A GUIDE TO 1099 TAXES FOR

INSURANCE PROFESSIONALS

by ZEN99

Contents

Note
This guide is intended for insurance professionals who act as an independent contractor for one or more insurance agencies. If you work directly as an employee for an agency, you may not be a contractor. If there is any confusion, please ask the company with whom you work.

Also, as an independent contractor, the IRS automatically classifies you as a sole proprietor running your own small business. If you have established yourself as a different type of entity (such as a C-corporation), you may have different reporting requirements.

About the Guide
Zen99 helps independent contractors simplify the administrative aspects of being a contractor – starting with tax and health insurance help. Tristan Zier is CEO and Cofounder; prior to Zen99, he led the Operations team at Exec until their acquisition by Handy, and was a CPA at Deloitte LLP.

Disclaimer
Sorry, our lawyers require this: keep in mind that this content is meant only as a guide, and not as professional tax/legal advice. Please hire a tax or legal professional if you are in need of professional advice.

TAXES (IN ONE PAGE)

As a **1099** contractor, you are responsible for paying your own quarterly and end-of-year taxes. At the end of the year, the company will tell you the total amount they paid you. You'll likely receive a **1099-MISC** paper form at the end of the year if you make over $600.

Your payments are still reported to the IRS in both scenarios, though; if you don't receive a paper form, you'll just self-report your earnings on your **Schedule C**, which is where you calculate your business earnings and expenses.

What expenses can I write off?

Keeping track of your expenses reduces your taxable income and can save you thousands on taxes, which increases your take-home pay. Some common expenses:

- Car Expenses
- Parking and Tolls
- Non-Car Commuting Costs
- Motorcycle/Bike Costs
- Cell Phones and Other Devices
- Meals/Entertainment with Clients
- Software Subscriptions
- Office Supplies
- Advertising / Marketing Expenses
- Home Office Expenses
- Gifts to Clients

See the "Expenses" section of this guide for more discussion on each of these expenses.

What about [other expense]?

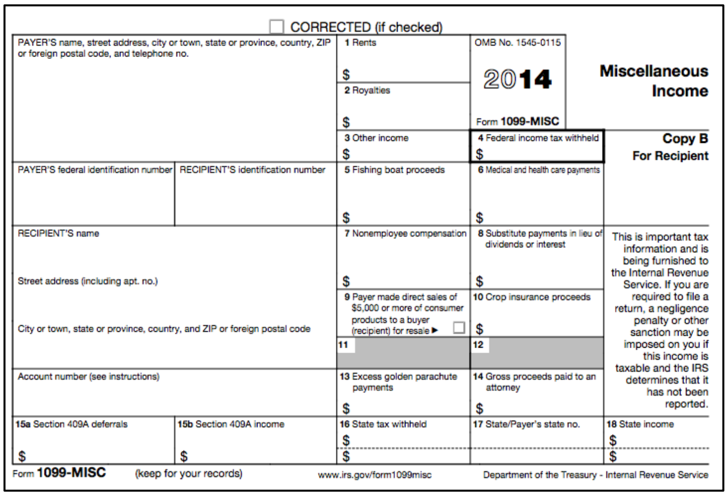
The IRS allows you to use some judgment on determining if an expense is business related. An expense must be ordinary and necessary for your line of business in order for it to qualify as an expense. Ordinary means common and accepted in your business; necessary means helpful and appropriate. For example, if you purchase audio or visual conferencing equipment for doing online conversations, you may be able to write off that cost if its necessary for running your business.

Split personal/business expenses

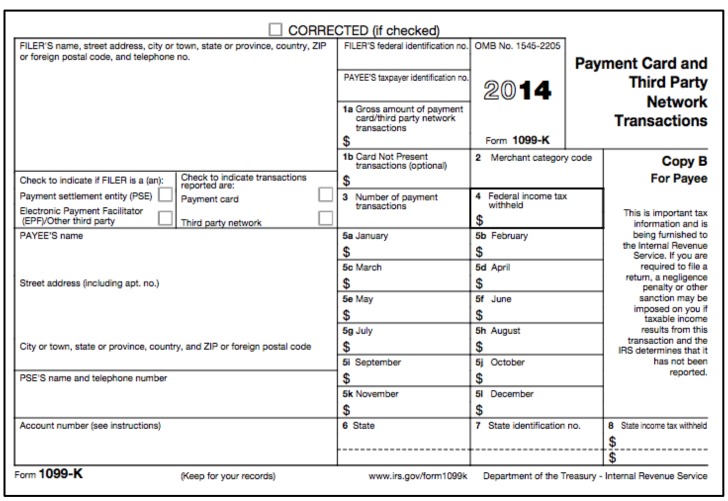
If you have an expense that is use for both personal and business use (such as a cell phone), you are only allowed to write off the business portion of that cost. You'll have to estimate how much of the usage is related to business (the IRS usually allows you to use your best judgment here).

Taxes: The 1099

A 1099 ("ten ninety nine") form summarizes any miscellaneous income you have, including income you receive from working as an independent contractor. (See why we're called Zen99? We thought it was clever...)


CORRECTED (if checked)
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.
1 Rents $
2 Royalties $
3 Other income $
OMB No. 1545-0115
2014
Form 1099-MISC
Miscellaneous Income
4 Federal income tax withheld $
Copy B For Recipient
PAYER'S federal identification number
RECIPIENT'S identification number
5 Fishing boat proceeds $
6 Medical and health care payments $
RECIPIENT'S name
Street address (including apt. no.)
City or town, state or province, country, and ZIP or foreign postal code
7 Nonemployee compensation $
8 Substitute payments in lieu of dividends or interest $
9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ▶
10 Crop insurance proceeds $
11
12
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Account number (see instructions)
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 (keep for your records) www.irs.gov/form1099misc Department of the Treasury - Internal Revenue Service

The most common type of 1099 income is from independent contracting work. Companies typically give a contractor a 1099-MISC if they pay him/her over $600 in the tax year.


CORRECTED (if checked)
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.
FILER'S federal identification no.
PAYEE'S taxpayer identification no.
1a Gross amount of payment card/third party network transactions $
OMB No. 1545-2205
2014
Form 1099-K
Payment Card and Third Party Network Transactions
1b Card Not Present transactions (optional) $
2 Merchant category code
Copy B For Payee
Check to indicate if FILER is a (an): Payment settlement entity (PSE) Electronic Payment Facilitator (EPF)/Other third party
Check to indicate transactions reported are: Payment card Third party network
3 Number of payment transactions
4 Federal income tax withheld $
PAYEE'S name
Street address (including apt. no.)
City or town, state or province, country, and ZIP or foreign postal code
5a January $
5b February $
5c March $
5d April $
5e May $
5f June $
5g July $
5h August $
5i September $
5j October $
5k November $
5l December $
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
PSE'S name and telephone number
Account number (see instructions)
6 State
7 State identification no.
8 State income tax withheld $ $
Form 1099-K (Keep for your records) www.irs.gov/form1099k Department of the Treasury - Internal Revenue Service

However, some companies claim they act as "payment transactors" for their contractors. This is typically for marketplaces like Ebay or Uber, so won't apply for insurance professionals.

In this case, a company would issue a 1099-K instead of a 1099-MISC, and only has to issue one if you make over $20,000 and over 200 payments are facilitated.

In both cases, if the company has to send a 1099, they must sent it by January 31st (or the first weekday after that, if 1/31 is a weekend). If you don't receive a paper form, you still have to pay taxes! It just means you report those earnings yourself on your Schedule C. There is still an electronic record that you were paid (through your direct deposit, through the company reporting their payouts to the government, etc.), so the IRS will know.

Keep in mind that as a contractor, the company **doesn't withhold any taxes from your pay**, so you need to save money to pay your own taxes. How much you'll ultimately pay depends on a lot of factors (taxes are very unique for each individual). Zen99 will help you track this!

Taxes: The Schedule C

A Schedule C is a tax form where you calculate your profit or loss from your business. You'll tell the government how much you made (earnings), how much you spent (expenses), and if that resulted in a profit or loss (hopefully a profit!).

A Schedule C-EZ is just a simplified ("easy") version. You can use the C-EZ only if you meet certain requirements. (The major requirements are that you only run one type of business, and don't have more than $5,000 in business expenses.).

You must include a Schedule C or C-EZ with your 1040 during year-end taxes. You also might complete one when filing quarterly taxes using a 1040-ES (discussed later).

Part I: Income:

Part I	**Income**		
1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . . ▶ ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6 . . . ▶	7	

The first part of the Schedule C is where you report your earnings. You'll notice some fields like "Returns" and "Cost of Goods Sold". These are only applicable when you're selling a physical product, so don't apply for most professionals.

If you did receive paper 1099 forms, you **do not** need to submit them with your taxes. You should, however, keep them for your records. If you didn't receive a 1099 form, you still need to report and keep proof of your income (for example, proof of bank deposit).

Parts II to V: Expenses:

Part II	**Expenses**			**Enter expenses for business use of your home only on line 30.**			
8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
				20	Rent or lease (see instructions):		
10	Commissions and fees	10		a	Vehicles, machinery, and equipment	20a	
11	Contract labor (see instructions)	11		b	Other business property	20b	
12	Depletion	12		21	Repairs and maintenance	21	

This is where you'll record any expenses related to that income. See the "Expenses" section in this guide for expenses you can write off to minimize your taxes!

Taxes: Quarterly Taxes and the 1040-ES

When you're an employee, your employer withholds your taxes from every paycheck and submits them to the government on your behalf. As an independent contractor, no taxes are withheld when you're paid. This means that you need to pay taxes to the government yourself. The question is: how often?

Generally, most independent contractors have to submit taxes to the government quarterly. There are some specific regulations for this, but generally you have to pay quarterly taxes if you expect to owe $1,000 or more in taxes for the year (roughly, if you plan to make more than $5,000 in 1099 income).

If you do have to pay quarterly taxes, the due dates are:

Quarter	**Covers…**	**Is due…**
Quarter 1	Jan 1 – Mar 31	Apr 15
Quarter 2	Apr 1 – May 31	Jun 15
Quarter 3	Jun 1 – Aug 31	Sept 15
Quarter 4	Sept 1 – Dec 31	Jan 15 (of next year)

** Yes, it is weird that the "quarters" aren't equal in length.*

What if you didn't pay quarterly taxes, or actually owe far more than you estimated? You'll typically pay a 6-8% penalty on the amount you underpaid. (So if you made $10,000, owe $2,000 in taxes, and didn't pay quarterly taxes, you might be subject to a penalty of 6% of the $2,000 underpayment, which is $120).

What if you can't pay your taxes? The IRS is surprisingly accommodating when it comes to this—as long as you're open about it (they really hate when you hide things from them). If you're in trouble or need help, you should definitely talk to a professional tax CPA as soon as possible, and have them help you work out a payment plan with the IRS.

<u>The 1040-ES</u>
To file your quarterly taxes, you'll use a 1040-ES form to estimate how much you'll make during the year, and how much tax you would pay on those earnings. Then, you pay a portion of that each quarter. You should complete a 1040-ES each quarter when you pay estimated taxes. This is because your estimated income for the year might change over the course of three months (e.g. if you start working more, or less).

There is also a "safe harbor" rule: if you expect to make more this year than you did last year, the government only requires you to pay at least 100% of what you paid last year (110% if you make $150,000+). You'll still have to pay the full amount of what you owe at the end of the year, but this effectively gives you an interest-free loan until the end of the year when you pay the remainder.

To file your taxes, follow the instructions on the 1040-ES (or use Zen99 – we'll help you keep track of taxes and file them!)

Taxes: Other Tax Forms

<u>The Schedule SE</u>
This form will help you calculate how much you owe in self-employment taxes. What are these? About 15% of everyone's income goes towards supporting Social Security and Medicare (this is called the "FICA" [for employees] or "SECA" [for self-employed] tax). When you're an employee, you pay ~7.5%, and your employer pays the other ~7.5%. When you're self-employed, you pay the full ~15% yourself, which is nicknamed the "self-employment tax". It's calculated on a Schedule SE.

Why does this ~15% differ from the 25-30% some people recommend contractors save each time they get paid? The additional amount comes from federal and state income tax, which is separate from your SECA tax.

SCHEDULE SE (Form 1040)
Department of the Treasury Internal Revenue Service (99)

Self-Employment Tax

▶ Information about Schedule SE and its separate instructions is at *www.irs.gov/schedulese*.
▶ Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074
2013
Attachment Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040) | Social security number of person with **self-employment** income ▶

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart **only if** you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.

<u>The 1040</u>
The 1040 form is where you'll report your total income and deductions for the year, so you can calculate how much income tax you owe. This is completed at year-end and is due on April 15th.

Why are quarterly tax forms due on January 15th, and your 1040 due on April 15th? This is because the 1040 is much more in-depth with its deductions, and calculates the official amount of tax you owe for the year. Your quarterly taxes are just estimates so the government can collect cash throughout the year. (Remember: the government's "income" comes from taxes. Imagine if your company only paid you once a year—you'd probably be in financial trouble.)

Some expenses you have as an independent contractor will go on the 1040, instead of on your Schedule C. For example, if you pay for your own health insurance and aren't eligible for a spouse or employer sponsored plan, you'll be able to claim that as a deduction on your 1040 (that means it reduces how much you'll pay in tax!).

Taxes: Tying It All Together

OMB No. 1545-0115
2014
Form 1099-MISC

1099: When you work, you make income. This income is summarized on a 1099 for you at the end of the year.

SCHEDULE C (Form 1040)
Department of the Treasury Internal Revenue Service (99)
Profit or Loss From Business
(Sole Proprietorship)
▶ For information on Schedule C and its instructions, go to *www.irs.gov/schedulec*.
▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

Schedule C: You record this income and any related expenses on a Schedule C, which calculates your business profit.

Quarterly

Form 1040-ES
Department of the Treasury Internal Revenue Service
2014 Estimated Tax

1040-ES: If you're paying quarterly taxes, you'll calculate your estimated taxes for the year on a 1040-ES. (It also calculates your self-employment tax.) Payments are due April 15th, June 15th, September 15th, and January 15th.

Annually

SCHEDULE SE (Form 1040)
Department of the Treasury Internal Revenue Service (99)
Self-Employment Tax
▶ Information about Schedule SE and its separate instructions is at *www.irs.gov/schedulese*.
▶ Attach to Form 1040 or Form 1040NR.

Schedule SE: At year-end, you'll need to complete an actual Schedule SE to calculate your actual self-employment taxes.

\+

Form 1040 Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return

1040: The 1040 takes into account other deductions and calculates the official amount of tax you owe for the year. Any amounts you owe but haven't paid during quarterly tax payments will be due April 15th.

Expenses: Car Expenses

Car expenses can be one of your largest potential tax deductions, so it's a good idea to take full advantage of it. There are two methods to calculate the expense:

Method 1: The Standard Mileage Rate
This is by far the simplest method. You track your business mileage, and then multiply the total number by the IRS set rate that year ($0.56 per business mile for 2014; $0.575 for 2015). This per-mile rate includes:

- Gasoline
- Insurance
- Maintenance and repairs (oil, tires, etc.)
- Vehicle registration
- Depreciation (if you own the car)
- Lease payments (if you don't own the car)

This means the rate **includes** these expenses, and you **cannot separately deduct them**.

If you've used the Actual Costs Method for this car in a prior year (see below), you are not allowed to switch back to the Standard Mileage Rate. There are also a few other cases where you cannot use it: if you aren't the owner or lessee of the car, if you use five or more cars at the same time, or if you have claimed a Section 179 deduction (discussed later).

Method 2: The Actual Costs Method
In this method, you keep track of every cost you have related to your car (gasoline, insurance, etc.). This often means a lot of receipts to track. You'll then have to add them all up and estimate how much is business related (which you do by tracking your mileage – so in either method you end up having to track your mileage).

One thing you'll also have to track is depreciation. Depreciation is when you "smooth out" an expense over a period of time. For example, say you buy a $10,000 car. It doesn't provide all its value in the first year - it provides you value for the entire time you have it.

The easiest way to calculate your depreciation for the year is "straight-line". This is the total cost divided by the number of years. So if you depreciate a $10,000 car over 5 years (the number of years the IRS has set for car depreciation), that's $10,000 / 5 = $2,000 per year depreciation expense. There are also other methods like the 200% declining balance or 150% declining balance.

Sound confusing? It can be. That's why most people decide to use the Standard Mileage Rate.

Keeping Track of Mileage
The IRS requires you to keep track of all daily business driving via a log. The log must include the date, the starting and ending odometer, the number of miles driven, and the business purpose of the mileage. The IRS suggested method is a paper logbook or an electronic equivalent (like the mileage tracker in Zen99.)

Business vs Personal Use

Most people use their car for both business and personal use. You are only allowed to expense business related expenses.

- **Standard Mileage Rate**: Multiply only your business mileage by the IRS standard rate.
- **Actual Costs Method:** If your gas/insurance/etc expenses for 2014 are $1,000 and you use the car 60% business / 40% personal, then you can deduct $1,000 * 60% = $600.

What mileage can I write off as an insurance professional?

If you work out of a central office, you cannot write off your commute from your home to the office, but can write off any mileage you travel away from that office (for example, if you go from the office to a house site; or if you drive from your own home around to clients' locations all day). If your primary office is at your residence, you can write off any mileage to and from your home related to client purposes. (More on home office expenses later.)

Section 179 Deduction

A Section 179 deduction allows you to write off the full cost of a new car in the year you purchased it for business. Due to all of the restrictions, plus the additional calculations and tracking required, it's often a lot easier to skip the Section 179 deduction and just use the Standard Mileage Rate. The deduction primarily makes sense for business owners who have a large fleet of cars (at which point you should be having an accountant do all this for you).

However, we'll go over some details on it for those who are interested. There are certain restrictions related to this deduction:

- You must own the car and have purchased it; you cannot have received it as a gift or inheritance. You cannot have purchased it from a "related party" (e.g. a family member).
- You must use the car more than 50% of the time for business. Your total deduction cannot exceed the percentage of the time you use it for business (e.g. for a $10,000 car used 80% of the time for business, you can only write off up to $8,000).
- Your deduction cannot cause you to go from a business profit to a business loss. If it does, you have to "carry over" the remaining amount to future years. (For example, if you made $5,000, had no other expenses, and put a $10,000 car into use claiming the Section 179 deduction, you can only write off up to $5,000 this year.)
- For SUVs, you can only write off up to $25,000.

The car itself doesn't have to be new—it just has to be new to you. However, you must take the deduction the year the car is "ready and available" for use. So if this is the first year you are using it for business, you can't take the deduction if you purchased it last year.

Also of note: if you take a Section 179 deduction, you are effectively recognizing all of the depreciation on the car in the first year. Thus, you cannot use the Standard Mileage Rate that year or in any future years, since the rate includes depreciation (you would effectively be double counting depreciation—which the IRS doesn't like). Most importantly, if you stop using the car for business (or use it less than 50% of the time for business) or sell the car before 5 years pass, then you are subject to a "Section 179 recapture". This means that the expense you previously wrote off could become income in the year you sell the car – meaning your tax bill will be artificially high that year. For all of these reasons, we recommend sticking with the Standard Mileage Rate.

Expenses: Other Expenses

Parking and Tolls
In addition to either of the two methods above, you can expense parking fees and tolls that relate to business driving. For example, if you have to drive across a bridge or pay for parking while meeting a client, you can expense the tolls or parking. But if you're taking a break for lunch by yourself, you cannot expense the parking (since it is not business related – your own lunches are a personal expense).

Non-Car Commuting Costs
If you don't have a car and instead use cabs, short term car rentals, or public transportation, you can write off any business costs associated with it. Cabs and short-term car rentals are likely 100% business use, so you can write off the entire cost if they are. Something like a monthly subway pass is likely used for both personal and business use, so you'll have to estimate the business use.

What if I use a motorcycle/bike/other?
If you use a motorcycle, that is technically a vehicle. However, you aren't allowed to use the Standard Mileage Rate for motorcycles (since it's meant for cars, which typically have higher costs), so you would have to use the Actual Costs Method.

If you use a bike or other unpowered method of transportation, you will have to depreciate it since it provides you value for more than 1 year. The easiest way to do this is via "straight-line" depreciation. Just take the total cost, divided it by the IRS defined useful life, and you have your annual expense. If you use it for both personal and business use, you'll have to estimate what percentage is business use and can only write off that amount of the expense. You can also write off maintenance and repairs costs.

Cell Phone and Other Devices
If you pay for a phone and data plan and use it for both business and personal use, you can write off the business portion of that cost each month. The IRS allows you to use a bit of judgment when calculating this number, so estimate appropriately.

If you pay for an iPad or other device for business, you can also write off that cost. For any business assets like this that have more than a year life span, you will need to depreciate the asset. The easiest way is to use straight-line depreciation (discussed above).

Meals/Entertainment with Clients
In general, if a meal, snack, coffee, or other entertainment is related to a business purpose and the client was there, you can write off 50% of the cost of that meal/entertainment. Note that business must be discussed at some point in order to qualify as a business meal. You cannot write off any personal meals unless you are traveling overnight.

Software Subscriptions
If you pay for any software subscriptions, you can write off the cost of that software subscription as long as it's necessary for running your business. This can include items like website hosting fees, CRM, email marketing/newsletter systems, and the like.

Office Supplies
Any office supplies (pens, paper, printer ink, etc.) can be written off as an expense.

Advertising / Marketing Expenses
You can write off any expenses associated with advertising or marketing your services, such as web advertising, event sponsorships, church ads, Yellow Page ads, etc.

Home Office Expenses
There are two requirements you must meet in order to expense home office costs:

- The home office must be your primary place of business, and your employer or contracted company cannot provide you with a place to work. You cannot deduct a home office if it is only set up for your convenience.
- The space must be used exclusively and regularly for work. For example, if you use a spare room as both a guest room and a home office, you can only write off the home office portion.

You'll then use the Simplified Method or Regular Method to calculate the expense:

- Simplified Method: Multiply the square footage of your office by the IRS set rate for that year ($5/sqft in 2014), up to 300 sq ft per year.
- Regular Method: Track all costs related to your home residence, and determine the portion to allocate to your home office using Form 8829.

Gifts to Clients
Unfortunately, the IRS only allows you to write off gifts that are business-related, and limits it to $25 per year per recipient if you are an independent contractor. Your company may have more leeway in writing off the gift as an expense, so you may want to have them fund it if the company is the one trying to maintain the client relationship.

What about [other expense]?
The IRS allows you to use some judgment on determining if an expense is business related. An expense must be ordinary and necessary for your line of business in order for it to qualify as an expense. Ordinary means common and accepted in your business; necessary means helpful and appropriate. For example, if you purchase audio or visual conferencing equipment for doing online conversations, you may be able to write off that cost if its necessary for running your business.

A note on reimbursed expenses
If the company you provide contract services for reimburses you for any costs you incur (for example, gifts sent to clients), you should ask them if they plan to include that reimbursement in the total payout on your 1099 form. The 1099 generally shows just the total dollar value paid out to you during the tax year, so this may be inclusive of reimbursed costs like gifts.

If the reimbursement is included in the 1099 form, you should record that both as income and an equal offsetting expense. Since the income and expense are the same, the net is $0 so you won't owe any tax on it. But it's important because otherwise your total income recorded on your Schedule C won't properly match the amount on your 1099 form.