

Badger Realty Agents' Meeting
Notes for Independent Contractors
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Leone, McDonnell & Roberts PA

	Statutory employee	Sole Proprietor/Independent Contractor
How are taxes handled?	Have withholding for income taxes and FICA taxes as part of payroll.	No withholding Responsible for employer and employee portion of FICA taxes (Note: there is a deduction for 50% of the SE taxes on the tax return.)
How are taxes paid?	Withholding on payroll	Quarterly tax estimates using 1040ES Due 4/15, 6/15, 9/15 & 1/15 For more details see https://www.irs.gov/pub/irs-pdf/f1040es.pdf
What tax forms will you get to report your income?	W-2 with statutory employee box checked	1099-NEC
How is the business reported on your tax return?	Schedule C as part of your Form 1040	Schedule C as part of your Form 1040
Can you deduct business expenses against business income?	Yes	Yes – some expenses to consider include home office, auto, dues, office supplies, gifts to clients, cell phone & internet (see separate worksheet for more details.) Also, special deductions for health insurance, IRA/SEP contributions, and qualified business income.

Ways to estimate your tax to pay quarterly:

1. If you think your income for 2020 will be similar to 2021 and you had enough withholding for 2020, then add the federal income tax, social security and Medicare withholding amounts on your 2020 W2 and round up to the nearest \$1,000. Pay 25% each quarter.
2. Use the worksheet in the instructions to form 1040ES (see link above)
3. Each quarter calculate your income less business expenses and pay 25-30% as a quarterly estimate for that quarter.
4. Explain the change to your tax preparer and they can calculate quarterly estimates based on what you think your income for 2021 will be.

How do I make quarterly estimates?

1. Pay online at irs.gov/payments (no fee if direct pay from your bank account)
2. Mail in a voucher with a check (not preferred based on current delays in processing.)
3. Other options at irs.gov/payments include electronic federal tax payment system (requires an enrollment process) and same day wire.

State estimates:

For Maine:

https://www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/21_1040es_download_w_instructionsff_0.pdf

For New Hampshire:

<https://www.revenue.nh.gov/forms/2021/documents/nh-1040-es-2021-print.pdf>

Note that NH 4Q estimates are due 12/15.

Both New Hampshire and Maine have online payment options.

Recommendations and best practices:

1. Have a separate bank account and credit card just for business income and expenses.
2. Review your tax estimates as the year progresses to see if you need to adjust them.
3. Consider retirement savings. Some options are IRAs and SEP plans.
4. Talk to a lawyer and/or insurance agent about potential need for business liability insurance.
5. Talk to a lawyer if you are considering setting up an LLC or partnership.
6. Keep your business expenses up to date at the year progresses.
7. Keep a written log for business mileage.

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