

Top 10 Write Offs for Independent Contractors (2017)

“WRITE OFFS FOR INDEPENDENT CONTRACTORS ARE THE FROSTING ON THE FREELANCER CAKE” SAYS US, *RIGHT NOW*.

Are you newly in business for yourself as an independent contractor? An independent contractor is defined as a person or business that provides goods or services to another entity under of a verbal agreement or specified contract. Some examples of independent contractors include truck drivers, writers, real estate brokers, and web designers. With the beginning of a new year and the dawn of a brand new tax season, it's important to know what tax deductions you qualify for so you can keep detailed records like receipts and invoices as proof for when it is time to file your itemized deductions.

DEDUCTIONS FOR INDEPENDENT CONTRACTORS

The IRS does not correct you should you fail to claim a deduction you are qualified for, so it's in your best interest to be aware of the items you can write off as a cost of doing business. Your deductions should include all necessary and ordinary expenses associated with your work. While there are many tax benefits of being an independent contractor, **here are our suggestions as the top 10 write offs for independent contractors** in 2017.

1. OCCUPATIONAL OPERATING EXPENSES

The cost of advertising yourself, your services, or your product would fall into this category. Web hosting fees and the cost of internet services are also operating expenses. If you work from home, you can have a shared internet account for both home and business use and deduct a portion of the monthly cost, or you can have a separate business account. The same applies for a phone line. Business cards you have made are another write-off that falls under occupational operating expenses.

2. SUPPLIES AND MATERIALS

Any items you need to conduct business can be written off. All equipment, including items like a computer, camera, printer, or other office machinery, used on the job is tax deductible. Even the lesser items like paper, pens, and ink are a deduction. It's not commonly known that books, magazines, and newspapers related to your business are also deductible. Even greeting cards sent to clients can be a deduction. Supplies and Materials definitely lands a spot as one of our top write offs for independent contractors.

3. HOME OFFICE

For an office in your home to be considered a qualified deduction, it must be used solely for business. It cannot also be used as a spare bedroom for out of town guests. The way it is deducted is based off its size relative to the rest of the house. For example, if your office takes up 15% of the house, you can deduct 15% of each

utility, such as gas and electric, as office expenses. You can also deduct mortgage interest, homeowner's insurance, repairs, and painting. If you rent your home, you may also write off a portion of your rent.

4. **SNACKS AND COFFEE**

A little known tax write-off often overlooked is the cost of providing yourself and any employees with snacks while working. The cost of caffeine can also be deducted. Meals for you are not included in this category. However, if there is a business reason for having any of your employees eat at work, their meals can be deductions. A good way to take advantage of this tax break is to have a weekly team lunch meeting.

5. **BUSINESS ENTERTAINMENT**

While this deduction is only for half the cost of expenses related to entertaining clients, it can be used for business meetings and marketing efforts that take place at restaurants, sporting events, and golf courses. This is a commonly abused deduction, so keep in mind it is always best to consult a professional and follow the strict guidelines given by the IRS.

6. **TRAVEL**

Travel is another category that is heavily scrutinized, but it is still a great way to keep more of your money come tax time next year. Hotels, airfare, and 50% of meals can be written off for business trips. You can even extend your trip for sheer pleasure as long as the number of days spent on business is longer than the number spent just for pleasure. Local travel is discussed further under car-related expenses. Just keep in mind that travel and deductions related to your vehicle are the items most likely to get you audited by the IRS.

7. **CHILD CARE**

You can offer your employees up to \$5,000 in dependent-care benefits. If your spouse is your employee, that \$5,000 can be used for childcare for your own children. These benefits are excluded from wages, so they are deductible for you as the independent contractor. The dependent care benefits are tax free for the employee, even if the employee is your spouse.

8. **CLEANING SERVICES**

Whether you have a home office or rent office space, having it cleaned is deductible. A cleaning company, maid service, or janitor can be used. If you would like to get more creative, you can pay your child to clean. You must be sure to pay them reasonable compensation for the work done. Keep in mind your children can also be paid for data entry, answering the phones, or other business related activities. Children under 18 are exempt from Social Security tax. They also are not subject to federal unemployment tax until they turn 21. The other benefit of hiring your child is that you can make a contribution to an IRA or a Roth IRA for them based on the

wages you're paying them. Unless your child has a lot of unearned income, they will not owe income tax on the wages you pay them. This is a great way to lower the family's tax bill by making taxable income of the parent into untaxable income for the child.

9. CAR RELATED EXPENSES

Depending on how much record keeping you like to do, this can be a big deduction. Many choose to use the standard mileage rate as it is the easier method, but it is a lower deduction. If instead you use the actual expense method, it requires more individual bookkeeping but it allows for higher deductions. Using this method, you deduct the actual costs incurred each year operating your car for work, plus you use the tax code schedule for depreciation and repairs. Your deductible costs include gas and oil, license fees, repairs and maintenance, insurance, and car wash costs. Whether you use the standard mileage rate or the expense method, tolls and parking can also be deducted. Just keep in mind that transportation write-offs are often audited by the IRS, so keep very detailed records. If the car is also used for personal use, you must keep track of the percentage it is used for business when calculating expenses.

10. MEDICAL PLANS

As an independent contractor, your health insurance is deductible. Other medical expenses, such as acupuncture, chiropractor appointments, eyeglasses, and nonprescription medications not covered by your health plan can also be written off. While being able to write off 100% of your health insurance is great, it can be taken one step further. If you hire your spouse, as was briefly mentioned under the child care deduction, you can provide family health insurance coverage to your employee. Under these circumstances you will be covered on your spouse's insurance plan while further reducing your taxable income.

WRITE OFFS FOR INDEPENDENT CONTRACTORS: FINAL THOUGHTS

There are lots of tax benefits of being an independent contractor, make sure to do your own research when estimating your future tax burden. Proper tax planning with a professional is the safest way to reduce your tax liability while ensuring you comply with applicable tax codes. Also make sure you keep detailed records of any possible write offs. Most importantly, be sure to hire, or, at the very least, consult a tax professional familiar with all laws associated with preparing taxes for independent contractors. While utilizing a tax preparer may seem like an added expense, keep in mind that you can write off what you pay for their assistance on the business portion of your taxes.