

THE ISSUE: 1099 INCOME

# Tax tips for gig workers and the self-employed

## MONEY FIX

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Maybe you're driving for Uber, working as an independent contractor or otherwise generating income via a side hustle. If you're a member of the gig economy, instead of having a W-2 like an employee, your income is reported on a 1099. You still have to pay the piper.

There's much to know about taxes when you're self-employed. Here's a primer.

### The self-employed landscape

Many self-employed business owners do not realize that they have to pay "self-employment" taxes in addition to regular income taxes. This tax is basically the employee and employer parts of the "FICA" that W-2 employees/employers have to pay. The tax is generally 15.30% on the first \$130,000 of net business income or whatever the "FICA max wages" limit is for the year in question, points out Anthony Viola, a CPA with KVLMS in Woodbury.

Another thing to consider when reporting income on a 1099 is that write-offs sometimes aren't worth as much as you might think.

"Taking a client out to dinner can certainly be written off as a business activity, but a lot of freelancers don't know that you can only write off their portion of the meal, not your own. This means if you spend \$100 total on the meal and spend equally on yourself and your guest, you would only be able to write off \$50," said Jack Choros, content manager for fintech site [cpinflationcalculator.com](http://cpinflationcalculator.com).

### Of special note this year

Make sure you do the math on taking the standard deduction versus itemizing your taxes. With the Tax Cuts and Jobs Act, the standard deductions increased — \$12,200 for singles, \$24,400 for those filing jointly. "For a lot of freelancers, the higher standard deduction that came into effect



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Always keep taxes in mind, and think of this year's as a guide for next year.

under tax reform is actually a better way to go," says Leah Bourne, editor of The Money Manual in Brooklyn.

There were a few other changes under tax reform that are important to freelancers, too.

"For instance, familiarize yourself with the Qualified Business Income deduction, which was new last year. That's the 20% deduction available for 'pass-through' businesses and many freelance businesses are often considered pass-through. If you qualify that's going to be a big savings," said Bourne.

### Mistakes to avoid

The buck starts and stops with you. "Don't think you don't need to report your income if you didn't get a 1099 from a client," said Thomas Williams, author of *Deducting the Right Way: Untangling Small Business Accounting & Taxes*. "This is a popular misconception among freelancers. The reporting rule placed on the person paying you does not affect your responsibilities."

If you're ever audited, and the income is missing from your tax return, you'll face penalties and interest. "Report all your income," said Williams. "It helps get you the best offer when you sell your business and makes it easier for you to apply for a loan."

### How to prepare for next year

Choros urges freelancers to use a third-party software to do their bookkeeping throughout the year. "This makes it easier to file taxes in the spring, because everything is accounted for. FreshBooks or QuickBooks are great options."

Be meticulous about keeping records of your business expenses, income and assets — anything of interest to the IRS. "It is crucial to have excellent records," said Craig Wild, CPA and managing partner at Wild, Maney & Resnick in Woodbury.

Much as you might not want to, adapt the mindset that taxes should be top-of-mind always, not just tax time. "Tax planning prior to year-end is essential so you have time to make adjustments to reduce your taxes," said Wild.

When you finish your return, don't shove it deep in a drawer. It's a road map for next year.

You may need to pay estimated taxes during the year to avoid penalties; use 2020 Form 1040-ES to calculate your estimated tax for next year, said Ashley Lee, a tax relief expert at BestCompany.com.

Once you know how much you should pay over the year, plan to pay that amount in manageable quarterly installments. Lee adds, "Meet with a tax expert early on to help you estimate your tax liability for the upcoming year."