

When the Lemonade Stand Makes Bank: Young Entrepreneurs and Taxes.

Teens and young adults often go into business for themselves over the summer or after school. This work can include babysitting, lawn mowing, dog walking or other part-time or temporary work. When a teen or young adult is an employee of a business, their employer withholds taxes from their paycheck. However, when they are classified as an **independent contractor or are self-employed**, they're responsible for paying taxes themselves.

Things to keep in mind:

- Everyone, including minors, must file a tax return if they had net earnings from self-employment of at least \$400.
- If they owe taxes, teens and young adults should file their own tax return, even if their parent or guardian claims them as a dependent.
- Teens and young adults can prepare and sign their own tax return. There is no minimum age to sign a tax return.
- Parents can't claim a dependent's earned income on their own tax return.
- In addition to income tax, people who are self-employed are generally responsible for self-employment tax as well. It's like the Social Security and Medicare taxes withheld from the pay of most wage earners.
- Teens and young adults can lower the amount of tax they owe by **deducting certain expenses**.

Here's what young entrepreneurs can do to keep on top of their tax responsibilities:

Keep records. It's good to make and keep financial records and receipts during the year. **Recordkeeping** can help track income and deductible expenses and provide the information needed for a tax return.

Pay estimated tax, if required. If a teen or young adult being claimed as a dependent expect to owe at least \$1,000 in tax for 2022, they must make estimated payments on a quarterly basis. They should be sure to pay enough tax on time to avoid a penalty. They can use one of these forms to calculate their estimated taxes:

- **Form 1040-ES, Estimated Taxes for Individuals**
- **Form 1040-ES NR, U.S. Estimated Tax for Nonresident Alien Individuals**

If a taxpayer also has a job where tax is withheld by their employer, they can request that their withholding be increased to cover their estimated taxes from their self-employed income. That way, they don't have pay estimated tax separately. **The Tax Withholding Estimator** is a great tool to help wage earners figure out how much they should be withholding.

File a tax return. When tax season rolls around, young taxpayers can review the information and forms, gather their records and **e-file their tax return**. When preparing to file a tax return, they should make sure to review all their records, including estimated tax they've already paid.

If people owe taxes, they can pay electronically through Online Account and IRS Direct Pay. Visit the **Payments page** of IRS.gov for the full list of payment options.