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Part I: American Taxes 1301

Terminology

Income Tax: tax imposed by a government directly on incomeⁱ

Internal Revenue Services: is the United State tax collection agency and administers the Internal Revenue Code enacted by Congressⁱ

Deductions: Tax deduction is a reduction of income that is able to be taxed and is commonly a result of expenses, particularly those incurred to produce additional income. The difference between deductions, exemptions and credit is that deductions and exemptions both reduce taxable income, while credits reduce tax. ii

Tax Bracket: or "rate table" let's Americans know how much their taxes will be based on the amount of income they made.ⁱⁱⁱ

Self-Employed: In the United States, any person is considered self-employed for tax purposes if that person is running a business as a sole proprietorship, independent contractor, as a member of a partnership, or as a member of a limited liability company (LLC) that does not elect to be treated as a corporation. iv

Tax Return: reports filed with the Internal Revenue Service (IRS) or with the state or local tax collection agency, containing information used to calculate income tax or other taxes. ^v

Tax Law

State Taxes

If you live in the United States (excluding: Wyoming, Washington, Texas, South Dakota, Nevada, Florida, or Alaska) your state government imposes an addition income tax. The percentage varies from state to state and income rate to income rate.

**** WARNING MATH AHEAD ****

For example: If you live in Ohio, file Single, and make between \$25,000-\$100,000 you pay 2.93%vi.

[Income Amount] Multiplied by [Percentage converted to a decimal] = Estimated State Income Tax Payment

Step 1: 2.93 %

Step 2: Move the decimal point two spaces to the left

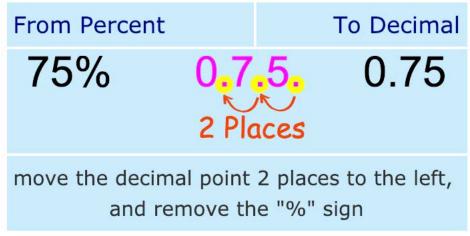
Ex: 4.5% **converts to** .045

Here are some other examples:

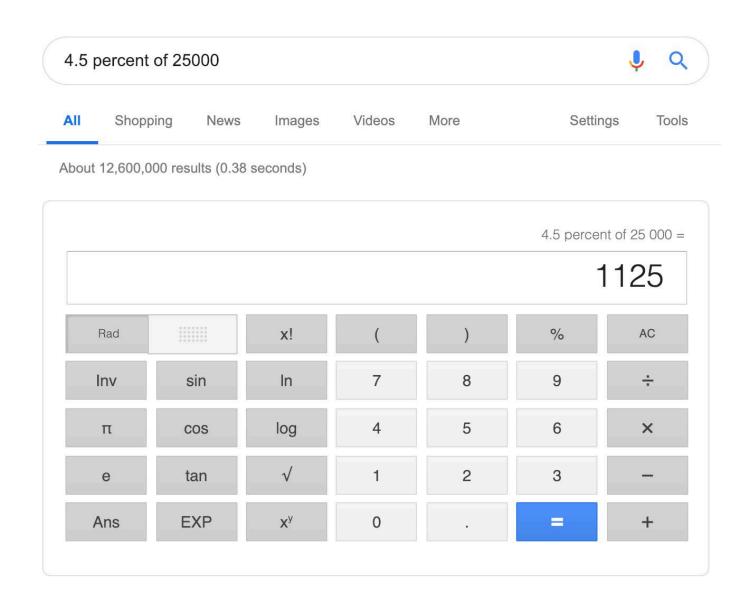
 $.045 \times 25000 = 1125$

4.5% of 25000 = 1125

\$25,000 X .0293 = Estimated \$725



If you're not into showing your work, you can also type Math equations directly into Google. Using Online tax software also gives you the advantage of allowing the machine to do the math for you.



If you live in New York State, file Single, and make \$8,501-\$11,700. you pay 4.5% vii

Type "4.5 percent of 8501" in the Google Search bar

\$8,501 X .045 = Estimated \$382.55

2018 Tax Reform

Congress approved major tax reform in the Tax Cuts and Jobs Act, signed into law on December 22, 2017. This legislation, which affects both individuals and businesses, is commonly referred to as TCJA or the 2017 tax reform legislation.

There is a lot of information on what changed, depending on your situation some categories will apply and some of them will not.

Per the new Tax Reform, deductions and the limit on them has changed.

"Net Operating Loss Deduction A business may have a net operating loss if its deductions for the year are more than its business income. TCJA limits the NOL deduction to 80 percent of taxable income for the year rather than allowing the loss to offset 100 percent of the deduction of 100 percent of the taxable income. Also, most businesses can no longer carry back their NOLs to the prior two tax years as was allowed under prior law. Now, a business may carry forward an NOL indefinitely, rather than expiring after 20 years as was the case under prior law. Farms and certain insurance companies still have the option to carry back NOLs." ¹

Everything else about the new 2018 Tax Reform can be found in the PDF Attachment labeled [Publication 5318]

IRS

You can do anything from file, make a quarterly payment, or search through the 100s of articles available for free. You will also find their contact information and areas to request your tax record.

www.irs.gov

You will find links and PDFs straight from the Internal Revenue Service in this Guide and a Resource Guide at the end to answer any burning questions you might have.

ONLINE TAX PROGRAMS

QuickBooks: Online Accounting Software

For a small fee this program will act as a makeshift bookkeeper. It can't tell you if you're spending too much at Starbucks or if you can afford that vacation, but it will allow you to make those calls on your own. It organizes your basic finances and compiles them into easy to use reports that transfer over to the IRS or Online filing companies very smoothly.

Turbo Tax & H&R Block

Turbo Tax - Owned by Intuit (the same company that makes QuickBooks) it is an Online tax filing program. Intuit allows you to merge your QuickBooks ledger seamlessly to Turbo Tax. With both you can file your taxes on time, pay your state taxes, and add spouses and dependents just as you would in person. It walks you through step by step on a clean interface. You're looking at paying about \$80+ to file Online, but it's peace of mind you cannot gain from doing them by hand or with a tax

Part II: Organizing and Bookkeeping

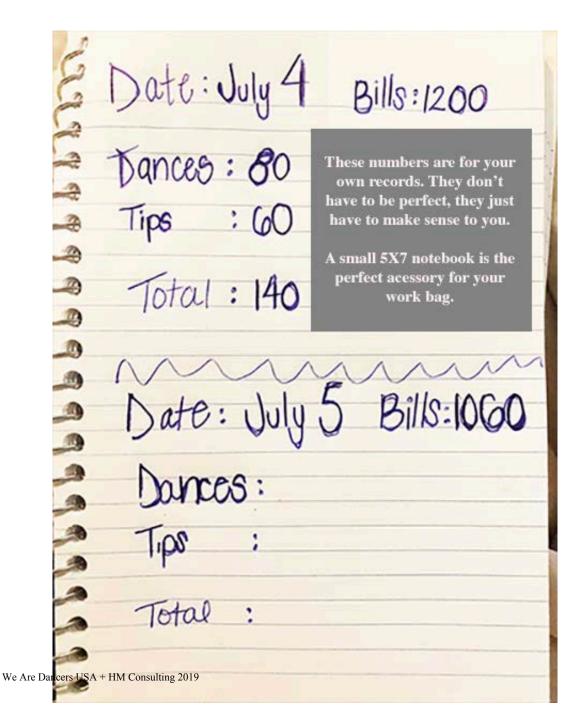
9

Ways to stay organized

Technology has changed our business in ways we never imaged. Embracing technology is not always easy because the resources are not made for all folks to catch up. Attached to this PDF is an Excel spreadsheet that will do the math for you. It's a basic template but it will save you time and money if you are independent worker and don't have the funds to hire outside help. You can keep track of bills, savings, tips, etc. Just plug and play. Below is a link to the Google Sheets version, this is free software made by Google that will give you an Excel experience without the cost.

http://bit.ly/WADGoogleSheets

If the idea of using a spreadsheet gives you pause, it's highly recommended to go to your local dollar store and pick up a spiral notebook. Here is an example of how you can keep you daily ledger:



Tax Professional or Financial Manager?

Some folks have the privilege of hiring outside help to organize their finances. Most sex workers don't have the privilege to hire a Financial Manager (Charles Swab, Merrill Lynch, etc.) because the cost per month is typically fixed and not cheap or a generous percentage. A Financial Manager is far more advanced than a bookkeeper or a tax professional, they help you invest the money you are giving them access to, will manage those finances to see if you can make big purchases, and handle all of that on your behalf. viii

What is a CPA? "A CPA is a certified public accountant who is licensed by a state board of accountancy. To earn the prestige associated with the CPA license, you are required to demonstrate knowledge and competence by meeting high educational standards, passing the CPA exam and completing a specific amount of general accounting experience." ix

As independent contractors we don't always know how much money we are bringing home. Having a reliable tax professional to help us handle our numbers at the end of the year is a generous option if you are filing single or without dependents or property. You don't have to hire a tax professional with online resources being so readily available, but if you do make sure to ask for their credentials. Websites like: https://cpaverify.org/ can be used to verify the license information from the CPA and tell you if they are in good standing.

Bookkeeping | Self-Bookkeeping

Banking | Anything deposited into your bank account is reported to the FDIC and/or the IRS depending on the amount of money being deposited and how. The government expects us to report or file with the information that is available via our banking portals. Cash App, Venmo, and PayPal transactions get reported via a 1099-K form sent to your designated communication portal or in your account areas.^x

Quarterly Tax Payments | Though not required, it is highly recommended to do them.

Payment Period	Due Date
January 1 – March 31	April 15
April 1 – May 31	June 15
June 1 – Aug 31	September 15
September 1 – December 31	January 15

Source: IRS.gov

How do you determine your quarterly payment?

2018 BRACKETS							
Rate Single		Married Filing Separately	Married Filing Jointly	Head of Household			
Taxable income over							
10%	\$0	\$0	\$0	\$0			
12%	\$9,525	\$9,525	\$19,050	\$13,600			
22%	\$38,700	\$38,700	\$77,400	\$51,800			
24%	\$82,500	\$82,500	\$165,000	\$82,500			
32%	\$157,500	\$157,500	\$315,000	\$157,500			
35%	\$200,000	\$200,000	\$400,000	\$200,000			
37%	\$500,000	\$300,000	\$600,000	\$500,000			

This table reflects the 2018 tax brackets after tax reform was enacted for all filing statuses. Note: the brackets for Qualifying Widow(ers) are the We Are Dancers USA + HM Consulting 2019 same as for Married Filing Jointly status.

Once you know your filing status and amount of taxable income, you can find your tax bracket. However, you should know that not all of your income is taxed at that rate. For example, if you fall in the 22% tax bracket, not all of your income is taxed at 22%. Why is that?

The reason is that the U.S. income tax system uses a graduated tax system, designed so that individual taxpayers pay an increasing rate as their income rises through progressive tax brackets as outlined in the table above.

Let's look at Sarah, whose filing status is Single and who has a taxable income of \$50,000. Using the 2018 information above, we can determine Sarah's total tax.

- 1. Determine the amount of tax for each segment of taxable income. Sarah will pay:
 - 10% on the first \$9,525 of taxable income
 - 12% on the next \$29,175 (\$9,525-\$38,700)
 - 22% on the remaining \$11,300 (\$38,700-\$50,000)
- 2. Add the taxable amounts for each segment (\$952.50 + \$3,501 + \$2,486) = \$6,939.50

For 2018, Sarah will pay \$6,939.50 in taxable income.

Also, as mentioned earlier, these rates apply to income from ordinary sources. Other rates apply to other types of income. For instance, long-term capital gains are taxed at 0% to the extent you are in the lowest two tax brackets.

source: https://www.hrblock.com/tax-center/irs/tax-brackets-and-rates/what-are-the-tax-brackets/

Mileage

Beginning on January 1, 2018, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 54.5 cents per mile for business miles driven, up from 53.5 cents in 2017
- 18 cents per mile driven for medical purposes, up from 17 cents in 2017
- 14 cents per mile driven in service of charitable organizations

The standard mileage rate for a business is based on an annual study of the fixed and variable costs of operating an automobile, and the rate for medical purposes is based on the variable costs. In general, you can only claim the deduction if you use your personal vehicle for your business, medical, or charitable purposes. *For example, if you use a vehicle that was purchased by a business you cannot claim business mileage.* xi

Part III: Filing

2018 Income Tax Filing Requirements

Table 1. 2018 Filing Requirements Chart for Most Taxpayers

IF your filing status is	AND at the end of 2018 you were*	THEN file a return if your gross income was at least"	
single	under 65	\$12,000	
	65 or older	\$13,600	
head of household	under 65	\$18,000	
	65 or older	\$19,600	
married, filing jointly***	under 65 (both spouses)	\$24,000	
	65 or older (one spouse)	\$25,300	
	65 or older (both spouses)	\$26,600	
married, filing separately	any age	\$5	
qualifying widow(er)	under 65	\$24,000	
	65 or older	\$25,300	

^{*} If you were born before January 2, 1954, you're considered to be 65 or older at the end of 2018. (If your spouse died in 2018, see <u>Death of spouse</u>, later. If you're preparing a return for someone who died in 2018, see <u>Death of taxpayer</u>, later.

^{***} Gross income means all income you receive in the form of money, goods, property, and services that isn't exempt from tax, including any income from sources outside the United States or from the sale of your main home (even if you can exclude part or all of it). Don't include any social security benefits unless (a) you're married filing a separate return and you lived with your spouse at any time during 2018 or (b) one-half of your social security benefits plus your other gross income and any tax-exempt interest is more than \$25,000 (\$32,000 if married filing jointly). If (a) or (b) applies, see the Form 1040 instructions to figure the taxable part of social security benefits you must include in gross income. Gross income includes gains, but not losses, reported on Form 8949 or Schedule D. Gross income from a business means, for example, the amount on Schedule C, line 7, or Schedule F, line 9. But in figuring gross income, don't reduce your income by any losses, including any loss on Schedule C, line 7, or Schedule F, line 9.

^{***} If you didn't live with your spouse at the end of 2018 (or on the date your spouse died) and your gross income was at least \$5, you must file a return regardless of your age.

What do I need?

Profit and Loss | This is how much money you bring home and how much money goes toward expenses.

For example: If you made 500 but you spent 100 in house fees, Profit: 400 & Loss: 100 = 500

Differentiate Cash and Accrual basis

Accrual basis

- In this accounting method, the time when you enter a transaction and the time when you actually pay or receive cash may be two separate events.
- An accrual basis report shows income regardless of whether your customers have paid your invoices and expenses regardless of whether you have paid all your bills.

Cash basis

- A bookkeeping method in which you regard income or expenses as occurring at the time you actually receive a payment or pay a bill.
- A cash basis report only shows income if you have received cash and expenses if you have paid cash. vii

1099-MISC

"The 1099-MISC form reports the total amount of payments you receive from a single person or entity during the year you've provided services to them.

The IRS requires any person or company that makes certain types of payments to report them on a 1099-MISC to the recipient and the IRS. This informational form covers a wide range of payments you receive, such as rent, royalties, prizes and awards and substitute payments in lieu of dividends. However, the most common use of the form is to report your earnings when you work as an

independent contractor, such as a freelance writer. xiii,

Schedule C/C-EZ – Net Profit from Business (Sole Proprietorship)

You can use this schedule instead of Schedule C if you operated a business or practiced a profession as a sole proprietorship or qualified joint venture, or you were a statutory employee and you have met all the requirements listed in Schedule C-EZ, Part I. [Attachment 1040CEZ]

Tax Write Off | Deductions

a write-off is any legitimate expense that can be deducted from your taxable income on your tax return.

Check out the Attachment [WriteOff.PNG] it's an infographic that will teach you all about What is and isn't a write off.

Where to go?

- IRS.gov
- Turbo Tax or HR Block
- CPA or Tax Preparer

What if I haven't filed before? | Filing Past Due Tax Returns

If you met the filing requirements for the year(s) in question, then the IRS expects a tax return. If you are unsure your status, then it's time to reconcile your banking institutions

"File all tax returns that are due, regardless of whether or not you can pay in full. File your past due return the same way and to the same location where you would file an on-time return. If you have received a notice, make sure to send your past due return to the location indicated on the notice you received. xv"

Part I	V:]	Frequently	' Asked	Questions	&	Tax So	cenarios

If you have questions about taxes please contact **hmtaxhelp@gmail.com**, the curator of the guide Holly cannot give you legal advice, but they can give you resources to help you answer those questions. Here are some examples of Tax Scenarios:

Scenario 1 | Rae is a baker from NYC, they just started selling cupcakes on Facebook Marketplace and taking payments through PayPal. Jamie finds it easier to keep the money online and use their PayPal Cash Card for business expenses. Rae banks with their local credit union, but never transfers money over from PayPal. If Jamie only uses PayPal for business, do they need to report their Credit Union account?

Rae only needs to file for the account findings that they are reporting for their business. If their Credit Union account is only for personal purchases, then there is nothing to report.

Scenario 2 | Brenda has not filed her taxes in 5 years though she is depositing income. She has one bank account that she uses for personal spending and work deposits. She doesn't know quite where to get started.

Brenda won't know how much she owes until she files her taxes. The IRS offers payment plans that extend beyond 120 days, these installment plans are helpful if you have masses a large amount. The first place for Brenda to start is her bank account, going online and pulling your deposits from the years missing returns, paired with the filing requirement for that year. She only needs to file for the years she met the Filing Requirements.

Scenario 3 | Zachary works 20 hours a week at Pizza Hut, drives for Lyft, and works as a Nanny during the day. He has a W2 from Pizza Hut, a 1099 from Lyft, and all his deposits from 2018, he doesn't know where to file. Does he have to file it all together?

If Zachary met all the requirements for filing, he could file Pizza Hut alone and file Lyft and Nannying together or he could file them all at the same time. Zachary can take his items to a tax pro for a fee, an online source (Turbo Tax or HR Block) for a smaller fee or file the forms manually (free). Being organized is one of the most important parts about doing your taxes.

Part V: Sources & Helpful Links

- i Internal Revenue Code, 26 U.S.C. §
- ii Piper, Mike (Sep 12, 2014). Taxes Made Simple: Income Taxes Explained in 100 Pages or Less. Simple Subjects, LLC. <u>ISBN</u> <u>978-</u>0981454214.
- iii Samuel A. Donaldson, Federal Income Taxation of Individuals: Cases, Problems and Materials, 2nd Edition (St. Paul: Thomson/West, 2007), 9.
- Table 4-2, Page 36, of <u>Home Based Business: The Hidden Economy</u> <u>Archived</u>2012-10-19 at the <u>Wayback Machine</u> by the U.S. Small Business Administration
- v Victor Thuronyi, Tax Law Design and Drafting, Volume 1, page 103(International Monetary Fund 1996).
- vi https://taxfoundation.org/ohio-governor-kasich-puts-forward-tax-changes-new-budget/
- vii https://www.tax.ny.gov/pit/file/tax_tables.htm
- viii https://www.forbes.com/sites/rickferri/2013/05/27/the-heavy-toll-of-investment-fees/#2914af0a18fb
- vx https://nasba.org/education/becomingacpa/
- * https://www.paypal.com/us/smarthelp/article/how-does-paypal-report-my-sales-to-the-irs-will-i-receive-a-1099-tax-statement-faq729
- "https://blog.turbotax.intuit.com/tax-deductions-and-credits-2/what-are-the-2018-standard-mileage-rates-33278/
- xii https://quickbooks.intuit.com/community/Help-Articles/Differentiate-Cash-and-Accrual-basis/td-p/202612
- https://turbotax.intuit.com/tax-tips/self-employment-taxes/what-is-the-irs-form-1099-misc/L4wLb4bej
- xiv https://www.irs.gov/forms-pubs/about-schedule-c-ez-form-1040
- https://www.irs.gov/businesses/small-businesses-self-employed/filing-past-due-tax-returns

How To Get Tax Help

If you have questions about a tax issue, need help preparing your tax return, or want to down-load free publications, forms, or instructions, go to IRS.gov and find resources that can help you right away.

Tax reform. Major tax reform legislation im-pacting individuals, businesses, and tax-ex-empt entities was enacted in the Tax Cuts and Jobs Act on December 22, 2017. Go to *IRS.gov/TaxReform* for information and up-dates on how this legislation affects your taxes

Preparing and filing your tax return. Find free options to prepare and file your return on IRS.gov or in your local community if you qual-ify.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make \$55,000 or less, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. The Tax Counseling for the Elderly (TCE) program offers free tax help for all tax-payers, particularly those who are 60 years of age and older. TCE volunteers specialize in an-swering questions about pensions and retire-ment-related issues unique to seniors.

You can go to IRS gov to see your options for preparing and filing your return which in-clude the following.

Free File. Go to IRS.gov/FreeFile to see if you qualify to use brand-name software to prepare and e-file your federal tax return for free.

VITA. Go to IRS.gov/VITA, download the free IRS2Go app, or call 800-906-9887 to find the nearest VITA location for free tax return preparation.

TCE. Go to *IRS.gov/TCE*, download the free IRS2Go app, or call 888-227-7669 to find the nearest TCE location for free tax return preparation.

Getting answers to your tax ques-tions. On IRS.gov, get answers to your tax questions anytime, anywhere.

Go to IRS.gov/Help for a variety of tools that will help you get answers to some of the most common tax questions.

Go to IRS.gov/ITA for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.

Go to *IRS.gov/Pub17* to get Pub. 17, Your Federal Income Tax for Individuals, which features details on tax-saving opportuni-ties, 2018 tax changes, and thousands of interactive links to help you find answers to your questions. View it online in HTML, as a PDF, or download it to your mobile de-vice as an eBook.

You may also be able to access tax law in-formation in your electronic filing software.

Getting tax forms and publications. Go to *IRS.gov/Forms* to view, download, or print all of the forms and publications you may need. You can also download and view popular tax publi-cations and instructions (including the 1040 in-structions) on mobile devices as an eBook at no charge. Or you can go to *IRS.gov/OrderForms* to place an order and have forms mailed to you within 10 business days.

Access your online account (individual tax-payers only). Go to IRS.gov/Account to se-curely access information about your federal tax account.

View the amount you owe, pay online, or set up an online payment agreement.

Access your tax records online.

Review the past 24 months of your pay-ment history.

Go to IRS.gov/SecureAccess to review the required identity authentication process.