a taxpayer uses his or her home for business. Others are deductible only if the home is used for business.

Deductible Regardless	Deductible Only If for Business**
<ul style="list-style-type: none"><li>• Real estate taxes.*</li><li>• Mortgage interest.*</li><li>• Casualty losses.*</li><li>• Qualified mortgage insurance premiums, if available.</li></ul>	<ul style="list-style-type: none"><li>• Homeowner's insurance.</li><li>• Rent.</li><li>• Repairs and maintenance.</li><li>• Security system.</li><li>• Utilities and services.</li><li>• Depreciation (deductible after applying deduction limitation to above expenses).</li></ul>

\* Deductible as an itemized deduction, subject to limitation.

\*\* Deductible as a business expense pro-rated for the amount of the business use of the home



# Vehicle Deductions

1. Standard mileage (.58/mile), or
2. Actual expenses (includes depreciation)
  - ▶ Only includes business percentage use
  - ▶ Must be > 50% business use to avoid depreciation recapture
- ▶ Both methods must maintain a mileage log (manually or using an app such as Mile IQ, QuickBooks's, or others)

Mileage and Expense Log					
Make:		Model :	Year:	Starting mileage on Jan. 1:	Ending mileage on Dec. 31:
Date	Miles	Start/End Point or Paid To		Reason for Trip/Business Purpose for Expense	Amount

# Qualified Business Income (QBI) Deduction

- ▶ New business tax break added with the TCJA
- ▶ 20% deduction on business profit
- ▶ Can be limits based on income, wages paid & business assets (planning can maximize this)

2019 Threshold Amount and Phase-In Range			
	<i>Single, HOH Taxable Income</i>	<i>MFJ Taxable Income</i>	<i>MFS Taxable Income</i>
Threshold Amount	\$160,700	\$321,400	\$160,725
Phase-in Range	\$160,701 – \$210,700	\$321,401 – \$421,400	\$160,726 – \$210,725
Full limitation applies*	\$210,701 and higher	\$421,401 and higher	\$210,726 and higher

\* For specified service trade or business, no QBI deduction.

# Entity Selection

- ▶ Sole Proprietor
  - ▶ Schedule C - included on personal tax return
  - ▶ Hire children (no payroll tax if <18 yrs. old & little to no income tax or filing requirement)
- ▶ S Corporation
  - ▶ Profit not subject to SE tax
  - ▶ For higher income taxpayers can help to maximize 20% QBI deduction
  - ▶ Can provide liability protection
  - ▶ Must pay shareholder reasonable wages
  - ▶ Separate filings, fees & taxes

# Real Estate Tax Breaks

- ▶ Like Kind Exchanges (IRC Sec. 1031)
  - ▶ Use an Exchange Intermediary
  - ▶ Identify replacement properties within 45 days
  - ▶ Purchase replacement property within 180 days
- ▶ Transfer of CA property tax base (if over age 55)
  - ▶ Generally must “buy down” & within the same county
- ▶ Exclusion of gain on Sale of Principal residence (IRC Sec. 121)
  - ▶ Must own & live in home as principal residence for 2 out of last 5 years
  - ▶ Partial Exclusion-change in place of employment, health, or, unforeseen circumstances
- ▶ Rental Property
  - ▶ Depreciation
  - ▶ Up to \$25,000 rental loss (non real estate professionals)
  - ▶ Losses can be limited based on income (phase-out between \$100K-\$150K)



# Real Estate Professionals\*

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- ▶ Not subject to passive activity rules on rental real estate
  - ▶ Perform > 750 hrs. of service in real estate
  - ▶ More than ½ personal services performed in all trades or business were in real estate where taxpayer materially participated

\*Real property trades or businesses include development, construction, acquisition, conversion, rental, operation, management, or brokerage of real property.

# Retirement Options

- ▶ **SEP IRA** (can set up & fund by filing date - as late as Oct. 15th)
- ▶ **Solo 401K** - (can contribute more. Must be established by Dec. 31<sup>st</sup>)
- ▶ **Simple IRA** - no tax return filing requirement
- ▶ **Defined Benefit Plan** - can fund large amounts
- ▶ **Traditional IRA** - contribution by April 15th
- ▶ **Roth IRA** - no deduction but distributions are tax free - contribution by April 15th

## 2019 Retirement Plan Limits

### 401(k)/403(b) Deferral Limits

Under age 50.....\$19,000

Age 50 and over .....\$25,000

### IRA Contribution Limits

Under age 50..... \$6,000

Age 50 and over ..... \$7,000

### IRA Deduction Phaseout Range if

#### Covered by Employer Plan

MFJ..... \$103,000 – \$123,000

Single, HOH.....\$64,000 – \$74,000

MFS..... \$0 – \$10,000

Spouse not  
covered ..... \$193,000 – \$203,000

### Roth IRA Phaseout Range

MFJ..... \$193,000 – \$203,000

Single, HOH..... \$122,000 – \$137,000

MFS..... \$0 – \$10,000

### SIMPLE Deferral Limits

Under age 50.....\$13,000

Age 50 and over .....\$16,000

### Qualified Retirement Plans

#### Profit sharing/SEP

limits..... 25%/\$56,000

Defined benefit plan limits ... \$225,000

Compensation limits ..... \$280,000

## Tax Scams / Identity Theft

- ▶ **IRS-Impersonation Telephone Scam**
- ▶ **Phony IRS Emails —“Phishing”**
- ▶ **Social Security Scam**



Questions - feel free to contact me

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