Rideshare Taxes: What Your Tax Volunteers Should Know

Training Reference Guide

Presented by the Center on Budget and Policy Priorities’ Get It Back Campaign

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Why Does This Matter?

Many rideshare (Uber or Lyft) drivers:

• Are eligible for free tax filing
• Don’t realize they are self-employed, owe taxes, and need to make estimated tax payments
• May not know they need to keep records to deduct expenses or whether they need to file

Income

• Places to find income information:
  
  o Driver’s own records and receipts, if any
  
  o Uber or Lyft account summaries
  
  o Form 1099-MISC, issued to independent contractors
    ▪ Box 7 contains Non-Employee Compensation
    ▪ Both Uber and Lyft will only issue a 1099-MISC if the driver earns at least $600 directly from the company—e.g. referral payments, “join and support” payments. Rider fares are not counted.
    ▪ Even if a 1099-MISC is not issued, drivers still must report that income on their tax return
  
  o Form 1099-K covers all third party transactions including rider fares
    ▪ Uber only issues a 1099-K if the driver made more than $20,000 in rider fares AND provided at least 200 rides
      • Uber rarely issues 1099-Ks
    ▪ Lyft will only issue a 1099-K if a driver made over $600 in rider fares
    ▪ Box 1a contains total third party transaction earnings
      • Monthly numbers don’t add up to the number in Box 1a because Uber/Lyft fees and expenses are included in the total
      • Report box 1a total on the return, deduct but fees and expenses
Tax forms don’t have enough information. Also needed:

- Uber Tax Summary
  - Gross Earnings: includes total trip earnings and other earnings—this is gross income
  - Expenses, Fees, and Tax Table: details the deductible fees that (would be included in the 1099-K)

- Lyft Driving Summary
  - Gross Ride Payments: total income from ride payments (would be on the 1099-K)
  - Total Non-Ride Payments: includes other categories of income (would be on the 1099-MISC)

Income from driving is taxable whether 1099 forms are issued or not.

Since people often drive short-term and forget about that income, asking clients lots of questions during intake and interview is critical.

Where to find forms:

- Uber forms are only available online, not in app
  - Go to partners.uber.com
  - Go to the “Tax Information” page
  - Download:
    - 2018 Tax Summary
    - 1099-K (if provided)
    - 1099-MISC (if provided)

- Lyft forms are available in app and online
  - In app:
    - Open app
    - Tap profile photo in the top left corner
    - Tap 'Dashboard'
    - Tap the menu icon in the upper corner of the screen
    - Tap the "Tax Information" tab
    - Available 1099s will appear under "Tax Documents and can be downloaded
    - Lyft Driver summary
  - Online Dashboard:
    - Log into Dashboard at https://www.lyft.com/drive/dashboard
    - Click on ‘Tax Information’
    - Available 1099s will appear under “Tax Documents” and can be downloaded
    - Lyft Driver Summary

Expenses

- Inaccurate info about deducting expenses leads some taxpayers to think they can deduct things that they cannot
- The IRS examines tax returns with Schedule Cs closely, so err on the side of caution
- Business deductions must be:
  - Ordinary – expenses that are common and accepted in the taxpayer’s line of work AND
  - Necessary – expenses that are helpful and appropriate for a particular trade or business
  - Major expenses for drivers should be related to their cars
  - VITA and Tax-Aide sites limit for business deductions is $25,000
- Two choices of vehicle deductions that clients can choose from—Standard Mileage or Actual Car Expenses:
  - Standard Mileage
    - $0.545 per mile (2018)
    - Easy to calculate, often gives a large deduction
• On top of the $.545/mile, clients can deduct the following:
  • Tolls
  • Parking
  • Business percentage of auto loan interest
  • Personal property taxes (if state requires)

• Mileage that can be deducted:
  • Miles spent driving passengers
  • Miles driven to pick up passengers
  • Mileage returning from drop-off points to a hub to wait for another ride request
  • Other business-related mileage

• Mileage that CANNOT be deducted:
  • Miles driven to/from the driver’s home (commuting miles)
  • Miles driven on personal errands (e.g. getting lunch)

• Apps tend to record all miles driven while they are on, overlogging mileage. Drivers must keep their own mileage logs.
  o Actual Car Expenses
    • VITA and Tax-Aide sites CANNOT calculate Actual Car Expenses
    • Requires a lot of recordkeeping and receipts
    • May be worth it for drivers with especially high car costs—e.g. luxury vehicles or lease payments
    • Includes:
      o Car expenses may need to be allocated—the percentage of miles driven for business use is multiplied by vehicle expenses
        • Uber
          • Allocable [* items included in standard mileage rate]:
            o Property taxes
            o Interest on auto loan
            o Lease payments*
            o Fuel, oil, and tires*
            o Repairs and maintenance (including car washes)*
            o Insurance*
            o Registration and tags*
            o Parking
          • Fully deductible:
            o The Uber fee
            o Uber provided device subscriptions
            o Tolls incurred during on-trip mileage
            o Black Car Fund fees
            o City fees
            o Airport fees
            o Split fare fees
            o Safe ride fees

• Lyft
  • Allocable [* items included in standard mileage rate]:
    o Property taxes
    o Interest on auto loan
    o Lease payments*
    o Fuel, oil, and tires*
    o Repairs and maintenance (including car washes)*
    o Insurance*
Registration and tags*
Parking

- Fully deductible:
  - Lyft commission fees
  - Express Pay fees
  - Tolls incurred during on-trip mileage
  - Rental fees

- Present Standard Mileage vs. Actual Expenses to clients as a choice they make
- Be conservative around what is counted as business miles

- Other deductible expenses [may be allocable if not just for business use]:
  - Cost of phone
  - Phone service plan
  - Repairs
  - Accessories, such as charges, cables and mounts
  - Snacks and refreshments for passengers
  - Electronic toll transponder
  - Floor mats
  - Office supplies
  - Dash cams
  - Car tool kit
  - First aid kit
  - Tire inflator and pressure gauge
  - Portable batter jump pack
  - Flashlight and flares
  - Business taxes and licenses
  - Additional (non-auto) business insurance
  - Roadside assistance plans
  - Music apps
  - Fees for background checks

- Calculating the Standard Mileage deduction from Uber/Lyft summaries
  - Lyft:
    - In ride miles + out of ride miles + any additional miles * Standard Mileage rate = Deduction
    - Lyft commission and tolls are fully deductible fees
  - Uber:
    - Driving Totals miles * Standard Mileage rate = Deduction
    - Total Expenses Fees and Tax are fully deductible fees
  - Do not report the number in Box 1a on the 1099-K form as income without deducting fees. This overstates income.

Recordkeeping

- Stress to clients that they are a small business and are responsible for keeping track of their records.
  - Need a system, whether it’s an accordion file, a spreadsheet, or an app
- Types of records:
  - Bills
  - Credit card statements
  - Other receipts
  - Invoices
  - Mileage logs
  - Canceled, imaged or substitute checks or any other form of payment
  - Account summaries

- Mileage logs should include:
  - Date
  - Destination/area
  - Business purpose
  - Miles for trip (ideally starting/ending odometer readings)
  - Description
- Clients can use apps such as Expensify, Quickbooks, MileIQ, Stride, and SherpaShare to track mileage
The IRS does not accept Uber or Lyft app records as mileage logs in case of audit

- Reconstructing records:
  - Very difficult if the client has not kept records
  - Use Uber/Lyft statements as a starting point
  - Err on the side of caution estimating mileage
  - If the prior year return was filed using better records, that can be used as reference if client drove the same amount

Other Tax Issues

- Emphasize to clients that they are a self-employed small business, not an employee
  - Getting a 1099 instead of a W-2 makes them self-employed
  - Showing them the “Independent Contractor or Employee?” chart can help (slide 42)
- Drivers owe self-employment tax
  - Additional tax that self-employed individuals pay to the federal government to fund Medicare and Social Security
  - Due when an individual has over $400 in self-employment income in a year
  - Self-employed individuals contribute both the “company” and “employee” share of the tax
- Self-employment tax rate
  - Tax rate is 15.3% in 2018
  - Tax is figured on Schedule SE, should be automatically calculated on tax software
  - Half total amount of self-employment taxes is taken as an adjustment on Form 1040
- Employees and business income
  - Even if a driver works another job where they have taxes withheld, those withholdings may not cover SE tax
  - SE tax is an additional tax added after income tax liability is calculated
  - It is possible for income taxes to be paid while self-employment taxes are owed
  - Only refundable credits and withholdings will pay down SE tax
- Quarterly estimated tax payments
  - A way to avoid paying a large amount of SE tax at tax time
  - Usually paid in 4 equal payments throughout the year using Form 1040 ES, but can be paid monthly like a bill if it is helpful to drivers
  - Estimated tax payments are mandatory if taxpayer expects to owe at least $1,000 on their 2018 return AND taxpayer expects withholding and refundable credits to be less than the smaller of 90% of 2018 tax or 100% of 2017 taxes
  - Drivers should keep records to show they made these payments

Top Takeaways for Volunteers to Tell Drivers

- Rideshare drivers are small businesses
- Tracking expenses is critical, especially mileage
- Drivers need to pay self-employment tax
- Make estimated tax payments, if possible
- File taxes—the IRS is watching carefully
Tools and Resources

- **Roadmap to Rideshare Taxes Cheat Sheet**—aimed at drivers and useful for volunteers, includes basics and deductible expenses list
- **Rideshare Tax Organizer**—form that identifies all elements needed to file; can send to clients beforehand to make filing easier
- **RideshareTaxHelp.com**—website that covers everything in this training. Also, will include Quarterly Estimated Tax Payments Calculator

Questions

1. Q: Clients sometimes get 1099s from both Uber and Lyft. Can they be combined for filing?
   A: Yes. They all go under the 6-digit business code for driving. Everything can go on one Schedule C if they’re all the same industry.

2. Q: Do drivers need a mileage log to file taxes?
   A: No, a mileage log is not necessary to file, but it is helpful for preparers. The IRS will require a mileage log in case of audit.

3. Q: Is the $25,000 limit for business deductions just for Uber/Lyft, or is it for Schedule C in general?
   A: Schedule C in general, for both VITA and Tax-Aide sites.

4. Q: In California, drivers are required to have business-specific car insurance. Is that fully deductible?
   A: Yes. In states that require separate insurance, that insurance is fully deductible.

5. Q: Drivers might be coming in at a loss when including taxes, right?
   A: Yes, which is why recordkeeping to see if there is any profit is so important. VITA and Tax-Aide cannot help with filing at a loss.

6. Q: Are snacks and refreshments entertainment and meals, or supplies?
   A: If they are for passengers, then they are supplies and their cost can be deducted.

7. Q: Are repairs part of the mileage allowance?
   A: Repairs are separately deductible only when taking actual car expenses. Repairs are included in standard mileage. If a driver had major repairs on their vehicle, that may make taking actual expenses worth it.

8. Q: Drivers might live 45 miles away from where they do Uber/Lyft. Is all of that drive commuter miles, or is it deductible?
   A: It may be tricky, for example when driving from home to a hub. Err on the side of caution. It is better to not deduct the total mileage.

9. Q: Since standard mileage includes depreciation, doesn’t that make car leases over 30 days out of scope for VITA?
   A: Technically, yes. That would require actual expenses.

10. Q: Can drivers adjust withholdings through an employer to cover self-employment tax?
    A: Yes, and it’s a good way to pay SE tax. They can add extra withholding on their W-4.

11. Q: How would the new tax law affect drivers? Can they take the 20% Qualified Business Income deduction?
A: Yes, all VITA clients would qualify for this deduction. Hopefully, the tax software will calculate this automatically. It's figured on Form 1040, not the Schedule C.

12. Q: Are Uber/Lyft tax summaries sent to the IRS?
   A: No, but the IRS has ways of finding information, and do a lot of comparison.

13. Q: Low-Income Taxpayer Clinics follow the 90/10 rule for scope, where 90% of clients helped should be within guidelines and 10% can be out of scope at the discretion of the program coordinator. Are VITA sites the same?
   A: It's not written anywhere, but many programs have that approach. It depends on the site's level of comfort. Out of scope work is not covered by Good Samaritan insurance.

14. Q: What should Uber/Lyft drivers list as their occupation?
   A: Driver or rideshare driver.

15. Q: Does reporting expenses under “Other” instead of something specific make an IRS audit more likely?
   A: Schedule Cs are already flagged for a closer look. Being vague can also warrant examination. Other red flags include all numbers ending in 0 or having the exact amount to get the maximum EITC.

16. Q: Is income under $600 reported to the government by Uber and Lyft even if the taxpayer doesn’t get a form?
   A: Yes, the IRS knows even if the taxpayer doesn’t get a form.