

# IMMIGRANTS **RISING**

**A GUIDE TO ITINs, EINs AND TAXES**

**[immigrantsrising.org](http://immigrantsrising.org)**

## ITINs, EINs and Taxes

All immigrants regardless of legal status are able to earn a living as independent contractors or start a business using a Social Security Number (SSN), Individual Tax Identification Number (ITIN), or Employer Identification Number (EIN). Before you consider starting a business, you need to make sure you have a valid SSN or ITIN. The IRS issues ITINs to individuals not eligible to obtain a SSN. The ITIN allows individuals to report earnings to the IRS, open interest-bearing bank accounts with certain banks and start a business in the U.S.

## Basic Facts

- All immigrants regardless of legal status are able to earn a living as independent contractors, or start a business using an ITIN, EIN, or SSN.
- Individuals may choose to apply for an EIN to identify a business entity and hire employees. An ITIN may be used to obtain an EIN.
- An independent contractor must pay [self-employment tax and income tax](#). An independent contractor may use an ITIN, or EIN to file and pay taxes instead of a SSN.
- Independent contractors should submit a [W9 Form](#) instead of the I-9 Form to each entity (client) they provide independent contractor services to. The W-9 is filled out at the start of work by an independent contractor and kept on record by the payer (client).
- A payer (client) must file a [1099 Form](#) for each independent contractor paid \$600 or more. A copy of the 1099 is mailed to the independent contractor at the end of the year and he or she becomes responsible for paying taxes thereafter.
- How much you make, and how you file (single, married filing jointly, married filing separately), will determine how much you need to pay for taxes.
- There are federal and state tax brackets depending on how much money you make and how you file.

- The IRS allows business expenses to be deducted from your earnings; expenses must be business expenses and not personal.

## EINs

In addition to the SSN or ITIN, an individual may choose to apply for a An Employer Identification Number (EIN). The EIN, also known as a Federal Tax Identification Number is a unique 9-digit number assigned by the Internal Revenue Service (IRS), and is used to identify a business entity. Similar in purpose to the SSN assigned to individuals, EINs are used by employers, sole proprietors, corporations, partnerships, non-profit organizations, trusts and estates, government agencies, certain individuals, and other business entities. <sup>1</sup> A SSN or ITIN may be used to get an EIN.

According to the IRS, you will need an EIN if you answer "Yes" to any of the following questions:

- Do you have employees?
- Do you operate your business as a corporation or a partnership?
- Do you file any of these tax returns: Employment, Excise, or Alcohol, Tobacco and Firearms?
- Do you withhold taxes on income, other than wages, paid to a non-resident alien?
- Do you have a Keogh plan?
- Are you involved with any of the following types of organizations?
  - Trusts, except certain grantor-owned revocable trusts, IRAs, Exempt Organization Business Income Tax Returns
  - Estates
  - Real estate mortgage investment conduits
  - Non-profit organizations
  - Farmers' cooperatives
  - Plan administrators

## How to Apply for an EIN

You can apply for an EIN online, by fax, or mail depending on how soon you need to use the EIN. Applying for an EIN is a free service offered by the IRS. Beware of websites on the Internet that charge for this free service. For more detailed information about the application process for the EIN, see the [IRS, How to Apply for an EIN](#).

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<sup>1</sup> Source: <https://www.irs.gov/pub/irs-pdf/p1635.pdf>

## Filing Taxes as an Independent Contractor (IC)

Filing your taxes as an employee and independent contractor are very different. When you work for yourself there are no deductions from your paycheck for income taxes, social security or Medicare, as would be the case if you were working as an employee. As an independent contractor or small business owner you are held responsible for paying federal and state income tax, social security and Medicare; this combined tax is called [self-employment tax](#) for independent contractors.

## Determining How Much to Pay for Taxes

How much you make, and how you file (single, married filing jointly, married filing separately, etc.), will determine how much you need to pay for taxes. In general, you pay income taxes as an independent contractor or business owner by subtracting business deductions and expenses from the net income from all your business activities. This amount gets added with any other income, and then the tax is calculated on your total adjusted gross income. There are federal and state tax brackets depending on how much money you make and how you file. You will want refer to the IRS website for yearly federal tax brackets and state websites for yearly state tax brackets. It is generally recommended to save between 21% to 25% of your income each time you get a paycheck. The IRS recommends paying estimated taxes throughout the year to avoid penalties and fees, "Individuals, including sole proprietors, partners, and S corporation shareholders, generally have to make estimated tax payments if they expect to owe tax of \$1,000 or more when their return is filed." If you are earning more than \$10,000, you will likely owe \$1,000 in taxes, so you may consider paying estimated taxes. For more information about estimated taxes, see the [IRS, Estimated Taxes](#).

## Working With a Tax Preparer/Accountant

You may file your independent contractor or business taxes on your own, but we recommend working with a reliable tax preparer or accountant (especially if it's your first time filing as an IC), who can help you complete the correct tax forms and help you determine your deductions and expenses.

Fraud warning: Similar to immigration services, you should be very careful when

choosing a tax preparer. You do not want to become a victim to any scheme that offers unrealistic wealth or exemption from your obligation to file tax returns and/or pay taxes.

While most preparers provide excellent and honest service to their clients, a few unscrupulous tax return preparers file false and fraudulent tax returns and ultimately defraud their clients. It is important to know that even if someone else prepares your return, you are ultimately responsible for all the information on the tax return, which is why it is very important to choose your tax preparer wisely.

## Checklist When Looking for a Tax Preparer

- Check the person's qualifications
- Check the preparer's history
- Find out about their service fees
- Ask if they offer electronic filing
- Make sure the tax preparer is accessible
- Provide all records and receipts needed to prepare your return
- Never sign a blank return
- Review the entire return before signing it
- Make sure the preparer signs the form and includes his or her preparer tax identification number (PTIN).

## Forms Needed to File Taxes as an IC

Below are the general forms needed to file taxes as an independent contractor.

- [W9 Form](#) – you submit this form to each client(s) so they can keep track of how much they pay you.
- [1099 Form](#) – this form is mailed to you at the end of the year by each client(s) who pays you more than \$600. Note: You should report earnings even if you do not receive a 1099 form.
- [Form 1040](#) – form used to report self-employment income.
- [Schedule C EZ Form](#) – form used to calculate net profit from business (used for smaller businesses).
  - Your business expenses are less than \$5000
  - You have no employees

- You have no physical inventory
  - You are not using depreciation or deducting the cost of your home
- [Schedule C Form](#) – used to calculate profit or loss from business (used for more complex businesses).
- [Schedule SE Form](#) – used to determine how much you pay in social security and Medicare taxes (in addition to income tax).

## Expenses and Deductions

The IRS allows business expenses to be deducted from your earnings; expenses must be business expenses and not personal. For any business expense, you must keep record of each expense (date, purpose, amount, and copy of receipt) to prove that it was a business expense in case of an audit.

You want to take as many legitimate deductions as you can, but you must be able to prove that the money was spent and that it was used for business purposes. We recommend keeping a ledger of all expenses and deductions with detailed notes to help you file taxes and be prepared in case of an audit.<sup>2</sup> Below is a list of common business expenses, for more detailed information about business expenses, see [IRS Publication 535, Business Expenses](#).

- Advertising expenses
- Business insurance
- Interest paid on business credit card or business loans
- Professional services (i.e. lawyers, accountants, tax preparers)
- Repairs for equipment
- Office supplies
- Travel costs
- Business meals and other entertainment
- Student loan interest deduction
- Tax benefits for education

## Managing Cash Flow and Saving for Taxes

As an independent contractor or business owner, it is important to learn to manage your cash flow by making sure you are charging enough to cover business expenses and taxes, and maintaining a consistent flow of projects/clients. This will require you to research hourly rates of people who do similar work to you, negotiate your billable hours, and determine how many clients and projects you need to have at any given time to keep you financially stable. It is important to keep track of the hours you work and

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<sup>2</sup> Check out this article about apps that help you track business expenses, <https://due.com/blog/5-great-apps-tracking-business-expenses/>

submit invoices to clients on time.<sup>3</sup> We also advise creating a budget to keep track of your expenses and revenues and forecast to keep your finances in check.<sup>4</sup> Lastly, we suggest opening a separate savings account to put aside at least 25% of your income to pay for taxes.

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<sup>3</sup> Consider using an online platform, such as [myhours.com](https://myhours.com)

<sup>4</sup> Consider using a simple Excel spreadsheet or search for a budget app that works for you

## About Immigrants Rising

Founded in 2006, Immigrants Rising transforms individuals and fuels broader changes. With resources and support, undocumented young people are able to get an education, pursue careers, and build a brighter future for themselves and their community. Immigrants Rising is a fiscally-sponsored project of Community Initiatives. For more information, visit [www.immigrantsrising.org](http://www.immigrantsrising.org).