Earnings

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Today's economy is increasingly reliant on a fast-growing segment of workers to fulfill consumer needs: gig workers.

Whether driving for Uber, delivering food for Grubhub or assembling IKEA furniture

But the recent influx of orders comes with an even bigger challenge – tax reporting. These workers have more work to do during tax season than traditional employees, including tracking their income, documenting expenses and paying estimated taxes – which is all further complicated by new state-level 1099-K reporting requirements.

States are now requiring gig platform companies to report their workers' earnings through a 1099-K form – directly to the state. While gig platform companies provide this form to the Internal Revenue Service (IRS), they don't provide it for the almost 80% of gig economy workers who receive less than $20,000 annually and only when that income is paid over at least 200 transactions, as required by the IRS. Still, at least eight states and the District of Columbia have a much lower threshold, requiring more gig economy platform workers to report their earnings whether or not they receive a Federal 1099-K.

So, what do gig workers need to know in order to properly file their taxes come the 2020 reporting season?

Differences between tax reporting at the federal and state levels

At the federal level, gig economy workers are considered non-employees and should receive either Form 1099-NEC (beginning in 2020) or Form 1099-K. When a gig platform company is required to issue both a Form 1099-NEC and a Form 1099-K, the 'tie-breaker' rule requires them to issue Form 1099-K instead.

But there is a difference between the two forms. Non-employee compensation reported on Form 1099-NEC is required when payments aggregate to $600 or more during the calendar year. However, third-party settlement organizations (TPSOs) must issue Form 1099-K when payments aggregate to $20,000 or more during the calendar year. In addition, those monies had to be paid over the course of at least 200 transactions to be treated as reportable.

Notably, many gig workers do not make enough money to trigger the Form 1099-K

K reporting with Form 1099-NEC in their states and require TPSOs to report Form 1099-K at the $600 threshold and with no transaction limit.

For example, in 2017, Vermont introduced a bill to eliminate the 200-transaction limit and reduced the reporting threshold to $600. The state also aligned laws related to information reporting penalties for failure to file with these new rules.

Similarly, Pennsylvania introduced a proposed reporting requirement that would reduce the 1099-K reportable threshold to $5,000 and eliminate the transaction rule. At the eleventh-hour in December 2018, the District of Columbia changed the reporting instructions to include Form 1099-K at the $600 threshold and no transaction limits. Last year, Illinois passed legislation that moved its threshold to $1,000 and just four transactions per year. And in 2020, Virginia and Maryland have both adopted $600 reporting thresholds with no transaction limits for Form 1099-K reporting in those states.

These additional state-level variances can trip up even the most earnest gig platform filers as producing data in unique formats and following different rules than what the IRS requires can be extremely burdensome across every state.

How technology can help lighten the tax reporting load

With so many workers new to the gig economy, there's sure to be a lot of confusion next tax season – especially if they don't have supporting tax forms to verify what they need to report. While these obligations ultimately fall to gig workers, who must conduct due diligence in order to calculate appropriate income taxes due, gig platform companies need to do their part, as well.

To help lighten the load of sending hundreds of thousands of additional 1099 forms, many gig companies are turning to accounting firms and technology companies that provide automated tax information reporting software. Scalable solutions can ingest

employment tax payments, which need to be sent to the IRS each quarter. Otherwise, gig workers can face a huge shock at the end of the year, when they may not be prepared to pay a large tax bill to the IRS.

A good rule of thumb is to set aside at least 30% of income for taxes. Additional best practices to ensure accurate tax reporting include:

1. Independently tracking earnings, including keeping detailed records of total income earned, from all jobs completed for accurate income tax reporting.
2. Documenting tax-deductible business expenses, including travel, mileage and business supplies.

Keeping clear records also makes it easier for gig workers who don't meet reporting thresholds and thus never receive a 1099-K form.

Platforms certainly have a role to play here, and they should ramp up their issuance of 1099-K forms to their workers. The need is likely to intensify amid state trends toward lower 1099-K reporting thresholds, which may influence the federal government to follow suit. With thresholds as low as $600 in some states, gig economy businesses will have more workers in need of tax reporting to support their income tax calculations. Those businesses will need scalable tax information reporting solutions to help them stay ahead of regulatory change, no matter what the future has in store.

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