

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.

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: \$_____.**

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? |
|------------------------------|----------|---|------------------|
| Workspace | \$22,000 | Total rent for Jordan's studio apartment. | ? |
| Studio Gear | \$5,500 | New studio lights, 4K camera, and soundproofing foam. | ? |
| Professional Services | \$2,200 | Hiring a freelance graphic designer for a new logo. | ? |
| Health Insurance | \$5,400 | Private monthly premiums (\$450/mo). | ? |
| "Hype" Car | \$12,000 | Monthly payments for a luxury SUV used in several "aesthetic" videos. | ? |
| Dining | \$3,400 | Lunch and coffee while working at various cafes. | ? |
| Shipping | \$850 | Postage for sending out merch orders to followers. | ? |
| Utilities | \$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?
 - o Research average private health insurance / dental / vision
 - o Defend your answer using Net Income vs. Gross Income calculations
 - o You may include additional considerations regarding other Lifestyle benefits as having value or "wealth"

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?