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Tax Planning in a Gig Economy World

The evolution and proliferation of the gig economy have reshaped the dynamic of the workforce and careers. In a gig economy, temporary, flexible jobs are commonplace, and companies tend toward hiring independent contractors and freelancers instead of full-time employees. The traditional worker profile of a long-term company employee is becoming less of the norm. Rooted in the evolving and innovative technological landscape and evolving employment views of a younger labor force, the on-demand and platform economy has arrived and thrived.

Whether you are a freelancer, work on a per diem basis, an independent contractor, a consultant, or side-hustling as a rideshare driver, it is essential to recognize that the tax landscape poses different and unique challenges than a W-2 worker.

Generally, gig economy workers are self-employed and consequently, tax planning is more tedious. As a gig worker, you should familiarize yourself with the additional applicable tax forms: the **1099** and **Schedule C**. The 1099 form is how the earnings will be reported to you by the payer. Schedule C is where you will report your income and expenses as it relates to your self-employment activities.

You will also be subject to the self-employment tax which consists of Social Security tax and Medicare tax. The self-employment tax rate is 15.3% but you do get to deduct 50% of this tax as an adjustment to your gross income. As a result, your taxes will be primarily composed of the following:

- Self-employment tax
- Federal income tax
- State and Local tax, if applicable

Unlike a W-2 worker, where taxes are generally withheld throughout the year, gig workers are responsible for remitting their tax payments throughout the year or may face an underpayment penalty. Unless you are working with an accountant to prepare quarterly projections to calculate the estimated tax payments, you should earmark an appropriate percentage of your ***profits*** as a safety net for the aforementioned tax liabilities. To approximate your profit, you would take your income and subtract your expenses.

With that in mind, you'll want to claim all of your business expenses to reduce your taxable income. Here are some common expenses that you should think about claiming:

- Advertising – website, business cards, promotional materials, brochures, and online activities such as email newsletters.
- Auto – the percentage of driving that you use for business is applicable. Keep track of mileage.
- Commission and Fees – transaction/processing services, credit card, exchange rate, marketplace platforms, and referral/selling fees.
- Legal & Professional Services – setting up a business entity like an LLC and engaging an accountant.
- Software and Subscriptions
- Office Related Equipment & Expenses – cell phone and internet services.

- Home Office Deduction – the portion of your home that you use exclusively to conduct your business and the proportionate expenses, ie. homeowner's insurance, rent, utilities, etc. may qualify as a deduction.
- Health Insurance – up to all your premiums may be deductible. Like the self-employment tax deduction, this would be an adjustment to gross income.

Please note that the above items are not meant to be an exhaustive list. As a rule of thumb, if you incur expenses as a function of performing your services, they should be under consideration as being tax-deductible. As a best practice, don't commingle your personal and business expenses. Lastly, to further reduce your taxable income, consider funding a retirement account like an IRA, SEP-IRA or Solo 401(k).

If you maintain good records, stay organized, understand your tax responsibilities and seek the guidance of a tax advisor to help navigate the intricacies of being self-employed, it will be a less daunting task come tax-filing time.

If you have any questions regarding this report, please contact us at info@atwob.com or 914.302.3233

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