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# Ridesharing - Taxes for Uber and Lyft Drivers

August 22, 2017



## Agenda

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- Independent Contractor = Business Entity
- Self-Employment Tax
- Expenses and Recordkeeping
- Estimated Tax Payments
- Sales Tax
- Form 1099-K

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## Overview

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- As a driver for a ride-sharing company such as Uber, Lyft, Sidecar, or other car sharing service, the most important thing to understand is the taxpayer will generally be treated as an usually independent contractors
- Of course they will let you know of their new business next year at their tax appointment – generally
- The business entity they choose will determine how income and expenses are reported

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## Business Entity



## Business Entities

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- Sole Proprietorships
- Partnerships
- Corporations
- S Corporations
- Limited Liability Company (LLC)

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## Sole Proprietorships

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- A sole proprietor is someone who owns an unincorporated business themselves
- However, if they are the sole member of a domestic limited liability company (LLC), they are not a sole proprietor if they elected to treat the LLC as a corporation

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## Partnerships

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- A partnership is the relationship existing between two or more persons who join to carry on a trade or business
- Each person contributes money, property, labor or skill, and expects to share in the profits and losses of the business
- A partnership must file an annual information return to report the income, deductions, gains, losses, etc., from its operations, but it does not pay income tax
- Instead, it "passes through" any profits or losses to its partners
- Each partner includes their share of the partnership's income or loss on the tax return
- Partners are not employees and should not be issued a Form W-2
- The partnership must furnish copies of Schedule K-1 (Form 1065) to the partners by the date Form 1065 is required to be filed, including extensions

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## Corporations

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- In forming a corporation, prospective shareholders exchange money, property, or both, for the corporation's capital stock
- A corporation generally takes the same deductions as a sole proprietorship to figure its taxable income
- A corporation can also take special deductions
- For federal income tax purposes, a C corporation is recognized as a separate taxpaying entity
- A corporation conducts business, realizes net income or loss, pays taxes and distributes profits to shareholders

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## Corporations

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- The profit of a corporation is taxed to the corporation when earned, and then is taxed to the shareholders when distributed as dividends
- This creates a double tax
- The corporation does not get a tax deduction when it distributes dividends to shareholders
- Shareholders cannot deduct any loss of the corporation

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## S Corporations

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- S corporations are corporations that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes
- Shareholders of S corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates
- This allows S corporations to avoid double taxation on the corporate income
- S corporations are responsible for tax on certain built-in gains and passive income at the entity level

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## S Corporations

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- To qualify for S corporation status, the corporation must meet the following requirements:
  - Be a domestic corporation
  - Have only allowable shareholders
  - May be individuals, certain trusts, and estates and
  - May not be partnerships, corporations or non-resident alien shareholders
  - Have no more than 100 shareholders
  - Have only one class of stock

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## S Corporations – cont'd Form 2553

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- Not be an ineligible corporation (i.e. certain financial institutions, insurance companies, and domestic international sales corporations)
- In order to become an S corporation, the corporation must submit Form 2553 Election by a Small Business Corporation signed by all the shareholders

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## Limited Liability Company (LLC)

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- A Limited Liability Company (LLC) is a business structure allowed by state statute
- Each state may use different regulations, and the taxpayer should check with their state if they are interested in starting a Limited Liability Company
- Owners of an LLC are called members
- Most states do not restrict ownership, and so members may include individuals, corporations, other LLCs and foreign entities
- There is no maximum number of members

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## Limited Liability Company (LLC)

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- Most states also permit “single-member” LLCs, those having only one owner
- A few types of businesses generally cannot be LLCs, such as banks and insurance companies

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## Limited Liability Company (LLC) Classifications – For Federal Purposes

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- Depending on elections made by the LLC and the number of members, the IRS will treat an LLC as either a corporation, partnership, or as part of the LLC's owner's tax return (a "disregarded entity")
- Specifically, a domestic LLC with at least two members is classified as a partnership for federal income tax purposes unless it files Form 8832 and affirmatively elects to be treated as a corporation
- An LLC with only one member is treated as an entity disregarded as separate from its owner for income tax purposes (but as a separate entity for purposes of employment tax and certain excise taxes), unless it files Form 8832 and affirmatively elects to be treated as a corporation

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## Effective Date of Election

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- An LLC that does not want to accept its default federal tax classification, or that wishes to change its classification, uses Form 8832, Entity Classification Election, to elect how it will be classified for federal tax purposes
- Generally, an election specifying an LLC's classification cannot take effect more than 75 days prior to the date the election is filed, nor can it take effect later than 12 months after the date the election is filed
- An LLC may be eligible for late election relief in certain circumstances

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## Income



### Form 1099 Misc. and Form 1099-K

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- Part one and two of reporting income
- The company they contract with will provide a Form 1099-Misc. Non-Employee Compensation in Box 7
- Payments by credit card will appear on Form 1099-K Payment Card and Third Party Network Transactions
  - A payment settlement entity (PSE) must file Form 1099-K for payments made in settlement of reportable payment transactions for each calendar year

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## Form 1099 Misc

9595 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0115		Miscellaneous Income
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	2017	
		\$	2 Royalties	Form 1099-MISC
		\$	3 Other income	4 Federal income tax withheld
PAYER'S federal identification number	RECIPIENT'S identification number	\$	5 Fishing boat proceeds	6 Medical and health care payments
		\$		
RECIPIENT'S name		7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest	Copy A For Internal Revenue Service Center  File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2017 General Instructions for Certain Information Returns.
Street address (including apt. no.)		\$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code		\$	10 Crop insurance proceeds	
		\$	11	
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/> 2nd TIN not <input type="checkbox"/>	13 Excess golden parachute payments	14 Gross proceeds paid to an attorney	
15a Section 409A deferrals	15b Section 409A income	16 State tax withheld	17 State/Payer's state no.	18 State income
\$	\$	\$	\$	\$

Form 1099-MISC Cat. No. 14425J www.irs.gov/form1099misc Department of the Treasury - Internal Revenue Service  
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## It's Complicated – Form 1099 Misc.

- Used to report items of income received directly from Uber – rather than individual riders fares
  - Incentive payments
  - Driver referral payments
  - Joint and support payments
- For Lyft – income not related to riders earnings
  - Referral bonuses
  - Express driver bonuses
  - Mentoring
  - Damage fees
  - Incentives like average hourly guarantees

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## Form 1099-K

<b>1010</b> <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		FILET'S federal identification no. OMB No. 1545-2205 PAYEE'S taxpayer identification no. <b>2017</b> 1a Gross amount of payment card/third party network transactions \$ Form 1099-K		<b>Payment Card and Third Party Network Transactions</b>
Check to indicate if FILER is a (an): Payment settlement entity (PSE) <input type="checkbox"/> Electronic Payment Facilitator (EPF) <input type="checkbox"/> Other third party <input type="checkbox"/>		Check to indicate transactions reported are: Payment card <input type="checkbox"/> Third party network <input type="checkbox"/>		<b>Copy A</b> <b>For Internal Revenue Service Center</b> <b>File with Form 1096.</b> For Privacy Act and Paperwork Reduction Act Notice, see the 2017 General Instructions for Certain Information Returns.
PAYEE'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code PSE'S name and telephone number Account number (see instructions) 2nd TIN not <input type="checkbox"/>		1b Card Not Present transactions \$ 3 Number of payment transactions 6a January \$ 6c March \$ 6e May \$ 6g July \$ 6i September \$ 6k November \$ 6 State	2 Merchant category code 4 Federal income tax withheld \$ 5a February \$ 5d April \$ 5f June \$ 5h August \$ 5j October \$ 5l December \$ 7 State identification no.	8 State income tax withheld \$

Form 1099-K Cat. No. 54118B www.irs.gov/form1099k Department of the Treasury - Internal Revenue Service  
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## 1099-K

- Uber
  - Gross fares
  - Expenses Uber paid on behalf of drivers
  - “Tax Summary” – broken down income
- Lyft
  - Weekly summaries on a “Dashboard”
  - Excludes”
    - Service fees – an additional fee on a per rider basis
    - Other third party fees
    - Airport fees
    - City fees
    - Sales tax

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## 1099-K

- Includes:
  - Payments from passengers
  - Tips
  - Tolls
  - Power drive bonuses
  - Cancellation fees

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<b>Form 14420</b> (January 2014)	Department of the Treasury - Internal Revenue Service <b>Verification of Reported Income</b>	OMB Number 1545-2236		
Taxpayer name <span style="float: right;">Taxpayer Identification Number</span> <span style="float: right;">For tax period ending</span>				
This form provides additional information to help explain why the portion of your gross receipts from card sales and other Form 1099-K reportable transactions is higher than expected.				
Step 1 – Review the Form 1099-K information below and note any corrections.				
Filer's Name	Filer's Federal ID Number	Reported Gross Amount from Form 1099-K (Box 1)	Reported Merchant Category Code (MCC) and industry (Box 2)	Number of purchase transactions (Box 3)
1.		\$		
2.		\$		
3.		\$		
4.		\$		

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Review the following questions and indicate your answers in the comment box for Step 1.

- If any of the payments shown above were not made to you, list the Form(s) 1099-K that do not belong to you.
  - In addition, if you shared/leased your card terminal with/to the business(es) that received the payments, note this in the "comments for Step 1" box and complete Step 3.
- If you received a Form 1099-K from any filer not listed above, please add the details of this Form 1099-K in the table above or in the Comments section below. If you require additional space, please attach a separate sheet. Please return a copy of the Form 1099-K with this worksheet.
- If you have received Forms 1099-K from more than five filers, verify that the Reported Gross Amount on the fifth row is the total of the gross amounts for the fifth and beyond filers. If the total Reported Gross Amount is correct, you do not need to return a Form 1099-K for any filer combined in the fifth row.
- If a listed Merchant Category Code (MCC) in column 4 of the table above is not representative of your business' primary industry, please note the error below and describe your business' primary industry. Additionally, inform your merchant acquirer that your Merchant Category Code (MCC) classification requires change.
- If the Number of purchase transactions (column 5) is blank for any row, please include the number (#) of purchase transactions during the tax period for the given filer (typically available on your merchant acquirer statements). If this information is unavailable, leave blank.
- If any other error was found (e.g. the amount on the Form 1099-K is incorrect), identify the error and provide the corrected information.

Comments for Step 1

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Comments for Step 1

Step 2 - Please provide dollar estimates of your annual gross sales for the types of sales noted in Steps 2a - 2c. If you are a sole proprietor and filed more than one Schedule C for this tax period, provide the total amount across all businesses. Include any details, if relevant, in the comment box for Step 2.

2a. Estimated gross sales from remote payments made by card (e.g. online sales, orders taken and paid over phone)	\$	
2b. Estimated gross sales from gift cards	\$	
2c. Estimated gross sales from lottery tickets	\$	

Catalog Number 59955K

For Paperwork Reduction Act Notice, see page 3.

Form **14420** (Rev. 1-2014)

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Taxpayer name	Taxpayer Identification Number
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Comments for Step 2

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**Step 3 - If you shared your card terminal(s) with other persons or businesses at any time during the tax year, complete the section below.**

- In the table below, list the names, taxpayer identification numbers, and dollar amounts of payment card receipts attributable to any persons or businesses you shared or leased your terminal and indicate whether or not you filed a Form 1099 for these businesses. If you shared/leased your card terminal(s) with more than four other persons or businesses, provide the details on the fifth and subsequent persons/businesses in the comment box for Step 3 or on a separate sheet.
- Provide a brief explanation of how these businesses are related to your own in the comment box for Step 3 or on a separate sheet.

Name of Person or Business	Taxpayer Identification Number (SSN or EIN)	Payment Card Receipts	Did you file a Form 1099 showing these receipts for this person or business
		\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
		\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
		\$	<input type="checkbox"/> Yes <input type="checkbox"/> No
		\$	<input type="checkbox"/> Yes <input type="checkbox"/> No

Comments for Step 3

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**Step 4 - Indicate whether you included the following non-income items in the Gross Receipts line on your tax return. If you included them in your Gross Receipts, please provide the dollar amounts below. Include any details, if relevant, in the comment box for Step 4.**

4a. Sales tax included in the Gross Receipts line	<input type="checkbox"/> Yes <input type="checkbox"/> No
4b. Total sales taxes paid during tax period	\$
4c. Merchant acquirer fees included in the Gross Receipts line	<input type="checkbox"/> Yes <input type="checkbox"/> No
4d. Total merchant acquirer fees paid during tax period	\$

Comments for Step 4

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Taxpayer name	Taxpayer Identification Number
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Step 5 - Does your business have a website? If so, please provide the business web address below and a brief description of your online business in the comment box for Step 5.

Web address

Comments for Step 5

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**Step 6 - In the comment box (or attach a separate sheet) please provide any other information to explain why cash and checks seem to account for a lower portion of your reported gross receipts than expected for your type of business, given the amount of card payments you received.**

Comments for Step 6

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**Step 7 - Provide the taxpayer's contact information. If the contact person is not the taxpayer or an officer of the business and a valid Form 2848, Power of Attorney and Declaration of Representative, has not previously been submitted, please include a signed Form 2848 with your response.**

Name and title of taxpayer	Telephone number	Contact hours
	Telephone number	Contact hours
Name and title of authorized representative (if applicable)	Telephone number	Contact hours
	Telephone number	Contact hours

**Paperwork Reduction Act Notice**

We ask for the information on this form to carry out the Internal Revenue laws of the United States. Providing this information is voluntary. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

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## Understanding the Form 1099-K

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- Form 1099-K, Payment Card and Third Party Network Transactions, is an IRS information return used to report certain payment transactions to improve voluntary tax compliance
- The client should receive Form 1099-K by January 31st if, in the prior calendar year, they received payments:
  - From payment card transactions (e.g., debit, credit or stored-value cards), and/or
  - In settlement of third-party payment network transactions above the minimum reporting thresholds of –
    - Gross payments that exceed \$20,000, AND
    - More than 200 such transactions

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## What Does Form 1099-K Report

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- A Form 1099-K includes the gross amount of all reportable payment transactions
- Payment card transaction means any transaction in which a payment card, or any account number or other identifying data associated with a payment card, is accepted as payment

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## What Does Form 1099-K Report

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- The gross amount of a reportable payment does not include any adjustments for credits, cash equivalents, discount amounts, fees, refunded amounts or any other amounts
- The dollar amount of each transaction is determined on the date of the transaction
- Tips can also be in the gross amount

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## Recordkeeping

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- It is important that the business books and records reflect business income, including any amounts that are reported on Form 1099-K
- The client must report on the tax return all income received from the business
- In most cases, the business income will be in the form of cash, checks, and debit/credit card payments
- Business income is generally referred to as gross receipts on income tax returns
- Therefore, the amounts shown on Form 1099-K, along with all other amounts received will be considered the gross receipts for the income tax return

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## Recordkeeping

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- Do some verification
- Check the payment card receipt records and merchant statements to confirm that the amount on the Form 1099-K is accurate
- Review records to ensure the gross receipts are accurate and reported correctly on the tax return
- Determine whether the client has reported income from all forms of payment received, including cash, checks, and debit, credit and stored-value card transactions
- Maintain documentation to support both the income and deductions reported

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## Do Any of These Statements Apply to the Form(s) 1099-K Received by the Client?

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- The Form 1099-K does not belong to the client or is a duplicate
- The payee Taxpayer Identification Number (TIN) is incorrect
- The gross amount of payment card/third party network transactions is incorrect
- The number of payment transactions is incorrect
- The Merchant Category Code (MCC) does not correctly describe the business – very important

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## Expenses



## What Expenses Are Deductible?

Universal lug wrench	Tire pressure gages and tire pumps or inflation devices
Cell phone*	Spare tires*
Car Washes*	Flat tire kits*
USB Chargers*	Car tool kit*
Mobile Routers for Wi-Fi*	Jumper cables*
Music applications*	Portable jump pack*
Toll transponders*	AAA membership*
Floor mats*	Office supplies
Vomit bags	Umbrella*
Flashlight*	Seat belt cutter – emergencies*
Ice Scrapers*	Snow brush*
Safety hammer*	Car Inspection fees
Credit card fees and bank fees	Extra Liability insurance, Commercial Purposes*
Extra Auto insurance, Commercial Purposes*	Pay Pal fees
First aid kit	Dash Cam
Actual car/truck expenses or the standard mileage rate	Parking fees
Licensing to work a certain area	Fees and commission paid to the company
Uber user card fees	Provided devices subscriptions
Sales tax collected**	Black car or City fees
Airport fees	Split car fees
Refreshments and food for customers only***	Driver's License****
Business interest	Car Payment****
Interest on the Auto/Truck*	Energy Efficient Vehicle Credits*
Repair expenses	Depreciation

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\* Must be allocate between personal and business use

\*\* Depends on how reported on the tax return

\*\*\* Potential IRS audit issue, common sense should be used

\*\*\*\* Not deductible

## Assets

- If the taxpayer has these already in the vehicle, most are used personally as well as in the business
- All but the “Dash Cam” may require an allocation between business and personal use

USB Chargers	Spare tires
Mobile Routers for <u>WiFi</u>	Universal Lug wrench
Flashlight	Car tool kit
Ice Scrapers	Jumper cables
Safety hammer	Portable jump pack
Dash Cam	Umbrella
Seat belt cutter – emergencies	Snow Brush
Vehicle	Floor Mats
Tire pressure gages and tire pumps or inflation devices	

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## Standard Mileage vs. Actual Expenses

- If the taxpayer uses their car in their job or business and uses it only for that purpose, they may deduct its entire cost of operation, subject to specified limits
- However, if the taxpayer uses the car for both business and personal purposes, they may deduct only the cost of its business use
- Two methods are available
  - The standard mileage rate method or
  - The actual expense method

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## Standard Mileage vs. Actual Expenses

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- If the taxpayer qualifies to use both methods, they may want to figure the deduction both ways before choosing a method to see which one gives them a larger deduction
- Standard Mileage Rate – The 2017 standard mileage rate is 53.5 cents per mile

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## Standard Mileage Rate

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- To use the standard mileage rate, the taxpayer must own or lease the car and:
  - They must not operate five or more cars at the same time, as in a fleet operation
  - They must not have claimed a depreciation deduction for the car using any method other than straight-line
  - The taxpayer must not have claimed a § 179 deduction on the car

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## Standard Mileage Rate

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- They must not have claimed the special depreciation allowance
- They must not have claimed actual expenses after 1997 for a car they leased and
- They cannot be a rural mail carrier who received a "qualified reimbursement"
- To use the standard mileage rate for a car owned, they must choose to use it in the first year the car is available for use in the business

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## Standard Mileage Rate

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- Then, in later years, they can choose to use the standard mileage rate or actual expenses
- For a car leased, they must use the standard mileage rate method for the entire lease period (including renewals) if they choose the standard mileage rate
- If the taxpayer is self-employed, they can also deduct the business part of interest on the vehicle loan, state and local personal property tax on the car, parking fees, and tolls, regardless if they claim the standard mileage rate

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## Standard Mileage Rate

- The standard mileage rate cannot be claimed for fleet operations where 5 or more vehicles are used in the business
- Revenue Procedure 2010-51, 2010-51 I.R.B. 883, removed the limitation on the use of the standard mileage rate for "automobiles used for hire, such as taxicabs" effective 1-1-2011
- The change is not retroactive
- Revenue Procedures applicable to previous years prohibited the use of the standard mileage rate for automobiles used for hire, requiring these taxpayers to use actual costs

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<https://www.irs.gov/tax-professionals/standard-mileage-rates/>

Period	Rates in cents per mile			Source
	Business	Charity	Medical Moving	
2017	53.5	14	17	IR-2016-169
2016	54	14	19	IR-2015-137
2015	57.5	14	23	IR-2014-114
2014	56	14	23.5	IR-2013-95
2013	56.5	14	24	IR-2012-95
2012	55.5	14	23	IRB-2012-02
July 1 - Dec. 31, 2011	55.5	14	23.5	IR-2011-69
Jan. 1 - June 30, 2011	51	14	19	IR-2010-119
2010	50	14	16.5	IR-2009-111
2009	55	14	24	IR-2008-131
July 1 - Dec. 31, 2008	58.5	14	27	IR-2008-82
Jan. 1 - June 30, 2008	50.5	14	19	IR-2007-192
2007	48.5	14	20	IR-2006-168
2006	44.5	14	18	IR-2005-138
2005	40.5	14	15	IR-2004-139 Pub. L. 109-73 IR-2005-99
2004	37.5	14	14	IR-2003-121
2003	36	14	12	Rev. Proc. 2002-61
2002	36.5	14	13	Rev. Proc. 2001-54
2001	34.5	14	12	Rev. Proc. 2000-48 2000-2 C.B. 570
2000	32.5	14	10	Rev. Proc. 99-38 1999-2 C.B. 525
1999	31	14	10	Announcement 99-7 1999-1 C.B. 306 Rev. Proc. 98-64 1998-2 C.B. 818
1998	32.5	14	10	Rev. Proc. 97-58 1997-2 C.B. 587
1997	31.5	12	10	Rev. Proc. 96-63 1996-2 C.B. 420

## Actual Expenses

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- To use the actual expense method, the taxpayer must determine what are the actual costs to operate the car for the portion of the overall use of the car that's business use
- Include gas, oil, repairs, tires, insurance, registration fees, licenses, and depreciation (or lease payments) attributable to the portion of the total miles driven that are business miles
- **A beginning and ending odometer reading is required to determine the business use percentage**

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## Actual Expenses

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- In addition the driver must record all business miles or record personal miles and commuter miles.
- This assists in determining the business use percentage

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## Depreciation

- Generally, the Modified Accelerated Cost Recovery System (MACRS) is the only depreciation method that can be used by car owners to depreciate any car placed in service after 1986
- However, if the taxpayer used the standard mileage rate in the year they place the car in service and change to the actual expense method in a later year and before the car is fully depreciated, they must use straight-line depreciation over the estimated remaining useful life of the car
- There are limits on how much depreciation they can deduct

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## Maximum Depreciation

Maximum Depreciation Deduction for Passenger Automobiles

Date Placed In Service	1st Year	2nd Year	3rd Year	4th & Later Years
2016	\$11,160 <sup>1</sup>	\$5,100	\$3,050	\$1,875
2015	11,160 <sup>2</sup>	5,100	3,050	1,875
2014	11,160 <sup>3</sup>	5,100	3,050	1,875
2013	11,160 <sup>3</sup>	5,100	3,050	1,875
2012	11,160 <sup>3</sup>	5,100	3,050	1,875
2011	11,060 <sup>4</sup>	4,900	2,950	1,775
2010	11,060 <sup>4</sup>	4,900	2,950	1,775
2009	10,960 <sup>5</sup>	4,800	2,850	1,775
2008	10,960 <sup>5</sup>	4,800	2,850	1,775
2007	3,060	4,900	2,850	1,775
2006	2,960	4,800	2,850	1,775
2005	2,960	4,700	2,850	1,675

<sup>1</sup> If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,160.

<sup>2</sup> If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,160. Also, if you placed in service the vehicle in a tax year beginning in 2015 and ending in 2016, and you elected to accelerate certain credits in lieu of the special depreciation for that tax year, the maximum deduction is \$3,160.

<sup>3</sup> If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,160.

<sup>4</sup> If you elected **not** to claim any special depreciation allowance or the vehicle is **not** qualified property, the maximum deduction is \$3,060.

<sup>5</sup> If you elected **not** to claim any special depreciation allowance for the vehicle or the vehicle is **not** qualified property, the maximum deduction is \$2,960.

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## Making the Switch from Standard to Actual

- Thomas purchased a car in 2015 and use the car for business purposes 10,000 miles per year in 2015, 2016 and 2017
- He sells the car on January 1, 2018
- You must reduce your cost basis by \$7,300 ( $10,000 \times 0.24$  for 2015,  $10,000 \times 0.24$  for 2016,  $0.25 \times 10,000$  for 2017)
- If the reduction is large enough, the taxpayer may end up having to report a profit on the sale of the car

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<https://www.irs.gov/tax-professionals/standard-mileage-rates/>

Period	Rates in cents per mile			Source
	Business	Charity	Medical Moving	
2017	53.5	14	17	IR-2016-169
2016	54	14	19	IR-2015-137
2015	57.5	14	23	IR-2014-114
2014	56	14	23.5	IR-2013-95
2013	56.5	14	24	IR-2012-95
2012	55.5	14	23	IRB-2012-02
July 1 - Dec. 31, 2011	55.5	14	23.5	IR-2011-69
Jan. 1 - June 30, 2011	51	14	19	IR-2010-119
2010	50	14	16.5	IR-2009-111
2009	55	14	24	IR-2008-131
July 1 - Dec. 31, 2008	58.5	14	27	IR-2008-82
Jan. 1 - June 30, 2008	50.5	14	19	IR-2007-192
2007	48.5	14	20	IR-2006-168
2006	44.5	14	18	IR-2005-138
2005	40.5	14	15	IR-2004-139 Pub. L. 109-73 IR-2005-99
2004	37.5	14	14	IR-2003-121
2003	36	14	12	Rev. Proc. 2002-61
2002	36.5	14	13	Rev. Proc. 2001-54
2001	34.5	14	12	Rev. Proc. 2000-48 2000-2 C.B. 570
2000	32.5	14	10	Rev. Proc. 99-38 1999-2 C.B. 525
1999	31	14	10	Announcement 99-7 1999-1 C.B. 305 Rev. Proc. 98-50 1998-2 C.B. 818
1998	32.5	14	10	Rev. Proc. 97-58 1997-2 C.B. 587
1997	31.5	12	10	Rev. Proc. 96-63 1996-2 C.B. 420

## Table

### Depreciation Adjustment for Standard Mileage Rate

Year	Depreciation per mile
2017	25 cents per mile
2016	24
2015	24
2014	22
2012-2013	23
2011	22
2010	23
2008-2009	21
2007	19
2005-2006	17
2003-2004	16
2001-2003	15
2000	14
1994-1999	12
1992-1993	11.5

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James

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## James

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- James is a part-time UBER driver
- In 2017, he drove 10,000 miles, keeping a log book showing that 6,000 were business miles
- He took a beginning and ending odometer reading
- This is the first year he is in business
- James business use percentage is 60%

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## James

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- If the taxpayer took the standard mileage rate at 53.5 cents a deduction of \$3,210 would be allowed
- James actual expenses totaled \$4,950 in repairs, gas, insurance, oil and depreciation
- $\$4,950 \times .60\% = \$2,970$
- In this case, the standard mileage rate would be more advantageous to use
- Since James is in the first year of business he can make that election

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## James

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- Note: Once James makes an election to use actual expenses, he cannot change to the standard mileage rate
- Consider several factors when deciding on which method to use:
  - How old is the vehicle?
  - Are repairs and issue?
  - The value of the car could impact the expense associated with upkeep, i.e. BMW or Mercedes costs more to maintain than a Ford Escort
  - What will be the business use percentage in the future?
  - Will it drop below 51% business use?
  - A full-time business vs. a part-time business may also impact the decision

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## James

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- James made the decision in 2017 to use actual expenses when determining his vehicle expenses
- Though it yielded a lower deduction, his vehicle was 7 years old and he was concerned about repair costs
- Let's look at 2018

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## James

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- James first year as a business found success, so he quit his full-time job and worked full-time as an UBER driver
- The decision James made in 2017 will impact 2018
- In 2018, James drove 40,000 miles keeping a log book showing that 30,000 were business miles
- He took a beginning and ending odometer reading
- This is the second year he is in business
- James business use percentage is 75%
- Pete's actual expenses totaled  $\$12,000 \times .75\% = \$9,000$  allowed deduction

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## James

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- If James had chosen to take the standard mileage rate in 2017, an allowed deduction would have been  $30,000 \times 53.5$  cents (estimated, 2018 standard cents per mile is unknown) - \$16,050
- Note: With the standard mileage rate, one can later chose to convert to the actual rate
- It is still wise to figure the amount both ways and consider other factors which may have an impact

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## James

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- Can James switch to the standard mileage rate?
- No

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## Will Self-Employment Tax Apply?

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- This will depend on the business entity chosen to operate the business
- If the taxpayer is a sole proprietor, partnership, or an LLC treated as a partnership or a “disregarded entity”, self-employment will apply
- If a corporation entity was chosen, by statute they are an employee and must abide by the employment tax rules and reporting requirements

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## Do They Need to Make Estimated Tax Payments?

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- In most cases, a taxpayer must pay estimated tax for 2017 if both following apply:
- 1. The taxpayer expects to owe at least \$1,000 in tax for 2018, after subtracting the withholding and refundable credits
- 2. The taxpayer expects the withholding and refundable credits to be less than the smaller of:
  - a. 90% of the tax to be shown on the 2018 tax return, or
  - b. 100% of the tax shown on the 2017 tax return

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## Estimated Taxes

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- The 2017 tax return must cover all 12 months
- Payment Due Dates
- The taxpayer can pay all the estimated tax by April 16, 2018, or in four equal amounts by the dates shown below.
- 1st payment..... April 16, 2018
- 2nd payment..... June 15, 2018
- 3rd payment..... September 17, 2018
- 4th payment..... January. 17, 2019

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## Estimated Taxes

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- If the taxpayer mails the payment and it is postmarked by the due date, the date of the U.S. postmark is considered the date of payment
- If the payments are late or they did not pay enough, they may be charged a penalty for underpaying tax
- Note: The due dates above incorporate non-banking days
- The normal date due is the 15th of each month
- When the 15th lands on a holiday or a Saturday or Sunday, the payment will be due the next business day

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## What About Sales Tax?

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- Sales tax is based on state law which is not universal from state to state
- The following website is the most up to date resource on rates  
<http://www.salestaxinstitute.com/resources/rates>
- But, not all sales are subject to sales or use tax, so each business owner will need to explore state tax rules for their area

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## The Scoop – Upcoming Dates

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- August 30
- September 13
- October 4
- October 18
- November 1
- December 13, 2017
- Held at 8:00 am and 12:00 pm Central time

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## Up Coming Webinars

<http://www.calt.iastate.edu/calendar-node-field-seminar-date/month>

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- Self-Rental August 23
- Ethics Part 1 and 2 September 1
- Ethics Part 1 and 2 October 6, 2017
- Tax Reform and New Law Update October 17
- New Partnership Audit Rules October 19
- Iowa Farm Leases (Legal Issues) October 12
- Iowa Rural Property (Legal Issues) October 13
- The New Partnership Audit Regime October 19, 2017
- Farm Expenses October 24, 2017
- Farm Income October 26, 2017

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## Upcoming Seminars – Mark Your Calendar – Final Dates

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- September 21, 2017 Ag Law Seminar, Live and Webinar
- September 22, 2017, Agricultural Business and Tax Planning Seminar Live and Webinar
- Retirement and Social Security Issues(Webinar) = October 10-11, 2017

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## The Schedule is Finalized for the 44th Annual Federal Income Tax Schools

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- November 2-3, 2017 – Maquoketa, Iowa – Centerstone Inn and Suites
- November 6-7, 2017 – Le Mars, Iowa – Le Mars Convention Center
- November 8-9, 2017 – Atlantic, Iowa – Cass County Community Center
- November 9-10, 2017 – Mason City, Iowa – North Iowa Area Community College
- November 16-17, 2017 – Ottumwa, Iowa – Indian Hills Community College
- November 20-21, 2017 – Waterloo, Iowa – Hawkeye Community College
- December 11-12, 2017 – Ames, Iowa and Live Webinar – Quality Inn and Suites

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## The CALT Staff

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**William Edwards**  
 Interim Director for the Beginning Farmer Center  
 Interim Director for the Center for Agricultural Law and  
 Taxation  
 wedwards@iastate.edu  
 515-294-6161  
 473 Heady  
 518 Farm House Ln  
 Ames, Iowa 50011



**Kristine A. Tidgren**  
 Assistant Director  
 E-mail: ktidgren@iastate.edu  
 Phone: (515) 294-6365  
 Fax: (515) 294-0700



Center for Agricultural Law & Taxation

## The CALT Staff

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**Kristy S. Maitre**  
 Tax Specialist  
 E-mail: ksmaitre@iastate.edu  
 Phone: (515) 296-3810  
 Fax: (515) 294-0700



**Tiffany L. Kayser**  
 Program Administrator  
 E-mail: tlkayser@iastate.edu  
 Phone: (515) 294-5217  
 Fax: (515) 294-0700



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