

What triggers SE tax, and how can you manage it?

Self-employment (SE) tax can be a major expense for small business owners — and many self-employed individuals are surprised by this obligation when they file their first tax return that includes self-employment income. It's separate from federal and state income tax, so a small business owner may owe *both* income tax and SE tax on the same earnings. Here's a closer look at whether this tax applies to your business activities, how it's calculated and possible ways to reduce it.

Affected taxpayers

SE tax is the Social Security and Medicare tax paid by individuals who work for themselves. Essentially, it's the self-employed counterpart to the Federal Insurance Contributions Act (FICA) taxes withheld from employees' paychecks. The difference is that employees split these taxes with their employers, while self-employed individuals generally pay both portions.

SE tax generally applies to people who earn income from a trade or business other than as employees. It may apply to you if you conduct business as:

- A freelancer, independent contractor or gig worker,
- A sole proprietor,
- A partner in a partnership,

- A member of a single-member limited liability company (LLC) or multi-member LLC that's treated as a partnership for federal income tax purposes.

If your work falls into one of these categories, you must pay the SE tax if you have net self-employment earnings of $400 or more in a tax year. SE tax rules apply regardless of age or whether you're already receiving Social Security or Medicare benefits. Because taxes generally aren't withheld from self-employment income, you'll likely need to make estimated tax payments throughout the year to avoid underpayment penalties.

How it works

The IRS effectively treats self-employed individuals as *both* employers and employees. As a result, they must pay 12.4% on net self-employment income up to the annual Social Security wage base, plus 2.9% on *all* net self-employment income for Medicare. That results in a combined SE tax rate of 15.3%.

The Social Security wage base for 2026 is $184,500. So, the maximum amount you'll owe for the Social Security component of SE tax is $22,878 (12.4% × $184,500). The 2.9% Medicare tax has no limit.

Self-employed individuals — like employees — are also liable for an additional 0.9% Medicare tax when their self-employment income (plus FICA wages, if they also work for an employer — more details below) exceeds the applicable threshold based on filing status ($200,000 for single or head-of-household filers, $250,000 for married people who file jointly, and $125,000 for married taxpayers filing separately). There's no "employer" portion of this tax, so the 0.9% amount is the same regardless of whether it's applied to self-employment income or wages.

For example, Mary is a single taxpayer who operates a sole proprietorship. She generates $210,000 of net self-employment income for 2026. Assuming she doesn't earn any other applicable income, her SE tax bill will be $29,058 [$22,878 + (2.9% × $210,000 + (0.9% × $10,000)].

Side gigs

If you earn wages from an employer and also have self-employment income, you may wonder whether you can ask your employer to stop withholding Social Security tax once your combined wages and net earnings from self-employment reach the annual wage base threshold. Unfortunately, you can't.

The reason is that employers must withhold Social Security taxes from an employee's wages, even if the combined withholding exceeds the maximum amount for the year. In this situation, any excess Social Security tax is reconciled on your personal income tax return.

Your wages are considered first when applying the annual Social Security wage base. If your wages already equal or exceed the wage base, you generally won't owe the Social Security portion of SE tax on your side-business income. However, you'll still owe the 2.9% Medicare portion, as well as the 0.9% additional Medicare tax, if applicable.

Strategies to reduce SE tax

You generally can't eliminate SE tax liability if your business is profitable, but there are some legitimate tax-planning strategies that can reduce or defer it. (Many will help lower your income tax obligations, too.)

The most important way to lower your tax hit is to claim all allowable business deductions. SE tax applies to net earnings from self-employment. For most self-employed individuals, net earnings are calculated by multiplying net profit (gross income minus deductible business expenses) by 92.35% (0.9235). Common business deductions include:

- Home office expenses,
- Professional fees,
- Business insurance,
- Office supplies, and
- Technology and software costs.

Important: You can also deduct half of your SE tax (the employer-equivalent portion) when calculating adjusted gross income. This deduction doesn't reduce the SE tax itself, but it can lower *income* taxes. However, the 0.9% additional Medicare tax, if applicable, isn't deductible because there's no employer-equivalent portion.

Timing strategies can help *defer* taxes. For example, many self-employed people use the cash method of accounting. In that case, you might delay billing late-year work until early 2027 or pay certain expenses before December 31 to reduce net self-employment income for the year. But this strategy might not make sense over the long run if you expect to be in a higher tax bracket next year.

In addition, as your business grows, an S corporation election may create opportunities to reduce employment taxes in certain situations. However, the strategy comes with additional administrative requirements and must be carefully structured to comply with IRS rules. We can help determine whether the potential savings outweigh the added complexity.

Plan ahead for SE tax

If you have questions about SE tax, contact us. We can help you calculate your SE tax obligation, identify potential business expense deductions and develop plans to optimize your overall tax position.

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