Information Release: Tax Implications for Self-Employed Consultants

Gig economy workers may face tax implications for 2020 returns

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NATP advises opening a separate business bank account to track deductible expenses

Picking up a second job to supplement household income is common – especially as many Americans deal with the fallout of COVID-19. Many are choosing to become gig economy workers who perhaps deliver on-demand food from restaurants and grocery stores or packages from online retailers. Some may not realize the tax implications of becoming a sole proprietor and what they need to do to file taxes.

Conducting business as a sole proprietor is one of the simplest forms of operation. It's easy to start a business operated as a sole proprietorship and equally as easy to discontinue. The first step when starting a business is to open a separate business checking account. It will be easier to track the deductible expenses if they are not commingled with personal expenses. If the taxpayer incurred expenses prior to opening their business, they should keep them separate from their other expenses. Special tax treatment applies to startup expenses.

It is important to keep track of the business mileage, as it may be eligible for deduction. If the taxpayer is self-employed and maintains an eligible office in their home, they can deduct the mileage to and from their client/customer's place of business, as well as between jobs.

There are two ways to calculate auto deductions: the standard mileage rate or actual expenses. The standard mileage rate is the easier method and can be calculated by multiplying total business mileage by the current rate ($.57 ½ for 2020 and $.56 for 2021). The actual expense method is exactly that, recording the actual expenses such as the cost of gas, oil, insurance, repairs, maintenance, tires, washing, licenses, and depreciation. This method requires the taxpayer to keep very detailed records and if they use their car for personal and business purposes, they will have to divide the expenses between the personal and business portion.

The IRS allows self-employed taxpayers to claim a deduction for home-based business expenses if they meet certain requirements. They must use the home office regularly and exclusively:

- As the principal place of business for their trade or business
- As a place to meet with customers in the normal course of their trade or business
- In connection with their trade or business, if the location is in a separate structure that's not attached to the dwelling unit.

Similar to the auto deduction, there are two ways to compute the home office deduction: the simplified method or the traditional method. The simplified method allows taxpayers to deduct $5 per square foot, up to a maximum of 300 square feet, for their home office. The traditional method allows taxpayers to deduct all the direct costs associated with their home office, as well as a portion of the indirect costs.

This article contains general tax information for taxpayers. Each tax situation may be different, so do not rely upon this information as your sole source of authority. Contact Stephanie Ferdinand with Stephanie Ferdinand EA, for professional advice for your tax situation. Ferdinand is an expert who keeps current on tax law changes and is also a member of the National Association of Tax Professionals (NATP). [He/she] can save you time and offer insight on how to use the tax breaks available to you. Visit StephanieFerdinandEA.com for more information.