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U.S. Self-Employment Tax

Self-employment tax is a tax consisting of Social Security and Medicare taxes primarily for individuals who work for themselves. It is similar to the Social Security and Medicare taxes withheld from the pay of most wage earners.

The self-employment tax rate is 15.3%. The rate consists of two parts: 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance).

For 2019, the first \$132,900 of your combined wages, tips, and net earnings is subject to any combination of the Social Security part of self-employment tax, Social Security tax, or railroad retirement (tier 1) tax. The amount increased to \$137,700 for 2020.

All your combined wages, tips, and net earnings in the current year are subject to any combination of the 2.9% Medicare part of Self-Employment tax, Social Security tax, or railroad retirement (tier 1) tax.

An additional Medicare tax rate of 0.9 % applies to wages, compensation, and self-employment income above a threshold amount received in taxable years beginning after Dec. 31, 2012.

You can deduct the employer-equivalent portion of your self-employment tax in figuring your adjusted gross income. This deduction only affects your income tax. It does not affect either your net earnings from self-employment or your self-employment tax.

If you use a tax year other than the calendar year, you must use the tax rate and maximum earnings limit in effect at the beginning of your tax year. Even if the tax rate or maximum earnings limit changes during your tax year, continue to use the same rate and limit throughout your tax year.

You must pay self-employment tax and file Schedule SE (Form 1040 or 1040-SR) if either of the following applies.

1. Your net earnings from self-employment (excluding church employee income) were \$400 or more.
2. You had church employee income of \$108.28 or more.

Generally, your net earnings from self-employment are subject to self-employment tax. If you are self-employed as a sole proprietor or independent contractor, you generally use Schedule C to figure net earnings from self-employment. If you have earnings subject to self-employment tax, use Schedule SE to figure your net earnings from self-employment. Before you figure your net earnings, you generally need to figure your total earnings subject to self-employment tax.

To pay self-employment tax, you must have a Social Security number (SSN) or an individual taxpayer identification number (ITIN). As a self-employed individual, you may have to file Estimated Taxes quarterly. You can use these estimated tax payments to pay your self-employment tax.

If you are a self-employed nonresident alien living in the United States, you must pay SE tax if an international social security agreement in effect determines that you are covered under the U.S. social security system. Non-resident aliens' wages, other compensation, and self-employment income that are subject to Medicare tax will also be subject to Additional Medicare Tax if in excess of the applicable threshold.

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

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