Coleman & Associates
Fully Integrated Tax, Accounting & Financial Services

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Tax Consequences of Virtual Transactions

It's important to remember that these virtual events often trigger real-world tax implications. Here are some things to keep in mind:

- ✓ **Internet marketplaces** – Proceeds of sales of goods and services on internet marketplaces can be taxable income. That's true whether you're a hobbyist or running an online business. Depending on your level of activity, tax rules may limit your deductions. Internet sales may also be subject to sales or use taxes, which vary by state. If the platform is considered a Marketplace Facilitator (eBay, Etsy, Amazon, for example), sales taxes are collected by the marketplace itself and remitted to the appropriate taxing entities. In other cases, that responsibility may fall on you so you need to know the difference.

- ✓ **The IRS is watching** – New reporting requirements require more reselling activity to be reported to the IRS. So if you resell your sporting event tickets or concert tickets using an online tool, expect the platform to ask you for information about yourself, including your Social Security number. Why? E-bay, StubHub, Ticketmaster and similar platforms must now report a lot of this activity to the IRS via new Form 1099-K reporting rules!

- ✓ **Online courses** – Social media platforms are loaded with advertisements for how-to courses on every conceivable topic – including how to create your own online course. If you decide to share your knowledge in a particular subject matter by developing and selling an online course, proceeds can be subject to income tax. Sales and use taxes may also be due on the purchases of these courses in some jurisdictions.

- ✓ **Crowdfunding** – If you use crowdfunding platforms like Kickstarter or Indiegogo to raise funds for your business venture or project, the money you receive can be taxable. If you provide a reward in exchange for different amounts, the funds you receive are treated as sales proceeds. Crowdfunding transactions may also be subject to state sales and use taxes. If backers of your venture receive equity in your startup company, those transactions may not be taxable as income, but they are regulated by the Security and Exchange Commission.

- ✓ **Online fundraising** – Funds you receive through an online fundraising campaign to pay for medical bills, disaster recovery or other personal expenses generally are treated as nontaxable gifts. Donations to such campaigns may even qualify as deductible charitable contributions by the donors.

- ✓ **Social media influencers** – It may seem like fun to develop a significant following on social media but capitalizing on that audience through product endorsements and other influencing activities is treated as business income. Endorsement payments are taxable and so is the value of any products received in exchange for reviews or brand placements in social media posts.

- ✓ **Virtual currency** – Payments you receive in the form of virtual currency for goods and services are treated similar to cash transactions and are included in your gross income at fair market value. But to add a level of complexity, that virtual currency is also considered property, which can result in taxable gains or losses. So you will also need to attach the fair market value to that virtual currency as of the receipt date of the currency. Then when you use the currency, you will need to track a gain or loss on that future transaction.

Please call if you need help sorting out the tax implications of any virtual activity or transaction.

Summer Jobs and Taxes

Now is the time to prepare yourself or your student for earning money this summer. Here’s what can be expected depending on the type of summer job.

- ❖ **The employee.** A job at a retail store or restaurant generates earned income that is subject to payroll and income taxes. Paying taxes as an employee is super easy, as all necessary taxes will be withheld from your paycheck. You may need to file a tax return if wages and tips are more than $12,950, which is the standard deduction for single taxpayers in 2022 or if you have withholding that you can get refunded

- ❖ **The family business.** A job at a family business will also generate earned income that is subject to payroll and income taxes. If you are under age 18, receive reasonable compensation for a legitimate job, and the business is either a sole proprietorship or an LLC, you could qualify for an exemption from Social Security, Medicare, and federal unemployment taxes.

- ❖ **The entrepreneur.** A job such as mowing lawns, working on computers or dog walking will generate earned income that is subject to income taxes. You will also have to pay a 15.3% self-employment tax on all profits. Paying taxes as an entrepreneur or business owner also involves making payments to the IRS, either electronically or via check, throughout the year.

- ❖ **The domestic worker.** Performing chores such as babysitting and cleaning for neighbors may trigger the household employee rules, also known as the nanny tax. This can be good news, as these jobs are typically exempt from Social Security and Medicare taxes when paid to workers under age 18 who are considered household employees.

Here are some suggestions for understanding how taxes will affect your summer job:

Understand how taxes are withheld. If you are an employee, take one of your paychecks and review how each dollar amount is calculated. This will also help you understand the different types of taxes, including federal and state income taxes, Social Security taxes and Medicare taxes.

Set up a savings account. If you have your own business, you'll need to set aside a certain percentage of the money you earn to pay the IRS. An easy way to do this is by transferring a certain portion of the money into a savings account.

Make a traditional or SEP IRA contribution. Consider opening a traditional or SEP (self-employed person) IRA that can help you start saving for the future while potentially lowering your taxes. This helps establish a healthy savings habit while understanding it is possible to pay less in taxes!

Make a Roth IRA contribution for your student – or ask a grandparent! Roth IRA contributions are not tax deductible, but the distributions are also tax-free at retirement! Reward your student by making a Roth IRA contribution on his\her behalf or ask a grandparent to do so. A few hundred dollars at age 16 will grow substantially by retirement.

Please call if you have questions about taxes and how they apply to your summer job.

The Home Gain Exclusion: Make Sure You Qualify!

Most individuals can exclude up to $250,000 ($500,000 married) in capital gains on the sale of a personal residence. Here is what you need to know.

As long as you own and live in your home for two of the five years before selling your home, you qualify for this capital gain tax exclusion. Here are the official hurdles you must jump over to qualify for this tax break:

- **Main home.** This is a tax term with a specific definition. Your main home can be a traditional home, a condo, a houseboat, or mobile home. Main home also means the place of primary residence when you own two or more homes.

- **Ownership test.** You must own your home during two of the past five years.

- **Residence test.** You must live in the home for two of the past five years.

- **Other rules:**
    - You may only use the home gain exclusion once every two years.
    - You and your spouse can be treated jointly OR separately depending on circumstances.

Special situations –

- **Two homes into one.** Newly married couples with two homes have a potential tax liability as both individuals may pass the required tests on their own property but not on their new spouse's property. Prior to selling these individual homes, you may wish to create a plan of action that reduces your tax exposure.

- **Selling a home after divorce.** Property transferred as a result of a divorce is not deemed a sale of your home. However, if the ex-spouse that retains the home later sells the home, it may have an impact on the available amount of gain exemption.

- **You are helping an older family member.** Special rules apply to the elderly who move out of a home and into assisted living and nursing homes. Prior to selling property, it is best to review options and their related tax implications.

- **You do not meet the five-year rule.** In some cases, you may be eligible for a partial gain exclusion if you are required to move for work, disability, or unforeseen circumstances.

- **Other situations.** There are a number of other exceptions to the home gain exclusion rules. This includes foreclosure, debt forgiveness, inheritance, and partial ownership.

The key to obtaining the full benefit of this tax exclusion is in retaining good records. You must be able to prove both the sales price of your home and the associated costs you are using to determine any gain on your property. Keep all sales records, purchase records, improvement costs, and other documents that support your home's capital gain calculation.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.