

Working in the gig economy results in tax obligations

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Before the COVID-19 pandemic hit, the number of people engaged in the “gig” or sharing economy had been growing, according to several reports. Reductions in working hours during the pandemic have caused even more people to turn to gig work to make up lost income. There are tax consequences for the people who perform these jobs, which include providing car rides, delivering food, walking dogs and providing other services.

Bottom line: If you receive income from freelancing or from one of the online platforms offering goods and services, it’s generally taxable. That’s true even if the income comes from a side job and even if you don’t receive an income statement reporting the amount of money you made.

Basics for gig workers

The IRS considers gig workers as those who are independent contractors and conduct their jobs through online platforms. Examples include Uber, Lyft, Airbnb and DoorDash.

Unlike traditional employees, independent contractors don’t receive benefits associated with employment or employer-sponsored health insurance. They also aren’t covered by the minimum wage or other protections of federal laws and they aren’t part of states’ unemployment insurance systems. In addition, they’re on their own when it comes to retirement savings and taxes.

Pay taxes throughout the year

If you’re part of the gig or sharing economy, here are some tax considerations.

- You may need to make quarterly estimated tax payments because your income isn’t subject to withholding. These payments are generally due on April 15, June 15, September 15 and January 15 of the following year. (If a due date falls on a Saturday or Sunday, the due date becomes the next business day.)
- You should receive a Form 1099-NEC, Nonemployee Compensation, a Form 1099-K or other income statement from the online platform.
- Some or all of your business expenses may be deductible on your tax return, subject to the normal tax limitations and rules. For example, if you provide rides with your own car, you may be able to deduct depreciation for wear and tear and deterioration of the vehicle. Be aware that if you rent a room in your main home or vacation home, the rules for deducting expenses can be complex.

Keeping records

It's important to keep good records tracking income and expenses in case you are audited by the IRS or state tax authorities. Please contact us if you have questions about your tax obligations as a gig worker or the deductions you can claim. You don't want to get an unwanted surprise when you file your tax return.

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