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Tax Resolution Tips for Gig Workers and Independent Contractors

The gig economy has exploded. Millions now earn income by driving for Uber, delivering for Instacart, freelancing, or consulting. Flexibility is great, but when tax season hits, that freedom can cost you.

Unlike W-2 employees, gig workers don't have taxes withheld. You're responsible for paying income and self-employment tax (15.3%) through quarterly estimated payments. Many find out too late they owe thousands, and that's when IRS problems begin.

If you've fallen behind on filings or payments, you're not alone. The good news? There are proven tax resolution strategies that can help you catch up and even reduce what you owe. If after reading this, you need further assistance you can contact Mercy Tax Solutions by calling (423) 825-8104 or go to [MercyTaxSolutions.com](https://www.MercyTaxSolutions.com).

Why Gig Workers Get Into Tax Trouble

When you work for yourself, you're both employer and employee—responsible for income and self-employment taxes. That's over \$1,500 for every \$10,000 earned.

Most gig platforms don't withhold anything, so unless you set money aside or make quarterly payments, your tax bill grows fast.

Common causes of tax trouble:

- Skipping quarterly estimates.
- Ignoring income from multiple apps.
- Mixing business and personal expenses.
- Missing deductions.
- Letting one unpaid year snowball into several.

Penalties and interest compound quickly, turning a manageable balance into a major IRS problem.

First Step: File Your Returns (Even If You Can't Pay Yet)

The biggest mistake independent contractors make is ignoring unfiled returns because they can't pay. But the IRS won't even talk to you about resolving your debt until you're compliant.

This golden rule of tax resolution is you can't fix what you haven't filed. Filing your returns shows the IRS you're trying to make things right. It also stops certain penalties from growing and starts the clock on the collection statute expiration date (CSED), the 10-year period the IRS has to collect.

Even if you're missing 1099s or bank records, a tax resolution specialist can reconstruct your income using IRS wage and income transcripts or bank statements. The key is to get compliant first, then work on a payment or settlement plan.

Keep Accurate Records of Income and Expenses

Gig income is taxable whether you receive a Form 1099 or not. Many platforms issue 1099-NEC or 1099-K forms, but some don't. You're required to report all earnings, including cash tips or direct payments from clients.

At the same time, gig workers are entitled to valuable deductions that can dramatically reduce taxable income. Common deductible expenses include:

- Mileage or vehicle expenses (for rideshare or delivery drivers)
- Supplies and tools used in your work
- Cell phone and internet used for business
- Home office expenses
- Marketing, advertising, and software costs
- Contract labor or subcontractor fees

Keeping receipts and mileage logs can make or break your tax case. If you're under IRS examination or seeking relief, good records can help prove your deductions and reduce what you owe.

Estimate and Pay Quarterly Taxes

The IRS expects you to pay as you go. Gig workers who expect to owe more than \$1,000 for the year are required to make quarterly estimated payments (April, June, September, and January).

Even if you've fallen behind, starting now can make a big difference. It shows the IRS you're current on new taxes, which is essential for qualifying for any tax resolution program like an Installment Agreement or Offer in Compromise.

A simple way to stay on track is to set aside 25–30% of each payment you receive for taxes. Apps like QuickBooks Self-Employed or Everlance can help you track income, mileage, and estimated taxes automatically.

Know Your IRS Resolution Options

If you already owe back taxes, you still have options. The IRS offers several programs that can help gig workers settle or reduce their debt.

1. Installment Agreement

You can pay what you owe over time—often up to 72 months—through a monthly payment plan. This can prevent wage garnishment or bank levies as long as you stay current.

2. Offer in Compromise (OIC)

If you can't afford to pay the full amount, the IRS may accept a settlement for less based on your income, expenses, assets, and ability to pay. Many self-employed taxpayers qualify if their earnings are inconsistent or seasonal.

3. Currently Not Collectible (CNC)

If paying the IRS would create financial hardship, your account may be placed in CNC status. The IRS temporarily stops collections while your financial situation improves.

4. Penalty Abatement

If you've filed and paid late due to reasonable cause—such as illness, loss of records, or reliance on bad advice—you may qualify for first-time abatement or penalty removal.

Each of these programs has strict qualification criteria and documentation requirements, which is why professional representation can make all the difference.

Protect Your Business—and Your Peace of Mind

The IRS has been stepping up enforcement on 1099 and gig income in recent years. With third-party reporting via Form 1099-K, it's harder than ever to “fly under the radar.” Failing to address back taxes can lead to:

- Bank levies or wage garnishments
- Liens that damage your credit
- Seizure of refunds
- Stress, anxiety, and sleepless nights

On the other hand, resolving your tax issues can bring instant peace of mind and help you move forward confidently in your business.

The Bottom Line

Being self-employed gives you flexibility, control, and independence but it also means you shoulder the full responsibility for managing your taxes. Whether you're behind on filings, owe thousands in back taxes, or just want to avoid future IRS trouble, the time to act is now. At Mercy Tax Solutions we specialize in helping gig workers with tax problems. You can call us at (423) 825-8104 or go to [MercyTaxSolutions.com](https://www.MercyTaxSolutions.com) to schedule a consultation with an experienced tax resolution specialist.