



# New Stimulus Package Creates New Tax Reporting Requirements for Gig Economy Businesses

Insights

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Gig economy businesses might be unaware of a new requirement in the latest American Rescue Plan stimulus package that is designed to help workers keep track of and correctly pay their taxes each year. The new requirement is the result of an amendment to the United States Tax Code which requires platform companies to inform contract workers of how much money they have made on their platforms. The requirement goes into effect at the beginning of the 2022 tax year.

## What's Changed?

Previously, gig economy businesses were only required to report the incomes of workers with a very large amount of earnings and transactions. Under the new law, however, more gig workers will receive a Form 1099-K showing their gross income from gig economy platforms. The companies will also send the Form 1099-Ks to the IRS.

The new requirement is likely to assist gig workers who are required to make estimated income tax payments every quarter and pay double the Social Security and Medicare tax rates that traditional employees pay. Unsurprisingly, gig workers may be in for a surprise at the conclusion of each tax year if they have not been monitoring their potential tax liability. If they do not closely monitor their potential tax liability, they could end up owing back taxes that they are not prepared for and cannot afford.

However, tax professionals who assist workers with tax issues believe the requirement is a great start in assisting gig them with their annual tax bills. Additionally, the requirement will also assist the IRS with tracking taxes owed by gig workers.

## What Do You Have To Do?

The new law requires companies to send workers tax forms if they earn more than \$600, regardless of the number of transactions. The previous law and IRS guidance only required gig companies to send many workers tax forms if they earned more than \$20,000 in income over more than 200 transactions. Many gig workers could easily fall under the threshold of the current requirement. In fact, just 30% of gig workers made more than \$5,000 in 2016.

The requirement will also likely create the most value for gig workers who perform work for multiple platforms. Of course, they will still be required to reserve and save their earnings to meet their tax obligations.

You should be prepared for questions from your workers about this new development, and train your managers on the correct way to respond. A key here will be ensuring that your managers do not turn into tax advice experts; they should be prepared with simple talking points explaining the reason for the new documentation and guiding workers to the proper company channels for further communication.

## **Conclusion**

Overall, the new requirement reflects the continued evolution of gig work. The tax code was created with established businesses and traditional employers in mind. Although the new reporting requirement is a step in the right direction, gig workers are still seeking legislation to assist with saving for retirement and to create portable benefits for gig workers. We'll keep an eye on these developments and provide updates as warranted.

## ***Related People***

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