

Teacher Lesson Plan

Module 14—Self-Employment Income and the Self-Employment Tax

Time Frame

One to two class periods

Curriculum Area(s)

- Technology
- Civics/Government
- Family and Consumer Sciences
- History/Social Studies
- Economics

Purpose

To help students understand self-employment income and the self-employment tax

Objectives

Students will be able to

- distinguish between an employee and an independent contractor.
- explain how to compute and report self-employment profit.
- explain how to compute and report the self-employment tax.

Materials

Online

[Student Lesson—Self-Employment Income and the Self-Employment Tax](#)

[Tax Tutorial—Self-Employment Income and the Self-Employment Tax](#)

[Simulation 14A—Using Form 1099-INT to Complete Schedule C-EZ, Schedule SE, and Form 1040](#)

[Simulation 14B—Using Form 1099-MISC to Complete Schedule C-EZ, Schedule SE, and Form 1040](#)

[Assessment—Self-Employment Income and the Self-Employment Tax](#)

[Assessment Solutions—Self-Employment Income and the Self-Employment Tax](#)

Print (PDF)

[Fact Sheet—Self-Employment Income and the Self-Employment Tax](#)

[Teacher Lesson Plan—Self-Employment Income and the Self-Employment Tax](#)

Tax Forms

[Schedule C-EZ, Net Profit From Business](#)

[Schedule SE, Self-Employment Tax](#)

[Form 1040, U.S. Individual Income Tax Return](#)

[Form 1099-MISC, Miscellaneous Income](#)

Background

A business is a continuous, regular activity that has income or profit as its primary purpose. Independent contractors are self-employed. Self-employed workers control the methods and means of performing services for others. In contrast, employers direct or control the work of their employees. Self-employment income may be reported to the independent contractor on Form 1099-MISC. Self-employment profit is self-employment income minus self-employment expenses when self-employment income is *greater than* self-employment expenses. Self-employment loss is self-employment income minus self-employment expenses when self-employment income is *less than* self-employment expenses. For a business owned by just one person, self-employment income, expenses, and profit or loss are reported on Schedule C (or C-EZ), *Profit or Loss From Business*. The self-employment tax is similar to Social Security and Medicare taxes. The self-employment tax rate in 2008 is 15.3 percent of self-employment profit. The self-employment tax increases the total tax. One-half of the self-employment tax reduces the income subject to tax.

Key Terms

business—A continuous and regular activity that has income or profit as its primary purpose.

employee—Works for an employer. Employers can control when, where, and how the employee performs the work.

independent contractor—Performs services for others. The recipients of the services do not control the means or methods the independent contractor uses to accomplish the work. The recipients do control the results of the work; they decide whether the work is acceptable. Independent contractors are self-employed.

Medicare tax—Used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65.

Self-employment loss—Self-employment income minus self-employment expenses when self-employment income is greater than self-employment expenses.

self-employment profit—Self-employment income minus self-employment expenses when self-employment income is greater than self-employment expenses.

self-employment tax—Similar to Social Security and Medicare taxes. The self-employment tax rate is 15.3 percent of self-employment profit. The self-employment tax is calculated on Schedule SE, *Self-Employment Tax*. The self-employment tax is reported on Form 1040, *U.S. Individual Income Tax Return*.

Social Security tax—Provides benefits for retired workers and their dependents as well as for the disabled and their dependents. Also known as the “Federal Insurance Contributions Act” tax.

Opening the Lesson

Hand out Fact Sheet—Self-Employment Income and the Self-Employment Tax. Use the following questions to prompt students to share their knowledge about self-employed workers:

- Provide an example of a self-employed worker.

Self-employed workers own their own businesses, such as restaurants, auto repair shops, personal training services, cleaning

services, and professional services, such as doctors, attorneys, and accountants.

- How does an employee differ from a self-employed person?

An employee reports to and is controlled by the employer. A self-employed person is his or her own boss.

- Employees pay Social Security and Medicare taxes. Do you think self-employed workers pay similar taxes?

Self-employed workers pay the self-employment tax on the self-employment profit. Self-employment tax is similar to Social Security and Medicare taxes.

Note: Refer students who may want to work independently on this module to Student Lesson—Self-Employment Income and the Self-Employment Tax.

Developing the Lesson

Direct students to Tax Tutorial—Self-Employment Income and the Self-Employment Tax, and explain that this tax tutorial focuses on workers who own their own businesses. Tell students that they will learn the difference between employees and self-employed workers. They will learn how to identify and report self-employment income, expenses, and profit. They also will learn how to report the self-employment tax. Inform students that they will have an opportunity to look at tax forms associated with self-employed workers.

Online Activities

Direct students to Simulation 14A-Using Form 1099-INT to Complete Schedule C-EZ, Schedule SE, and Form 1040. Explain to students that they will use the information from Form 1099-INT and other sources to complete Form 1040 for Rita Bentley, a teenage pet sitter.

Direct students to Simulation 14B-Using Form 1099-MISC to Complete Schedule C-EZ, Schedule SE, and Form 1040. Explain to students that they will use the information from Form 1099-MISC and other sources to complete Form 1040 for James King, a teenage lawn care provider.

Concluding the Lesson

After students have completed Tax Tutorial and Simulation 14A and Simulation 14B, ask whether they have questions about self-employed workers and how they report their income, expenses, and profit. Also ask students whether they have any questions about the self-employment tax. To ensure that they understand the material, ask the following questions:

- What is the difference between an employee and a self-employed individual?

Employers direct or control the work of employees. Self-employed workers are their own bosses; they control their own work.

- What tax form is used to report self-employment income, expenses, and profit or loss?

Schedule C (or C-EZ), Profit or Loss From Business

- What is the self-employment tax rate?

The self-employment tax rate is 15.3 percent.

Assessment

As a final review, summarize the major lesson points. Remind students that self-employment profit increases income subject to tax, and self-employment loss reduces income subject to tax. Also, the self-employment tax, which is similar to the Social Security tax and the Medicare tax, increases the total tax. When students are comfortable with the material, have them complete Assessment—Self-Employment Income and the Self-Employment Tax.