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Forward



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With tax season now in the rear view mirror, it's time to start thinking about how to minimize your taxes on next year's tax return.

In this month's newsletter, get a start on your tax planning by learning about the tax consequences of different types of virtual transactions, from cryptocurrency and non-fungible tokens to internet marketplaces and online courses.

Please feel free to forward the information to someone who may be interested in a topic and call with any questions you may have.

**Summer Jobs
and Taxes**



Tax Consequences of Virtual Transactions

As social distancing turns convenience into necessity, the number and types of activities moving to the internet is exploding. It's important to remember that these virtual events often trigger real-world tax implications.

Here are some things to keep in mind:

- **Internet marketplaces** – Proceeds of sales of goods and services on internet marketplaces can be taxable income. That's true whether you're a hobbyist or running an online business. Depending on your level of activity, tax rules may limit your deductions. Internet sales may also be subject to sales or use taxes, which vary by state. If the platform is considered a Marketplace Facilitator, sales taxes are collected by the marketplace itself and remitted to the appropriate taxing entities. In other cases, that responsibility may fall on you. So you need to know the difference.
- **The IRS is watching** – New reporting requirements require more reselling activity to be reported to the IRS. So if you resell your sporting event tickets or concert tickets using an online tool, expect the platform to ask you for information about yourself, including your Social Security number. Why? E-bay, StubHub, Ticketmaster and similar platforms must now report a lot of this activity to the IRS via new Form 1099-K reporting rules!
- **Online courses** – Social media platforms are loaded with advertisements for how-to courses on every conceivable topic – including how to create your own online course. If you decide to share your knowledge in a particular subject matter by developing and selling an online course, proceeds can be subject to income tax.



The tax man wants their share!

Now is the time to prepare for the not-so-pleasant part of having a summer job – paying taxes! Here's what you can expect depending on what type of job you have this summer.

- **The employee.** A job at a retail store or restaurant generates earned income that is subject to payroll and income taxes. Paying taxes as an employee is super easy, as all necessary taxes will be withheld from your paycheck. You may need to file a tax return if wages and tips are more than \$12,950, which is the standard deduction for single taxpayers in 2022.
- **The family business.** A job at a family business will also generate earned income that is subject to payroll and income taxes. If you are under age 18, receive reasonable compensation for a legitimate job, and the business is either a sole proprietorship or an LLC, you could qualify for an exemption from Social

Sales and use taxes may also be due on the purchases of these courses in some jurisdictions.

- **Crowdfunding** – If you use crowdfunding platforms like Kickstarter or Indiegogo to raise funds for your business venture or project, the money you receive can be taxable. If you provide a reward in exchange for different amounts, the funds you receive are treated as sales proceeds. Crowdfunding transactions may also be subject to state sales and use taxes. If backers of your venture receive equity in your startup company, those transactions may not be taxable as income, but they are regulated by the Security and Exchange Commission.
- **Online fundraising** – Funds you receive through an online fundraising campaign to pay for medical bills, disaster recovery or other personal expenses generally are treated as nontaxable gifts. Donations to such campaigns may even qualify as deductible charitable contributions by the donors.
- **Social media influencers** – It may seem like fun to develop a significant following on social media, but capitalizing on that audience through product endorsements and other influencing activities is treated as business income. Endorsement payments are taxable and so is the value of any products received in exchange for reviews or brand placements in social media posts.
- **Virtual currency** – Payments you receive in the form of virtual currency for goods and services are treated similar to cash transactions and are included in your gross income at fair market value. But to add a level of complexity, that virtual currency is also considered property, which can result in taxable gains or losses. So you will also need to attach the fair market value to that virtual currency as of the receipt date of the currency. Then when you use the currency you will need to track a gain or loss on that future transaction.

Please call if you need help sorting out the tax implications of any virtual activity or transaction.

Security, Medicare, and federal unemployment taxes.

- **The entrepreneur.** A job such as mowing lawns, working on computers or dog walking will generate earned income that is subject to income taxes. You will also have to pay a 15.3% self-employment tax on all profits. Paying taxes as an entrepreneur or business owner also involves making payments to the IRS, either electronically or via check, throughout the year.
- **The domestic worker.** Performing chores such as babysitting and cleaning for neighbors may trigger the household employee rules, also known as the nanny tax. This can be good news, as these jobs are typically exempt from Social Security and Medicare taxes when paid to workers under age 18 who are considered household employees.

What you need to do

Here are some suggestions for understanding how taxes will affect your summer job:

Explain how taxes are withheld. If you are an employee, take one of your paychecks and review how each dollar amount is calculated. This will also help you understand the different types of taxes,

including federal and state income taxes, Social Security taxes and Medicare taxes.

Set up a savings account. If you have your own business, you'll need to set aside a certain percentage of the money you earn to pay the IRS. An easy way to do this is by transferring a certain portion of the money into a savings account. Pay attention to the quarterly estimated due dates throughout the year – April 15th, June 15th, September 15th and January 15th. These are the deadlines for you to send tax payments to the IRS.

Lower your tax bill. Consider opening an IRA that can help you start saving for the future while potentially lowering your taxes. This helps establish a healthy savings habit while understanding it is possible to pay less in taxes!

Please call if you have questions about taxes and how they apply to your summer job.

Making Your Home Office a Tax Deduction



The home office deduction is a great tax break for the millions of Americans who are now working from home, either occasionally or full-time. But there's one huge catch...you can't be an employee! That's right, if you're working from home for an employer, you normally can't deduct your office expenses. Here's a quick look at the basic requirements to be able to deduct your home office expenses, along with some suggestions for how to qualify for the deduction and turning your home office into a tax planning opportunity:

The basics

There are two requirements for having a tax-deductible home office:

- **Your home office is only used for business purposes.** Your home office must be used exclusively for operating your business. It can't double as the family media center or living room. To meet this requirement, set up your office in a separate area of your house. Then if you get audited by the IRS, there is no doubt that your office is used exclusively for business purposes.
- **Your home office is your primary place of business.** You need to demonstrate that your home office is the primary place you conduct your business. The IRS has clarified that you can meet clients and conduct meetings at separate office locations, but your home office must be the only location where your administrative work is completed. So if you meet with clients or work on any part of your business away from your home office, keep a journal of each specific activity undertaken and describe how it doesn't violate the primary place-of-business rule.

Looking at these two criteria, everyone that is now required to work from home probably meets both qualifications.

Qualifying for the deduction

While it usually makes little sense to move from an employee to a contractor simply to get a home office deduction, too many ignore the move when it could be available to them. Here are some ideas.

- **Become an independent contractor.** The easiest way to deduct your home office expenses is by switching from being an employee to an independent contractor. With a number of firms cutting pay and benefits due to the pandemic, it may be worth exploring. If you can meet the IRS requirements for becoming an independent contractor, it may be worth doing the math by considering all the deductions your home office may make available to you and comparing them to the cost of lost benefits as an employee.

- **Start a side business.** If becoming an independent contractor for your current employer isn't an option, consider starting a side business. You can deduct all business-related expenses on your tax return, including your home office expenses. If you go this route, ensure your home office is in a different location in your home than your other work space.
- **Consider your entire household.** Even if you don't qualify for the home office deduction, maybe someone else living in your home does qualify. So look into your options to see if a family member can take advantage of the home office deduction.

Figuring out how to properly deduct your home office can be a lot more complicated than it appears. If you need help, please call.

Due to the ongoing debate of proposed legislation in Washington, D.C., this year's tax filing season will seem a bit chaotic. With proper preparation, though, your situation can be orderly...but only if you prepare!



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