



CLIENT GUIDE

Self-Employment Tax

Social Security and Medicare Taxes for the Self-Employed

When you work for yourself, no employer is withholding Social Security and Medicare tax from a paycheck on your behalf — which means it falls to you to calculate it, report it, and pay it. The IRS calls this self-employment (SE) tax, and it applies whether you run a sole proprietorship, freelance, drive for a rideshare platform, or earn any other income the IRS treats as self-employment.

This guide walks through what SE tax is, who owes it, how it is calculated, the deduction that softens it, and what changes for clients earning self-employment income while living or working across borders.



What Self-Employment Tax Covers

Self-employment tax is Crossbridge's shorthand for the combined Social Security and Medicare taxes that self-employed individuals pay on their net earnings. Employees and their employers split these taxes, each paying half through payroll withholding. A self-employed person is both the employer and the employee, so the IRS collects the full combined rate directly from them, calculated on Schedule SE and filed with Form 1040.

SE TAX RATE — 15.3% COMBINED

- Social Security portion: 12.4%, funding old-age, survivors, and disability insurance
- Medicare portion: 2.9%, funding hospital insurance

The Social Security portion applies only up to an annual wage base ceiling that rises each year with inflation. The Medicare portion has no ceiling — it applies to all net self-employment earnings, no matter how high.

Who Has to Pay It

You owe SE tax and must file Schedule SE if either of the following applies for the year:

- Net earnings from self-employment (other than as a church employee) were \$400 or more
- Church employee income was \$108.28 or more

This threshold is low by design — it catches side income and part-time self-employment, not just full-time business owners. A valid Social Security number or ITIN is required to file.

The Social Security Wage Base

The 12.4% Social Security portion of SE tax applies only to net self-employment earnings (combined with any wages from employment) up to an annual ceiling. Earnings above that ceiling still owe the 2.9% Medicare portion, but not the Social Security portion. The ceiling is adjusted for inflation each year:



SOCIAL SECURITY WAGE BASE BY YEAR

- 2026: \$184,500
- 2025: \$176,100
- 2024: \$168,600

If you have both a W-2 job and self-employment income, wages and net self-employment earnings are combined for purposes of this ceiling — Schedule SE walks through the coordination so you are not taxed twice on the same dollar of Social Security wage base.

The Additional Medicare Tax

Higher earners owe an extra 0.9% Additional Medicare Tax on self-employment income (combined with wages) above a threshold that depends on filing status. Unlike the Social Security wage base, these thresholds are fixed by statute and are not indexed for inflation:

ADDITIONAL MEDICARE TAX THRESHOLDS

- Married filing jointly: \$250,000
- Married filing separately: \$125,000
- Single, head of household, or qualifying surviving spouse: \$200,000

There is no employer-side match for the Additional Medicare Tax — it is a flat 0.9% add-on once income crosses the applicable threshold.

The Deduction for Half of SE Tax

SE tax is designed to put a self-employed person in roughly the same position as an employee, whose employer pays half of Social Security and Medicare tax and deducts it as a business expense. To mirror that, you can deduct the employer-equivalent half of your SE tax as an adjustment to income when calculating adjusted gross income — taken above the line, whether or not you itemize.

Self-employed individuals who pay for their own health insurance may also be able to deduct those premiums, which factors into how net self-employment earnings are ultimately calculated.



Filing and Paying

CORE FILINGS

- Schedule SE (Form 1040) to calculate the tax
- Form 1040 to report and reconcile it
- Form 1040-ES for quarterly estimated payments — since no employer is withholding on your behalf, most self-employed clients need to pay in through the year rather than in one lump sum at filing

Underpaying estimated tax through the year can trigger a penalty even if the full balance is paid by the filing deadline, so we build SE tax into quarterly projections for clients with meaningful self-employment income rather than waiting until year-end.

Cross-Border Considerations

FOR U.S. CITIZENS AND GREEN CARD HOLDERS ABROAD

The Foreign Earned Income Exclusion does not touch SE tax.

This is one of the most common surprises we see with self-employed expat clients: the Foreign Earned Income Exclusion (FEIE) can eliminate U.S. income tax on foreign earnings, but it has no effect on self-employment tax. A U.S. citizen or green card holder running a business or freelancing abroad generally still owes the full 15.3% SE tax on net self-employment earnings, even in a year when the FEIE zeroes out income tax entirely.

TOTALIZATION AGREEMENTS

A treaty can shift where the social security tax is owed.

The U.S. has bilateral Social Security (totalization) agreements with a number of countries. Where one applies, a self-employed person covered under the social security system of the treaty country — evidenced by a Certificate of Coverage — can be exempted from U.S. SE tax on the same earnings, and vice versa. These agreements exist specifically to prevent double social security taxation for people working across two countries, and the analysis is country-specific.



FOR FOREIGN NATIONALS WORKING IN THE U.S.

SE tax generally follows U.S. tax residency, with narrow exceptions.

A nonresident alien is generally not subject to U.S. self-employment tax on self-employment income, though specific visa categories, treaty provisions, and the substantial presence test can change that answer. This is an area worth reviewing individually rather than assuming either way.

A Note from Crossbridge

Self-employment tax is often the largest single tax line for business owners, freelancers, and independent contractors — frequently larger than income tax itself in years with modest profit. Getting ahead of it with quarterly estimates, and confirming how a totalization agreement or the FEIE actually interacts with SE tax in your specific situation, avoids both penalties and unpleasant surprises at filing time.

This guide is educational and general in nature. It is not a substitute for advice tailored to your facts. Reach out to your Crossbridge advisor before relying on it for a specific filing position.