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Tax & Business Alert

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GIG WORKERS, KNOW YOUR TAX RESPONSIBILITIES

Let's say you drive for a ride-sharing app, deliver groceries ordered online or perform freelance home repairs booked via a mobile device. If you do one of these jobs or myriad others, you're a gig worker — part of a growing segment of the economy.

In fact, a 2019 IRS report found that the share of the workforce with income from alternative, nonemployee work arrangements grew by 1.9 percentage points from 2000 to 2016. (That's a big increase.) And, over 50% of this rise occurred during the period 2013 to 2016, almost entirely because of gigs set up online.

A DIFFERENT WAY

No matter what the job or app, all gig workers have one thing in common: taxes. But the way you'll pay taxes differs from the way you would as an employee.

To start, you're typically considered self-employed. As a result, and because an employer isn't withholding money from your paycheck to cover your tax obligations, you're responsible for making federal income tax payments. Depending on where you live, you also may have to pay state income tax.

QUARTERLY TAX PAYMENTS

The U.S. tax system is considered "pay as you go." Self-employed individuals typically pay both federal income tax and self-employment taxes four times during the year: generally on April 15, June 15, and September 15 of the current year, and January 15 of the following year.

If you don't pay enough over these four installments to cover the required amount for the year, you may be subject to penalties. To minimize the risk of penalties, you must generally pay either 90% of the tax you'll owe for the current year or the same amount you paid the previous year.

THE 1099

You may have encountered the term "the 1099 economy" or been called a "1099 worker." This is because, as a self-employed person, you won't get a W-2 from an employer. You may, however, receive a Form 1099-MISC from any client or customer that paid you at least $600 throughout the year. The client sends the same

EXPENSE DEDUCTIONS

By definition, gig workers are self-employed. So, your taxes are based on the profits left after you deduct business-related expenses from your revenue. Expenses can include payment processing fees, your investment in office equipment and specific costs required to provide your service. Remember, if you use a portion of your home for work space, you may be able to deduct the pro rata share of some home-related expenses.

form to the IRS, so it pays to monitor the 1099s you receive and verify that the amounts match your records.

If a client (say, a ride-sharing app) uses a third-party payment system, you might receive a Form 1099-K. Even if you didn't earn enough from a client to receive a 1099, or you're not sent a 1099-K, you're still responsible for reporting the income you were paid. Keep in mind that typically you're taxed on income when received, not when you send a request for payment.

GOOD RECORD KEEPING

As a gig worker, you need to keep accurate, timely records of your revenue and expenses so you pay the taxes you owe — but no more. Our firm can help you set up a good record keeping system, file your taxes and stay updated on new developments in the gig economy. ■

IS THE FAMILY AND MEDICAL LEAVE ACT CREDIT RIGHT FOR YOUR BUSINESS?

The Tax Cuts and Jobs Act created a new tax credit for certain employers that provide paid family and medical leave. Originally, it was available only for the 2018 and 2019 tax years.

However, in December, a new law extended the credit through 2020 for eligible employers that have a written policy providing at least two weeks of such leave annually to all qualifying employees, both full- and part-time, and meet certain other requirements.

THE CREDIT'S VALUE

An eligible employer can claim a credit equal to 12.5% of wages paid to qualifying employees who are on

family and medical leave, if the leave payments are at least 50% of the normal wages paid to them. For each 1% increase over 50%, the credit rate increases by 0.25%, up to a maximum credit rate of 25%.

An eligible employee is one who's worked for your company for at least one year, with compensation for the preceding year not exceeding 60% of the threshold for highly compensated employees for that year. For the 2019 tax year, the threshold for highly compensated employees is \$125,000 (up from \$120,000 for 2018). That means a qualifying employee's 2019 compensation can't exceed \$72,000 (60% × \$120,000).

Employers that claim the Family and Medical Leave Act credit must reduce their deductions for wages and salaries by the amount of the credit.

QUALIFYING LEAVE

Under the rules, family and medical leave is defined as time off taken by a qualified employee for only certain reasons. These include the birth, adoption or fostering of a child (and to care for the child). Care for a spouse, child or parent with a serious health condition qualifies, too, as does leave taken by an employee because of a serious health condition.

Also qualifying is any need because of an employee's spouse, child or parent being on covered active duty in the Armed Forces (or being notified of an impending call or order to covered active duty). Care for a spouse, child, parent or next of kin who's a covered veteran or member of the Armed Forces is eligible as well.

Employer-provided vacation, personal, medical or sick leave (other than leave defined above) is ineligible.

IMPORTANT DATE

Generally, to claim the credit for your company's first tax year that begins after December 31, 2017, your written family and medical leave policy must be in place before the paid leave for which the credit will be claimed is taken.

However, under a favorable transition rule for the first tax year beginning after December 31, 2017, your company's written leave policy (or an amendment to an existing policy) is considered to be in place as of the effective date of the policy (or amendment) rather than the later adoption date.

ATTRACTIVE BUT PRICEY

The new credit could be an attractive perk, but it can also be pricey because you must offer it to all qualifying full-time employees. Contact us for more info. ■

THE 2019 GIFT TAX RETURN DEADLINE IS ALMOST HERE, TOO

Most people have April 15 "tattooed on the brain" as the deadline for filing their federal income tax returns. What you may forget is that the *gift* tax return deadline is on the very same date. So, if you made large gifts to family members or heirs last year, it's important to determine whether you're required to file.

FILING REQUIREMENTS

Generally, you must file a gift tax return for 2019 if, during the tax year, you made gifts that exceeded the $15,000-per-recipient gift tax annual exclusion (other than to your U.S. citizen spouse) or that you wish to split with your spouse to take advantage of your combined $30,000 annual exclusion.

You also need to file if you made gifts to a Section 529 college savings plan and wish to accelerate up to five years' worth of annual exclusions ($75,000) into 2019. Other reasons to file include making gifts:

- That exceeded the $155,000 annual exclusion for gifts to a noncitizen spouse, or
- Of future interests (such as remainder interests in a trust) regardless of the amount, or
- Of jointly held or community property.

Keep in mind that you'll owe gift tax only to the extent an exclusion doesn't apply and you've used up your lifetime gift and estate tax exemption ($11.4 million for 2019). As you can see, some transfers require a return even if you don't owe tax.

NO RETURN REQUIRED

No gift tax return is required if your gifts for the year consist solely of gifts that are tax-free because they qualify as annual exclusion gifts, present interest gifts to a U.S. citizen spouse, educational or medical expenses paid directly to a school or health care provider, or political or charitable contributions.

But if you transferred hard-to-value property, such as artwork or interests in a family-owned business, consider filing a gift tax return even if you're not required to. Adequate disclosure of the transfer in a return triggers the statute of limitations, generally preventing the IRS from challenging your valuation more than three years after you file.

BE READY

If you owe gift tax, the payment deadline is indeed April 15 — regardless of whether you file for an extension (in which case you have until October 15 to file). If you're unsure whether you must (or should) file a 2019 gift tax return, contact us. ■

RAISING FINANCIALLY RESPONSIBLE KIDS

If you help your kids understand money when they're young, they're more likely to develop sound financial habits when they're adults. Of course, you'll want to tailor the information to your child's age. Here are some tips:

Toddlerhood and preschool. Talk about how most people work to earn money to buy things like food and toys. Bring your kids along on shopping trips and discuss how much various items cost. Point out that buying a more expensive item means less money for other things.

Early elementary school. Explain the difference between needs and wants. Provide a small "piggy bank." It might help if it's a clear container so kids can see their cash grow. Consider offering a small reward when the stash reaches a specific level.

Later elementary and middle school. Decide how you'll handle allowances. Some parents choose to remit an allowance only if certain chores are completed. Others provide it no matter what and discipline the child in other ways. Whatever your approach, teach your child to budget and have him or her set aside part of the allowance to introduce the concept of savings.

Middle school. Gradually increase your child's allowance. Suggest earning extra money through babysitting or other jobs.

High school. If possible, encourage your child to get a part-time job. Reinforce the importance of savings — whether for further education or some other goal. Discuss how to use credit wisely and how interest compounds over time.

Maintaining an open dialogue about finances and modeling sound money management can help you raise financially responsible kids. We'd be happy to provide additional ideas. ■