

Taxes for Contractors

Welcome to the Gig Economy

A contractor, or freelancer, can be anyone who works for clients on a contract basis rather than as an employee.

If you're a contractor, then you're technically self-employed. That can mean flexible hours, getting to choose your projects, and getting to work with multiple clients. But it can also mean a few extra headaches come tax season.

Key differences

- The good: As a self-employed worker, you can claim business expenses on your taxes that employees can't.
- The bad: Thanks to the self-employment tax, even after those deductions you'll probably end up paying tax at a higher rate than your friends with office jobs.
- The ugly: You might want to put the IRS helpline on speed dial because your taxes are going to be complicated.

What you'll need

Whether you file online, hire an accountant, or do it the old-fashioned way with a calculator, you'll need the following:

- 1099 forms from each client
- Records for all your work-related expenses and other deductions for the year
- Tax documents for any investment income or financial accounts
- Records for any additional income you received during the year

The basics on deductions

Chances are you're familiar with the general idea of deductions: They're amounts that reduce your taxable income, which in turn reduces the amount of tax you owe. If you have \$50,000 in income and \$10,000 in deductions, then you owe taxes on only \$40,000 of your income.

Everyone has to choose between taking the standard deduction and itemizing deductions. If you itemize, you'll need to add up lots of smaller individual deductions, such as deductions for interest paid on a home mortgage and for charitable donations. By contrast, choosing the standard deduction means you get to reduce your taxable income by a set dollar amount.

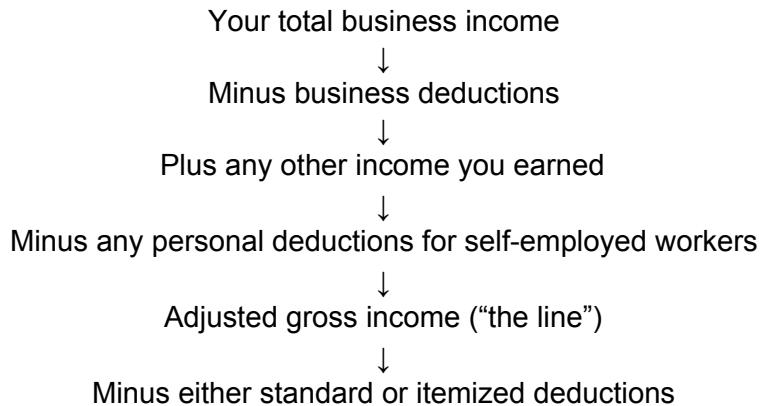
Standard deductions for 2018

Single	\$12,000
Married Filing Jointly	\$24,000
Married Filing Separately	\$12,000
Head of Household	\$18,000

For some people, the standard deduction represents bigger savings, while others save more by itemizing.

Walk the line

As an independent contractor, you can take business deductions that employees can't—and you can take these even if you don't itemize your deductions. In tax lingo, that's because business expenses (and some other "personal deductions" that are specific to contractors) count as "above-the-line" deductions—in the flow of a tax return, they reduce your adjusted gross income.



The main takeaway: You can (and almost certainly should) deduct your business expenses even if you don't itemize.

Those business deductions can include:

- Education and training expenses
- Equipment and uniforms
- Commissions and fees paid to agents and managers
- Work-related treatments, such as massage or physical therapy
- Work-related travel, meals, and housing
- Other miscellaneous expenses, which could include club or union dues

Additional personal deductions for self-employed workers may also include:

- Health insurance premiums
- Contributions to qualified retirement plans
- Half of your self-employment tax (see below)

Consider tracking these expenses throughout the year so that you're not left scrambling at tax time. Hang on to all your receipts and records for any business expenses you're claiming.

Good to know

- If one of your clients didn't send you a 1099 form, you still need to report that income.
- If you travel a lot for work, you may owe taxes in multiple states in addition to your federal taxes.
- The self-employment tax covers your contributions to Social Security and Medicare.
 - Employees get to split this tax with their employers—with the employer paying 7.65% and the employee paying 7.65%.
 - As a contractor, you're responsible for paying the full 15.3%, but you get to deduct half of that amount (the “employer half”) as a business expense.
- As a self-employed worker, chances are you need to make quarterly estimated tax payments during the year.
- Starting with the 2018 tax year, you may also be able to deduct 20% of your business income, depending on the details of your tax situation.

Conclusion

There are plenty of benefits to being self-employed, but a simple tax process isn't one of them. If you're drowning in receipts and tax schedules, consider hiring professional help.

Key takeaways

- An independent contractor is someone who is self-employed and may work for multiple clients on a contract basis.
- Independent contractors can have complex tax situations in part because they typically qualify for more deductions than employees.
- As a contractor, you can deduct business expenses on your taxes even if you take the standard deduction.
- Keeping good records of your work expenses throughout the year can help you get the most from your business deductions. It will also pay off in peace of mind, since you'll be prepared if the IRS ever comes knocking.

- If you're a contractor, you should also get to know the ins and outs of the self-employment tax, how to file quarterly tax payments, and the tax rules that apply to each state you work in.

Fun facts

- The number of self-employed workers could top 42 million by 2020, accounting for nearly 33% of the total workforce.
- You might be surprised at what can be considered a business expense. One clever bodybuilder successfully deducted the cost of body oil he used to grease up before competitions.

<<Extra section for USOC version>>

Tax issues for athletes

If you are an athlete, you may have some special considerations to think about both during tax time and throughout the year, including:

- Should you incorporate?
 - Incorporating can lead to more paperwork and more complex taxes but can potentially help you claim some extra tax breaks.
- Tax treatment of prize money
 - Olympic and Paralympic medals and prize money are typically not taxed unless you have very high income.
- Impact of federal benefits for Paralympic athletes
 - Supplemental Security Income and Social Security Disability benefits generally are not taxed. However, Paralympic athletes may need to consider whether or not prize money may impact their eligibility to continue receiving these benefits.

To work out the specifics of your own situation, consider hiring a tax professional.

References:

- <https://nypost.com/2018/03/25/self-employment-is-a-rising-trend-in-the-american-workforce/>
- <https://www.businessinsider.com/the-craziest-tax-deductions-approved-by-the-tax-man-2012-2>
- <https://turbotax.intuit.com/tax-tips/home-ownership/deducting-health-insurance-premiums-if-youre-self-employed/L6bRhLaVE>
- <https://www.irs.gov/pub/irs-pdf/f1040sc.pdf>
- <https://www.irs.gov/pub/irs-pdf/f1040s1.pdf>
- <https://www.geierfinancial.com/pro-athlete-tax-planning/>

<https://blog.turbotax.intuit.com/tax-deductions-and-credits-2/tax-write-offs-for-athletes-32333/>

<https://www.investopedia.com/articles/tax/09/self-employed-tax-deductions.asp>