

What the Self-Employed Tax Deferral Means

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Regardless of one's current employment situation, it's no secret that 2020 has put the vast majority of Americans through the wringer in one way or another. Some of those hit the hardest include self-employed individuals such as freelancers, independent contractors, and small- to medium-business owners.



The CARES Act and self-employment taxes

The CARES Act aimed to mitigate some of the difficulties faced by the broader working class, and the self-employed sector certainly saw some substantial benefits. These workers are accustomed to setting aside money themselves to pay their [quarterly taxes](#) — as opposed to people whose employers share the tax burden of Medicare and Social Security throughout the year. This makes a temporary tax deferral a favorable option for many self-employed individuals and small businesses.

What if I do decide to defer paying my taxes?

First, it's important to know how much — and what kind of — tax you are technically allowed to defer. According to the [IRS](#), "self-employed individuals may defer the payment of 50 percent of the Social Security tax imposed under section 1401(a) of the Internal Revenue Code on net earnings from self-employment income for the period beginning on March 27, 2020 and ending December 31, 2020." However, the deferred payments must still be made by the dates applicable to all employers who do choose tax deferral. To avoid incurring a penalty, you must adhere to the following dates and amounts:

- On December 31, 2021, 50 percent of the eligible deferred amount; and
- On December 31, 2022, the remaining amount

What does that mean in plain English? Let's look at an example.

Let's say that you calculated what you typically owe in Social Security tax, and it came out to \$10,000 (for the period beginning March 27, 2020 and ending December 31, 2020).

That simply means that you'd need to pay a minimum of \$5,000 by December 31, 2021. The remaining amount would be due December 31, 2022.

Note: You can always choose to pay more than the 50 percent by the 2021 deadline. The rules are the same in that you'll pay the remaining balance by December 31, 2022.

Should those who are self-employed defer tax payments?

The ability to defer some tax now in favor of keeping more money in your wallet may seem tempting, but you may want to consider being cautious with that choice. During a time when changes seem to crop up with each new week, you may want to consider continuing to set that money aside — and potentially paying it as usual — while you still have it. That could help you to avoid a larger tax bill further down the line.

Even if additional aid does arrive for business owners and the self-employed, it may not be enough to cover taxes owed in the long run. Regardless of your choice, remembering to keep detailed records of your income and expenses — which you likely already do — will help immensely when it comes time to file and pay your [quarterly estimated taxes](#).

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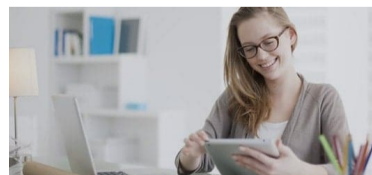
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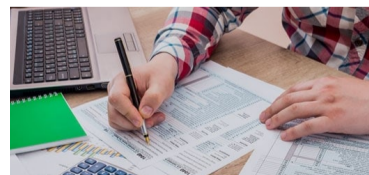
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