

## Taxes and the Ice Skating Instructor

Do you hate April 15th? Does tax time fill you with anxiety, apprehension and dread? To lessen the terrors of tax time, engage in the following tax planning strategies.

### Independent Contractor or Employee

Tax planning begins with your status. Are you an independent contractor or an employee? The IRS would like everyone to be an employee. An employee pays social security and income taxes based on gross earnings, and the money is withheld by the employer. The employer is responsible for paying the collected money to the IRS; the penalties for failure to do so can run as high as 100 percent for the employer.

An independent contractor is a self-employed individual who pays social security and income taxes based on net earnings. The money is paid in quarterly installments. There is some (not much) flexibility in how much is paid each quarter. Anything owed at the end of the year is paid on April 15th. An independent contractor usually pays less in income taxes than an employee earning the same gross income. However, the independent contractor is likely to pay as much, if not more, in social security taxes than an employee because that tax rate for self-employed people is doubled (the independent contractor pays both employer and employee shares). If you can't pay all your taxes by April 15th, the IRS will work out a payment plan with you.

There are retirement planning benefits available to self-employed individuals that are not available to employees. An employee may set aside \$2,000 in an IRA account. A self-employed person may set aside \$6,000 in a Simple IRA account, because the law assumes an employee may be covered by an employer's pension plan, and self-employed people must create their own pension plan. Retirement plans are a major part of tax planning.

### Are You an Independent Contractor?

The IRS looks at the circumstances of an individual's employment to determine whether a person is an employee or an independent contractor. The primary determinate of status is control. Generally, if a person accepts the role of employee, that person is an employee. If the person sets up a business and is not under the control of an employer, that person is an independent contractor. The IRS has a list of criteria to determine if a person is self-employed or an employee. The list is a guideline only; not all criteria must be met.

For ice skating instructors, independent contractor status can easily be established. First, get a business license from your city, county or state (this varies from place to place). Second, get a contract from your ice rink(s), which establishes the terms of your employment. Third, keep your private students separate from any skating school business, as much as possible.

Independence from rink management is the key. If the rink tells you who to teach, when to teach, how to teach, the order of lessons to teach, trains you, and pays you, you are an employee. You must establish your business independence to be an independent contractor. Your employment contract is important. It should state that you are independent, that you are free to teach at other rinks, and that you are responsible for paying a commission (percentage or flat fee) to the rink.

You can be a skating school instructor and still be an independent contractor. Your contract may state that you may be available to teach skating school classes for a commission or an hourly rate, but that your status as an instructor is not contingent upon teaching skating school. Teaching skating

school must be your choice.

If the rink obtains all your students for you, sets your fees for lessons, and schedules your lessons, the IRS probably would deem you an employee. Your independence is the key to your status as employee or self-employed.

### Record Keeping

The IRS demands that records be kept concurrently and consistently; you must keep records as you go, not do them at the end of the year. If you do them at the end of the year, the IRS will assume you have falsified the records. The exception is that you can add everything up at the end of the year instead of as you go.

Keeping records doesn't have to be a big chore. Probably the easiest way for instructors to keep records is by using an appointment book. Write your schedule of lessons in the book, along with how much money you collect. Add them up at the end of the year, and you have your income record. Write your expenses on the appropriate date, keep receipts, and you have your expense record. Total the expenses at the end of the year.

You can also invest in a bookkeeping system, computerized or manual. If you have other business interests, keep a separate set of books for each business.

### Income and Expenses

You are required to report all your income, no matter how you receive it (cash, check, trade) on your tax return. If you are tempted to cheat on this, remember that if you are audited, the IRS may look at your lifestyle to see if your income is enough to support it. Consider yourself warned. Be sure your income covers your basic necessities, like rent.

### Deductions

Employees may deduct limited expenses, but not nearly as many as independent contractors. Deductions include: advertising, bookkeeping supplies, tax preparation services, car expenses, telephone, rink fees, new skates, blade sharpening, special clothes for the rink, lessons and seminars, trade shows, entertainment, insurance and stationery. Don't forget your retirement fund.

Things that are not deductible include: an office in your home, meals for yourself while at work, commuting expenses. If you are away from home, at a competition or test session, teaching at another rink, at a convention, or on a business-related trip, you may deduct the greater of your actual expenses or a per-diem allowance determined by the IRS. This rate changes annually; check with your tax advisor for the current rate.

### Limitations on Deductions

There are limitations on the deductions you may take as a self-employed person. Mostly, these involve entertainment expenses and car expenses. Entertainment expenses are subject to a 50 percent limitation. You must also detail on the receipt who you entertained, the subject of discussion and the outcome, if known. Entertainment expenses must be business related.

Car expenses are limited by the amount you may deduct for depreciation or lease expense. Gas and repair expenses must be pro-rated; expenses must be business related. The IRS requires you to keep a log of business travel by car, including the trip mileage both ways. Commuting expenses are not deductible, but travel between two rinks, or between the rink and another business destination, is. The IRS also allows you to take a mileage allowance based on the business miles traveled, if that allowance gives you a greater deduction. This allowance changes every year; your tax advisor will know the current rate.

Deductible clothing is a questionable area. You may justify the necessity for special rink clothing if you live in a warm part of the country. It may be difficult to justify special clothing if you live in Minnesota. If you live in a cold part of the country, you might purchase some clothing that you keep at the rink for work only.

### Deductions for Employees

If you are an employee, business deductions are limited to strictly business-related expenses that are not reimbursed by your employer. You must itemize your deductions, and they are subject to the usual itemized deduction limitations. You may deduct equipment costs (such as new skates or blade sharpening), special clothing, insurance, training sessions or seminars, and lessons. You may not deduct entertainment, car expenses (except actual mileage at the allowance rate), and other types of expenses. Don't forget your IRA.

### Conclusion

Paying taxes is part of the American way of life, but you are not required to pay more than the law demands. Take advantage of all your available deductions. Remember to pay yourself first by setting up an IRA or a retirement plan. You don't have to put the entire amount in as a lump sum. Pay some in weekly or monthly. Set aside money for your taxes every week so that you don't get caught short; a good rule of thumb is 20 percent of your net income.

April 15th is a good time to evaluate your financial status, so you don't have to hate the date. Taxes will never be painless, but tax planning and knowledge can take away some of the sting.

### IRS Criteria for Independent Contractor Status

1. Instruction – Independent contractors work how, when, and where they want.
2. Training – Independent contractors obtain their own training or are considered to be trained; they are not trained by the employer.
3. Integration – If your work is integrated into the employer's workplace and not done on your own terms, you are an employee.
4. Services rendered personally – If you must personally render a service, you may be an employee; it depends on the circumstances. Doctors, dentists, teachers and others usually must render services personally but are considered independent.
5. Hiring, supervising and paying assistants – If you do this instead of the employer, you are independent. You are also a boss.
6. Continuing relationship – If you work for the same person all the time, and for only that person, you're an employee. As an instructor of private students, you work for the students, not the rink.
7. Set hours of work – If you have to punch in, you are an employee. If the rink only allows you to teach certain times, but you are free to work or not work, you are independent.
8. Full time required – If you work full time for one employer, you're an employee. If there is only one rink in town and you teach there exclusively but not under the direction of rink management, you don't work for the rink full time.
9. Doing work on employer's premises – If you aren't working for rink management, you can be independent.
10. Order or sequence set – If you teach as the rink tells you, you're an employee. If you decide

how to teach your students, you're independent.

11. Oral or written reports – If you have to report progress to the rink (other than skating school), you're an employee.
12. Payment by hour, week, month – If you get paid, even if you just hang around, you're an employee. If you get paid by the job or on commission, you're independent. A class counts as a job.
13. Payment of business and/or travel expenses – If an employer pays, you're an employee. If you pay, you're independent.
14. Furnishing tools and materials – If you use the rink's skates or if the rink pays for your skates, you're not independent.
15. Significant investment – Just paying the rink fees shows that you're independent.
16. Realization of profit and loss – If you run the risk of losing money, you are independent. If the rink covers your losses, you're an employee.
17. Working for more than one firm at a time – If you work for more than one rink you are independent. If you work for only one, you may be an employee. Is there more than one rink in town?
18. Making service available to general public – If you accept private students, you're making your services available to the general public.
19. Right to discharge – If the rink can fire you if you violate rink policy or the contract expires, you're an independent contractor.
20. Right to terminate – If you can leave without incurring liability, you may be an employee.

The above are guidelines only. A person does not have to meet all these criteria to be considered an independent contractor.