

Workers in new 'on demand' economy face different tax issues

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In this Jan. 4, 2013 file photo, Lyft passenger Christina Shatzen gets into a car driven by Nancy Tcheou, in San Francisco. Drivers for Uber and other companies most often are considered independent contractors who are self-employed. Rather than receive a W-2, they'll get a 1099 form reporting their income. (AP Photo/Jeff Chiu, File)

Did you start driving for Uber or Lyft last year? Rent your house out through Airbnb? You could be in for some surprises come tax time if you didn't pay any estimated taxes.

About 14.6 million people—roughly 10 percent of the U.S. workforce—were self-employed in 2014, according to a Pew Research Center analysis of Census Bureau data.

Of those, about 3.2 million are working in the so-called "on-demand" or gig economy, accord to Intuit, the [software company](#) that produces TurboTax. The company defines the on-demand economy "as an online marketplace or application that connected providers-freelancers with customers."

In addition to transportation and home or apartment rentals, that also can include job sites or other services.

Some people just starting out with Uber, Airbnb or another on-demand service might not realize they're in a business or are a business owner, said Lisa Greene-Lewis, a CPA and editor of the TurboTax blog.

"It's new and different, and everyone is super-excited about it," said Kathy Pickering, executive director of the Tax Institute at H&R Block, but the tax implications can catch people by surprise.

Drivers for Uber and similar companies are often considered independent contractors who are self-employed. Rather than receive a W-2, they'll get a 1099 form reporting their income.



In this Tuesday, Dec. 16, 2014 file photo, a man leaves the headquarters of Uber in San Francisco. Drivers for Uber and other companies most often are considered independent contractors who are self-employed. Rather than receive a W-2, they'll get a 1099 form reporting their income. (AP Photo/Eric Risberg, File)

"It's different from being an employee, where income taxes are automatically withheld, where Social Security and Medicare taxes are automatically withheld," said Barbara Weltman, a consultant and author of "J.K. Lasser's Guide to Self-Employment," and other books on taxes, law and finance.

"The money comes in and they think it's theirs to spend, and they don't figure that a portion of what they take in has to be apportioned to taxes," she said.

Independent contractors are subject not only to regular income taxes but

also to the self-employment tax, which the Internal Revenue Service says "is a Social Security and Medicare tax primarily for individuals who work for themselves."

The taxes are on the business' net profit.

"The good news with Uber is everything is automated and tracked," Pickering said. That makes it easier to keep track of business mileage.



In this Tuesday, Jan. 27, 2015 file photo, Dominic Hrabe holds the family dog, Gracie, in front of his home that he is renting out for Super Bowl weekend in Phoenix. The family is vacating the house for two nights after using airbnb to rent their place to people attending the NFL Super Bowl football game. People who live near the site of the Superbowl have rented their homes out for the long football weekend and taken in "huge bucks," Barbara Weltman, a consultant and author of J.K. Lasser's Self-Employment Guide said. But if that's all they do for the full year they're not required to report the rental income for their taxes. (AP Photo/Ross D. Franklin, File)

Keep track of other expenses too, like the cost of a car wash, or providing water or snacks for riders. "You want to keep the best records you can so you don't pay more taxes than you have to," she said.

But if the car also is used for personal use, you'll have to determine how much and deduct only a percentage for business use.

Schedule C is used to report profit and loss from business income. Schedule SE is used to compute the self-employment tax.

Renting your home out through sites like Airbnb also can have tax implications, depending on how many days you rent it out.

People who live near the site of the Super Bowl, for instance, have rented their homes out for the long football weekend and taken in "huge bucks," Weltman said. But if that's all they do for the year, they're not required to report the rental income for taxes. The threshold for reporting rental income is more than two weeks.

"If you rent your home out for 15 days or more now, you need to start reporting that rental income and the expenses associated with it," Pickering said.

Deductible expenses like utilities must be allocated according to the proportion of business versus personal use.

Weltman recommends that people working in the on-demand economy set aside money to pay their tax bill so it "doesn't snowball into an amazing amount." That includes making estimated tax payments. Jan. 15 was the last date to pay estimated taxes for the fourth quarter of 2015.

For more information, Publication 334 is the IRS' Tax Guide for Small Business. Publication 527 focus on rental income and expenses, and Publication 463 provides information on the use of a car for [business](#).

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