M&Y INTERNATIONAL FINANCIAL SERVICES NEWSLETTER

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THE SHARING ECONOMY AND YOUR TAXES

Uber, Lyft, Airbnb, Etsy, Rover, TaskRabbit. If you've used any of these services--or provided services for them to others--you're a member of the sharing economy.

If you've only used these services (and not provided them), then there's no need to worry about the tax implications but if you've rented out a spare room in your house through a company like Uber or Airbnb then you're probably collecting a fee--a portion of which goes to the provider (in this example, Airbnb) and a portion that you keep for providing the service. But whether it's your full-time gig or a part-time job to make some extra cash, you need to be aware of the tax consequences.

> *"It's important to keep good records and to choose a recordkeeping system suited to your business that clearly shows your income and expenses."*

Millennials are the number one users of the sharing economy but Gen X and Boomers use it too; and a recent PWC study found that 24 percent of boomers, age 55 and older, are also providers. While many people are looking to earn a bit of extra income, some dive into it full-time hoping they can make a living, and still, others simply enjoy meeting new people or providing a service that helps people. What most people don't realize is that this extra cash could impact their taxable income--especially if they have a full-time job with an employer.

In other words, that extra income might turn into a tax liability once you figure out your tax bill. To avoid surprises at tax time, it's more important than ever to be proactive in understanding the tax implications of your new sharing economy gig and seek the advice of a competent tax professional.

Tip: If you have a job with an employer make sure your withholding reflects any extra income derived from your side gig (e.g. boarding pets at your home through Rover or driving for a ride-share company like Uber on weekends). Use Form W-4, *Employee's Withholding Allowance Certificate*, to make any adjustments and submit it to your employer who will use it to figure the amount of federal income tax to be withheld from pay.

New Business Owner

While you may not necessarily think of yourself as a newly self-employed business owner, the IRS does. So, even though you work through a company like Airbnb or Rover, you are considered a business owner and are responsible for your own taxes (including paying estimated taxes if you need to). It's up to you to keep track of income and expenses--and of course, to keep good records that substantiate your income and expenses (more on this below).

Note: If you receive income from a sharing economy activity, it's generally taxable even if you don't receive a Form 1099-MISC, *Miscellaneous Income*, Form 1099-K, *Payment Card and Third Party Network Transactions*, Form W-2, *Wage and Tax Statement*, or some other income statement.

And now, for the good news. As a business owner, you are entitled to certain deductions (subject to special rules and limits) that you cannot take as an employee. Deductions reduce the amount of rental income that is subject to tax. You might also be able to deduct expenses directly related to enhancements made exclusively for the comfort of your guests. For instance, if you rent out a room in your apartment through Airbnb, amounts you spend on window treatments, linens, or even a bed, could be deductible.

Pitfalls: It's more complicated than it seems

At first glance renting out a spare room through Airbnb or pet sitting through Rover seems like an easy thing to do, but as with most things, it's more complicated than it seems and you'll need to keep an eye out for the following pitfalls:

- **Insurance requirements**
- **Business license registration (state or municipal)**
- **Room and lodging, or tourist taxes**

Many municipalities charge room, occupancy, or tourist taxes on the amount of rental paid for short term stays (less than 30 days). Noncompliance may result in penalties, fees, and payment of back taxes owed.

- **Failure to set aside money for taxes and/or estimated tax payments**

Estimated tax payments apply toward both income tax and self-employment tax (Social Security and Medicare). If you don't pay enough tax, through either withholding or estimated tax (or a combination of both) you may have to pay a penalty. Estimated tax payments are due quarterly. The payment of estimated tax for the income for the first quarter of the calendar year (that is, January through March) is due on April 15. Payments for subsequent quarters are due on June 15, September 15 and January 15. If you don't pay enough by these dates you may be charged a penalty even if you're due a refund when you file your tax return.

Tip: If you also work as an employee, you can often avoid needing to make estimated tax payments by having more tax withheld from your paycheck.

- **Not receiving Forms 1099-MISC or 1099-K from a company you provide services for**

As a sole proprietor, you may receive a Form 1099-MISC (employees receive a Form W-2) or a 1099-K. Form 1099-K, *Payment Card and Third Party Network Transactions*, is an information return that reports the gross amount of reportable payment card and third party network transactions for the calendar year to you and the IRS. If you receive a Form 1099-K, you should retain it and use the information reported on the Form 1099-K in conjunction with your other tax records to determine your correct tax.

- **Renting out a home for more than two weeks**

If you rent your home out for 15 days or more during a calendar year and you receive rental income for the use of a house or an apartment, including a vacation home, that rental income must be reported on your return in most cases. You may deduct certain expenses such as mortgage interest, real estate taxes, maintenance, utilities, and insurance and depreciation, that reduce the amount of rental income that is subject to tax.

If you use the dwelling unit for both rental and personal purposes, you generally must divide your total expenses between the rental use and the personal use based on the number of days used for each purpose. You won't be able to deduct your rental expense in excess of the gross rental income limitation.

Tip: Generally, if you rent out your home for less than 15 days, then you do not need to report any of the rental income and you don't deduct any expenses as rental expenses.

Recordkeeping

It's important to keep good records and to choose a recordkeeping system suited to your business that clearly shows your income and expenses. The type of records you need to keep for federal tax purposes depends on what kind of business you operate; however, at a minimum, your recordkeeping system should include a summary of your business transactions (i.e. income and expenses) using a cash basis of accounting. Your records must also show your gross income, as well as your deductions and credits.

Tax Rules are Complicated: Don't get Caught Short

If you have any questions or would like more information about the sharing economy and your taxes, please contact the office.