

# Case Study: A "1099" Creator (Tax Simulation)

## Learning Objectives

- **Distinguish** between Gross Income and Net Income (Taxable Income).
  - **Evaluate** the "Opportunity Cost" of being your own boss vs the stability of a 9-to-5 job.
  - **Analyze** how social media "trends" (like "writing off your life") often ignore the strict legal realities of tax law.
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**The Backstory:** Jordan graduated from high school 18 months ago. Instead of a traditional 9-to-5, Jordan launched a freelance media business. By October of Year 2, Jordan is "viral"—brand deals are coming in, and the income has jumped from \$20k to nearly \$90k per year. However, Jordan has no team, no health benefits, and no one withholding taxes from his checks.

## I. The Revenue Stream (Gross Income)

Jordan received the following throughout the fiscal year:

- **Brand Sponsorships** (Fixed Fee): \$58,000 (Paid via 8 different companies)
  - **YouTube AdSense:** \$15,400 (Paid monthly by Google)
  - **Affiliate Marketing Commissions:** \$8,600 (Amazon and Shopify links)
  - **Merchandise Sales** (Gross): \$5,800 (Before shipping and cost of goods)
  - **"Gifts"** (Product for Review): \$1,200 (A high-end drone sent by a brand in exchange for a dedicated video)
  - **Question: What is Jordan's Total Gross Income: \$\_\_\_\_\_.**
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## II. Operations & Expenses

- **Task 1:** List IRS 6 Approved General Business Expenses for 1099 self-employed workers.
  - o Describe the expense and how much can be deducted?
- **Task 2:** Jordan kept a shoebox of receipts. Your job is to classify them based on the **IRS "Ordinary and Necessary" Standard**.

Item	Amount	Description	Valid Deduction?
<b>Workspace</b>	\$22,000	Total rent for Jordan's studio apartment.	?
<b>Studio Gear</b>	\$5,500	New studio lights, 4K camera, and soundproofing foam.	?
<b>Professional Services</b>	\$2,200	Hiring a freelance graphic designer for a new logo.	?
<b>Health Insurance</b>	\$5,400	Private monthly premiums (\$450/mo).	?
<b>"Hype" Car</b>	\$12,000	Monthly payments for a luxury SUV used in several "aesthetic" videos.	?
<b>Dining</b>	\$3,400	Lunch and coffee while working at various cafes.	?
<b>Shipping</b>	\$850	Postage for sending out merch orders to followers.	?
<b>Utilities</b>	\$3,600	Electricity and High-speed internet for the apartment.	?

### III. Deeper 1099 Questions

#### 1. "Gift" Trap

The brand sent Jordan a **\$1,200 drone**. Jordan never received cash for it, but they *did* sign a contract to make a video in exchange for the drone.

- **Question:** Does Jordan have to report the \$1,200 as income? If so, where does the money come from to pay the taxes on it if Jordan didn't receive any cash?

#### 2. Home Office Calculation

Jordan's apartment is 900 sq. ft. Jordan uses a corner of the living room (200 sq. ft.) exclusively as an editing suite and filming set.

- **Question:** Jordan cannot deduct his full \$22,000 rent. Using the "**Simplified Method**," how would you calculate the home office deduction? (**Hint:** The IRS allows %\_\_\_\_ per sq. ft. up to \_\_\_\_\_ sq. ft.)

#### 3. Quarterly Taxes

The IRS expects 1099 workers to pay taxes **four times a year** (April, June, Sept, Jan). Jordan didn't know this and saved \$0, planning to pay everything in April of the following year.

- **Question:** Calculate the potential "Underpayment Penalty." If Jordan owes significantly more in taxes due to his \$89,000 income, is there an IRS penalty for failing to pay quarterly, and what is the penalty? How does this massive sudden bill affect Jordan's "take-home" profit?

#### 4. W-2 vs. 1099 Comparison

Jordan's friend Alex works at a local tech shop making **\$80,000/year (W-2)**.

- Alex has their taxes withheld automatically by their employer throughout the year.
- Alex's boss pays for their health insurance and matches their 401(k)-retirement savings.
- Alex gets 3 weeks of paid vacation.
- **Question:** Even though Jordan "made" more (\$89,000), who is "wealthier" at the end of the year once you account for Jordan's self-employment taxes (15.3%), private health insurance, and lack of benefits?
  - Research average private health insurance / dental / vision
  - Defend your answer using Net Income vs. Gross Income calculations
  - You may include additional considerations regarding other Lifestyle benefits as having value or "wealth"

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#### 5. Additional Learning Questions

- **Self-Regulation:** Is having a high gross income check spendable cash? Why/Why not?
- **Entity Knowledge:** What is an LLC (Limited Liability Company) is. Are there any perks to Jordan forming an LLC?
- **Financial Forecasting:** Create a "Worst Case Scenario" budget. If Jordan's YouTube views drop by 50% next month, would he need to make adjustments to his spending? Why/Why not? If so, which business expenses should he cut first?