



Self-employed professional's tax obligations playbook

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Getting started

Being self-employed and running your own business can be very rewarding, offering a high degree of freedom and flexibility. However, when tax season rolls around, the joys of self-employment can take a back seat to complicated administrative to-dos.

Many freelancers, consultants, and small business owners can find themselves overwhelmed with tax-related issues, and this can detract from their ability to focus on core business matters. That's where this guide comes into play. It is designed to help you understand your tax obligations, minimize what you owe, and ensure compliance with IRS regulations. Whether you're newly self-employed or just looking for a refresher, you'll find practical insights, real-world examples, and expert advice to help you master this aspect of your business.

Understanding self-employment tax fundamentals

When you work for yourself, you take on the tax obligations of both an employee and an employer. The Federal Insurance Contributions Act (FICA) of 1935 requires all workers to contribute to Social Security and Medicare, but as a self-employed individual, you're responsible for both sides of these taxes.





The double-tax reality

Unlike traditional employees who split FICA taxes with their employers, self-employed professionals must pay the full amount themselves. This means you're essentially paying twice – once as the employee and once as the employer.



For self-employed workers, this results in a double-tax, so one as the employee and one as the employer. Fortunately, allowances exist that can reduce the tax obligation to a level that compares to the one imposed on traditional employees.

— Tom Brock, CPA & CFA



Traditional employment vs. self-employment

Traditional employment

- Employer automatically withholds Social Security and Medicare taxes
- The employer pays its half of the tax and remits the employee's half to the federal government
- Employee receives net-of-tax pay

Self-employment

- You calculate and pay estimated taxes quarterly
- You're responsible for the entire tax burden upfront
- You file Schedule SE (Form 1040) with your annual return
- You can claim allowances on your federal income tax return to reduce the self-employment tax to a level approximating that of traditional employment

Tax rates and calculations to keep up with

Current self-employment tax rate: 15.3%

This breaks down as follows:

- 12.4% for Social Security
- 2.9% for Medicare
- 7.65% represents the "employee" portion
- 7.65% represents the "employer" portion

Income thresholds for 2025

Social Security tax cap: \$176,100

- You pay 12.4% on earnings up to this limit
- No Social Security tax on income above this threshold

Medicare Tax: No income limit

- 2.9% on all self-employment income
- An additional 0.9% Medicare surtax applies to high earners as follows:
 - Single/heads of household: \$200,000+
 - Married filing jointly: \$250,000+
 - Married filing separately: \$125,000+



The 92.35% rule

You don't pay self-employment tax on your gross earnings. Rather, you pay the tax on 92.35% of your net earnings, which is gross earnings less all applicable deductions (including business expenses). This adjustment helps level the playing field between self-employed individuals and traditional employees.

Douglas Riddle
Sun, Jan 21st – Sat, Feb 3rd

ALLOCATION: Happy Valley Owner

WAGES: \$10,000.00
Regular: \$10,000.00 PTO: \$0.00

Pay Type	Amount
Owner Draw	\$10,000.00
	\$10,000.00

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You only pay self-employment tax on your net earnings, which means you can first subtract any deductions, including business expenses, from your gross earnings. Furthermore, the self-employment tax is only due on 92.35 percent of your net earnings – an allowance designed to put self-employed persons on par with traditional employees.

— Tom Brock, CPA & CFA

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Strategies to minimize your tax obligations

The built-in deduction

The IRS automatically allows you to deduct 50% of your self-employment tax on your federal income tax return. This largely offsets the "employer" portion you're paying.

Business structure considerations

Single-member LLC:

- Treated as a sole proprietorship for tax purposes
- Subject to full self-employment tax on net earnings

LLC electing S Corp status:

- Can potentially reduce self-employment tax burden
- The owner can take salary (which is subject to self-employment tax) plus distributions (which are not subject to self-employment tax)
- Requires careful planning and professional guidance

Important note:

This strategy requires electing S Corp status and typically works best with multi-member LLCs. Before implementing it, consult with a tax professional.

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An LLC filing as an S Corporation passes income tax to members, but allows owners to take a salary subject to self-employment tax while distributing remaining profits as dividends that avoid self-employment tax.

— Tom Brock, CPA & CFA

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Deductions every self-employed professional should know

Home office deduction

Qualifications

- Space used regularly and exclusively for business
- Must be your principal place of business

What you can deduct

- Portion of rent or mortgage interest
- Utilities proportional to office space
- Property insurance
- Repairs and maintenance
- Depreciation (for homeowners)

Did you know?

30% of small businesses say that bookkeeping is the task they'd most like to delegate.

Source: *OnPay 2025 Small Business Outlook*



Health insurance premiums

Eligibility

- Self-employed individuals
- Not eligible for spouse's employer plan
- Can deduct qualified health, dental, and long-term care premiums

Additional medical deductions

- Medical and dental expenses exceeding 7.5% of adjusted gross income

Business expenses

Common deductible expenses

- Professional liability insurance
- Advertising and marketing costs
- Business travel expenses
- Education and training
- Professional subscriptions
- Business-related charitable contributions



Retirement contributions

Popular options for self-employed

- Traditional or Roth IRAs
- Solo 401(k) plans
- Simplified Employee Pension (SEP) IRAs
- These contributions can significantly reduce your taxable income

20% qualified business income deduction (QBI)

Also known as the Section 199A deduction, this allows eligible business owners to deduct up to 20% of qualified business income.

Eligible entities

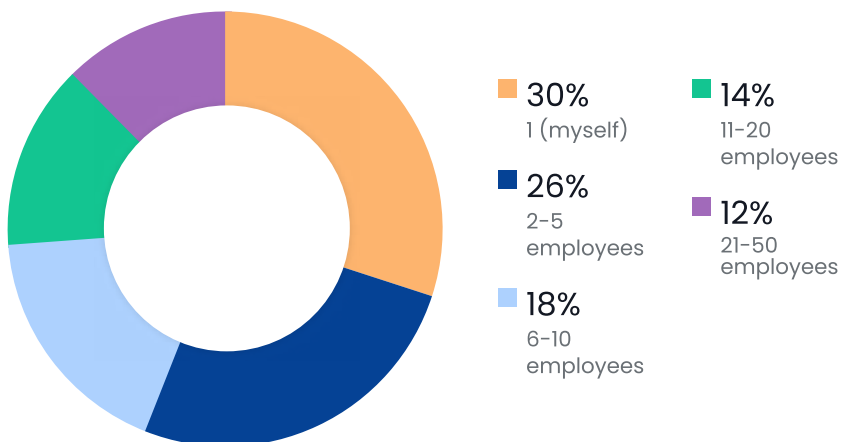
- Sole proprietorships
- Partnerships
- S Corps
- Some trusts and estates



Keep in mind:

The QBI deduction has complex rules and limitations. Professional consultation is recommended.

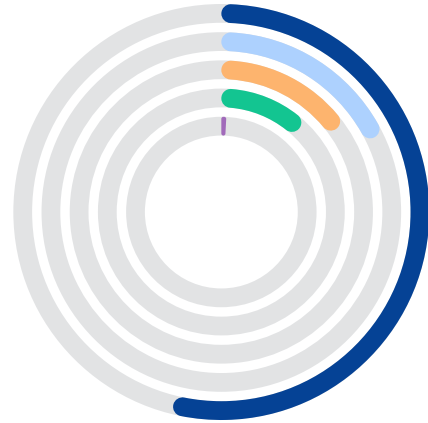
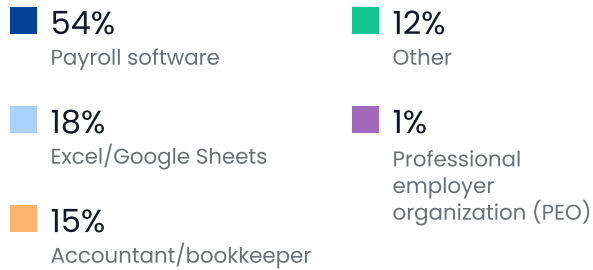
Staff size:
How many employees does a typical small business employ?



Source: *OnPay 2025 Small Business Outlook*

Paying employees:

How do small businesses manage payroll?



Source: *OnPay 2025 Small Business Outlook*

Step-by-step tax calculation guide

Step 1: Calculate net earnings

- Start with gross income from self-employment
- Subtract allowable business expenses
- Use Schedule C to determine net earnings

Step 2: Apply the 92.35% rule

- Multiply net earnings by 0.9235
- This gives you the amount subject to self-employment tax

Step 3: Calculate Social Security portion

- Multiply Step 2 result by 0.124 (12.4%)
- Apply only to the first \$176,100 of income (2025 limit)

Step 4: Calculate Medicare portion

- Multiply Step 2 result by 0.029 (2.9%)
- No income limit applies

Step 5: Add Social Security and Medicare

- Total from Steps 3 and 4 = self-employment tax

★★ REAL-WORLD EXAMPLE ★★

Julia's freelance writing business:

- Gross income: \$72,000
- Business expenses: \$0
- Net earnings: $\$72,000 - \$0 = \$72,000$

Calculation:

1. Net earnings subject to SE tax: $\$72,000 \times 0.9235 = \$66,492$
2. Social Security tax: $\$66,492 \times 0.124 = \$8,245.01$
3. Medicare tax: $\$66,492 \times 0.029 = \$1,928.27$
4. Total self-employment tax: $\$8,245.01 + \$1,928.27 = \$10,173.28$

Payment methods and filing requirements

Required documentation

You'll need:

- Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN)
- Schedule C (summarizes profit or loss from business)
- Schedule SE (computes the self-employment tax)
- Form 1040 or Form 1040-SR (to file annual income tax)

Quarterly estimated payments

When required:

- If you expect to owe \$1,000 or more in federal income tax
- Use Form 1040-ES to calculate payments

Due dates

- Q1: April 15
- Q2: June 15
- Q3: September 15
- Q4: January 15 (following year)

How much to set aside

Conservative rule of thumb: Save 30% of gross earnings for taxes

This covers the following obligations:

- Federal income tax
- State and local income tax
- Self-employment tax (non-deductible portion)

Actual amount varies based on:

- Income level
- Available deductions and credits
- State and local tax rates

Special considerations and exemptions

Who must pay self-employment tax — required if:

- Self-employed with net earnings over \$400 annually
- Church employees earning more than \$108.28

Business entity considerations:

- Sole proprietorships: Subject to self-employment tax
- Partnerships: Partners pay self-employment tax on their share
- S Corps: Only salaries subject to self-employment tax
- C Corps: Shareholder-employees receive W-2s

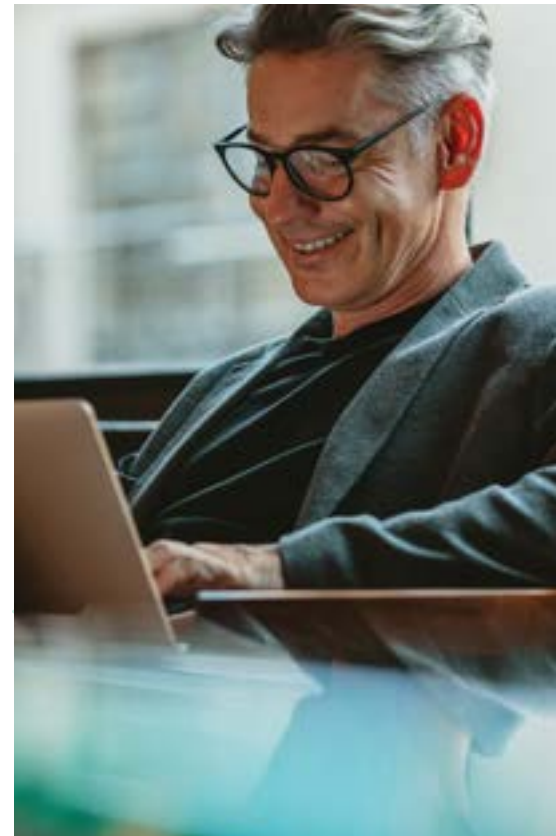
Special cases

Family caregivers

- Provide in-home services for older/disabled individuals
- Often considered employees of those they serve
- May have different self-employment tax treatment
- Consult IRS Publication 926, Household Employer's Tax Guide

Exemptions

- Employees who receive W-2s
- Certain religious groups
- Some foreign income situations



Quick reference: key numbers and deadlines

2025 tax year key figures

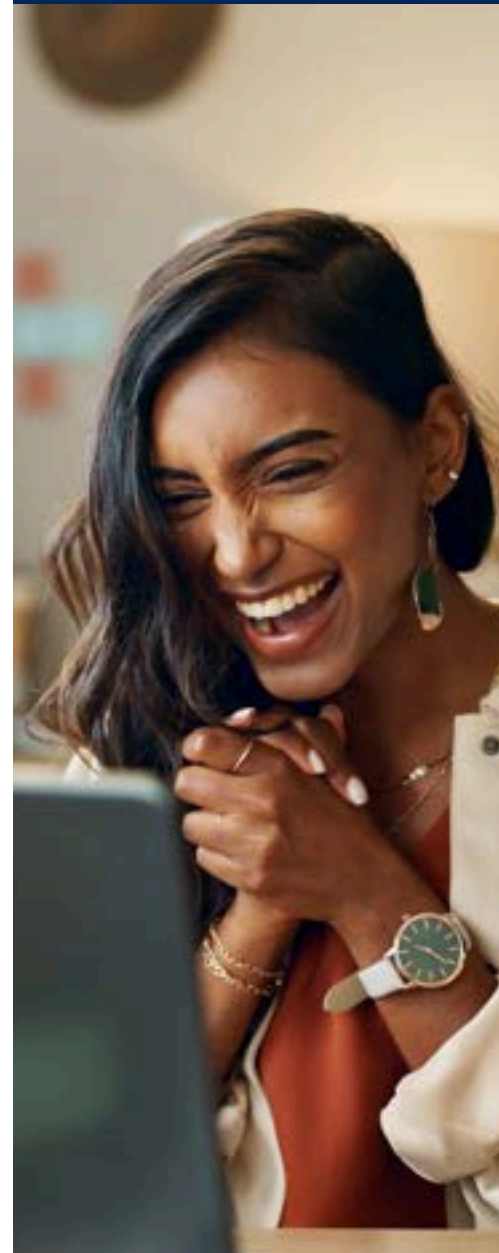
Item	Amount
Self-employment tax rate	15.3%
Social Security rate	12.4%
Medicare rate	2.9%
Additional Medicare rate	0.9%
Social Security wage base	\$176,100
Self-employment tax threshold	\$400
Church employee threshold	\$108.28
Self-employment tax calculation factor	92.35%

Important deadlines

Quarter	Due Date
Q1 (Jan-Mar) estimated payment	April 15
Q2 (Apr-May) estimated payment	June 15
Q3 (Jun-Aug) estimated payment	September 15
Q4 (Sep-Dec) estimated payment	January 15 (following year)
Annual income tax return	April 15

Additional Medicare surtax thresholds

Filing status	Threshold
Single/head of household	\$200,000
Married filing jointly	\$250,000
Married filing separately	\$125,000



Taking control of your tax obligations

Understanding and managing the self-employment tax is an important task for every independent professional. While the responsibility may seem daunting, there are resources, tools, and strategies that can alleviate your burden and mitigate compliance risk.

Key takeaways

1. Plan ahead: Set aside money regularly for tax obligations
2. Track everything: Maintain detailed records of income and expenses
3. Maximize deductions: Take advantage of all eligible business deductions
4. Consider professional help: Complex situations benefit from expert guidance
5. Stay current: Make quarterly payments to avoid penalties

When to seek professional help

Consider consulting a tax professional if any of the following conditions apply to you:

- Have complex business structures
- Want to explore S Corp election
- Need help with the 20% QBI deduction
- Face significant tax liabilities
- Want to formulate a holistic tax strategy and optimize your tax positions



“



OnPay provides awesome support. You can call them and get a real person who cares, is knowledgeable, and knows how to help.

— Alex Wright, Level

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OnPay can help

Managing self-employment tax doesn't have to feel overwhelming. Whether you handle everything yourself or work with a tax professional, leveraging a reliable payroll system makes a huge difference. The right payroll software can help to lessen your administrative burden and mitigate compliance risk.

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This guide provides general information about self-employment taxes. Tax laws and regulations vary by location and change frequently. Always consult with a qualified tax or payroll professional for advice specific to your situation.

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