The Self-Employed Business Owner Guide

> Working for yourself unlocks deductions and tax structures employees never see. Here is how to keep more of what you earn.

Being your own boss changes your taxes in ways that can save real money, or cost it if you miss the moves. From choosing a business structure to converting a contract offer to its true value, this guide covers the decisions that matter most for the self-employed.

When an S-corp saves you tax

A sole proprietor pays self-employment tax, 15.3 percent, on all their profit. Electing S-corp status lets you split the profit into a reasonable salary, which pays payroll tax, and a distribution, which does not. The self-employment tax you skip on the distribution is the savings.

On 150,000 dollars of profit with a 90,000 dollar salary, a sole proprietor owes about 21,194 dollars of self-employment tax, while the S-corp owner pays about 13,770 on the salary, saving roughly 7,424 dollars a year. The catches are real, though. The salary must be defensible as reasonable for your work, and running payroll plus a corporate return costs over a thousand dollars a year, so the election usually pays off only once profit is comfortably above a reasonable salary.

What a 1099 offer is really worth

A contract role that pays more than a salary is not automatically better. As a contractor you pay both halves of Social Security and Medicare and buy your own benefits, so a 1099 number has to be meaningfully higher to match a W-2 job.

Convert it to compare. A 120,000 dollar contract carries about 8,478 dollars of extra employer-side payroll tax, and if you value the health insurance, retirement match, and paid time off you must now self-fund at 12,000 dollars, the contract is worth about 99,522 dollars as a salary. That is why contract rates should often be 25 to 50 percent above a salary, though contractors also gain deductions and the QBI deduction that narrow the gap.

The deductions owners miss

Self-employment comes with deductions employees cannot take, and skipping them is leaving money on the table. The home office deduction lets you write off a share of your home if you use part of it regularly and exclusively for business, either 5 dollars a square foot up to 300 square feet, or the actual business percentage of your home expenses, whichever is larger.

The self-employed health insurance deduction lets you write off your premiums above the line, saving your marginal rate. On 9,000 dollars of premiums in the 22 percent bracket, that is about 1,980 dollars, dropping the real cost of coverage to around 7,020 dollars. Together with retirement contributions, these deductions can cut a self-employed tax bill substantially.

Know your true costs

When you hire, an employee costs far more than their salary. Add the employer half of payroll tax, benefits, and overhead and the loaded cost is usually 1.25 to 1.4 times the wage. Budgeting for that multiple, not the salary alone, is what keeps a small business solvent as it grows.

The same lens helps you price your own work. If a full-time role costs an employer 40 percent above the salary, your rate as a contractor should reflect the taxes and benefits you now carry yourself. Run the Cost of an Employee and 1099 vs W-2 calculators together to see both sides, then set rates that actually cover your costs.

> **Key takeaway.** Once profit is comfortably above a reasonable salary, an S-corp can cut payroll tax. Meanwhile, claim every deduction, and price contract work well above a salary to cover the taxes and benefits you now carry.

Assumptions

- S-corp savings come from paying payroll tax only on a reasonable salary, not the full profit. Deduction figures use the 2026 rules from the versioned tax data.
- These are the money mechanics. Reasonable salary must be defensible to the IRS, and running an S-corp adds real payroll and filing costs.

Sources

- IRS, self-employed individuals tax center
- IRS, S corporations