UPDATED FOR THE 2018 TAX YEAR

SPORTS OFFICIALS

TAX GUIDE

SAVE TIME & MONEY ON YOUR TAXES

REFEREE

FROM REFEREE AND THE NATIONAL ASSOCIATION OF SPORTS OFFICIALS
TAX CONSIDERATIONS (EXHIBIT 1)

When sports officials are treated as employees, their income is reported as wages on page one of Form 1040. Income includes payment for services provided and amounts received for job-related expenses. If the expenses incurred are not reported to the employer or are reimbursed at an amount different from that which would be deductible, the difference would be reported as income.

The employee pays income tax on that income through wage withholding based on information provided to the employer on Form W-4. In addition, the employee must also pay Social Security tax at 6.2% and Medicare at 1.45%. The employee also satisfies the payment of the tax through payroll withholding. The employer matches the Social Security and Medicare tax of each employee.

When sports officials are treated as independent contractors, they are responsible for payment of their own income taxes as well as Social Security and Medicare taxes. Officials who receive more than $600 from any individual payer should receive a Form 1099-MISC. Depending on the net amount of officiating income (gross income minus expenses), the official may have to pay those taxes by making estimated tax payments, referred to as quarterly payments. However, the due dates of those payments are not tied to calendar quarters. They are due April 15, June 15, September 15 and January 15. The reason is to get self-employed individuals on a pay-as-you-go system, similar to employees who pay taxes through payroll withholding. The taxes due are based on the gross income, less expenses, that are known as of the date of the estimate. If officiating is a part-time or seasonal job, you may be able to satisfy those tax payments through additional withholding from earnings from your primary employment. That keeps things simple and may save a penalty since payroll withholdings are considered paid equally throughout the year, whereas estimated tax payments are considered paid the date they are received by the IRS. Failure to pay sufficient estimated taxes through that method may result in a penalty for underpayment.

The self-employment tax for independent contractors is equal to the employer and employee share of Social Security and Medicare taxes, 15.3%. The good news is that one-half of the tax is deductible from gross income. An official who files a tax return as an independent contractor will complete a Schedule C, Profit or Loss From Business (Sole
PART 1

UNDERSTANDING THE RULES OF THE GAME:
TAXATION OF SPORTS OFFICIALS

INDEPENDENT CONTRACTOR VERSUS EMPLOYEE

Worker classification is an area of great interest to employers, the federal government, state governments and sports officials. Its impact on each of those entities can be very large. Generally, employees are more expensive for employers than are independent contractors. Conversely, a worker's overall tax liability is generally greater if taxed as an independent contractor rather than as an employee. State governments manage unemployment programs that benefit employees but do not benefit independent contractors. This discussion will be limited to the impact on sports officials of the employee versus independent contractor issue.

There are two main categories of workers – employees and independent contractors. Employees are individuals who provide services for employers within an employment relationship. Independent contractors are individuals who provide services outside an employment relationship. They are self-employed. Generally, a worker's status will be determined by the type of business, not the worker, and is sometimes controlled by a matter of law. For example, if officials are employees of a school district, that school district should treat them as employees for officiating purposes. The sports official's tax and financial burden will be different if the official is an employee rather than an independent contractor.
CONTENTS

4 INTRODUCTION

5 PART 1 - UNDERSTANDING THE RULES OF THE GAME: TAXATION OF SPORTS OFFICIALS

8 PART 2 - INCOME

11 PART 3 - EXPENSES

17 PART 4 - FREQUENTLY ASKED QUESTIONS

20 PART 5 - TABLES AND FORMS

29 PART 6 - GAME LOG
Proprietorship) to determine how much income is subject to income tax and self-employment tax.

Another issue for the independent contractor is fringe benefits. An employee is generally taken into account for purposes of the employer's retirement and fringe benefit plans. Accordingly, an employee may be eligible for health insurance, educational assistance and many other tax-advantaged benefits. An employee may also be eligible for unemployment compensation and worker's compensation for job-related injuries or disabilities. Independent contractors generally must provide their own retirement and fringe benefit plans and have no protection when they cannot work due to injury, unless they have purchased disability coverage. Health and disability insurance premiums are deductible for income tax purposes when purchased by an independent contractor. Life insurance is not deductible.
If you are being paid as an employee, your income includes payment for services rendered. Employers treat this as wages and these wages are subject to income tax withholding, Social Security and Medicare tax withholding. Wages are reported to you on Form W-2 by January 31 for the preceding calendar year. If your employer is reimbursing you for expenses, they may report them to you one of two ways:

First, if your employer is reimbursing your expenses dollar for dollar, any reporting to you by your employer is for information only. The amount is not subject to income tax, Social Security or Medicare tax. You are not required to report those reimbursements as income nor are you allowed a deduction for the expenses. Those amounts offset each other and are not reported on your tax return.

Second, if you do not report to your employer your expenses and instead receive amounts to help offset your various expenses (i.e. an expense allowance), your employer will include the reimbursements as income on your Form W-2. If your employer pays for your expenses directly, for example, gives you a plane ticket or hotel reservations paid in advance, those items are not income to you unless you negotiate the items for cash and a lesser service. Trading a first-class airline ticket for a coach or business class ticket (one of lesser value) and “pocketing” the difference is not illegal. However, you must report the difference (savings) as income.

If you report your income as an independent contractor, your income from officiating includes all amounts received regardless of whether
you report your expenses to the contracting agent. You will report all receipts on Schedule C. Types of income you might receive include a flat fee for officiating a game, reimbursement for some or all of your deductible or nondeductible mileage and amounts for out-of-town expenses like hotel and meals (per diem).

NEW TAX LAWS AFFECT OFFICIALS
Regardless of your political persuasion, if you are an official who files a tax return as anything other than a W-2 employee, you are going to be excited about the new tax law passed in December 2018. The Tax Cuts and Jobs Act (TCJA) allows individuals with small businesses and pass-through entities to have a deduction of Qualified Business Income (QBI). In other words, if you file a Schedule C as a sole proprietor (most officials) or you have a Limited Liability Company that files as an S Corporation, you will be able to deduct a portion of your net income.

QBI is defined by the IRS as “the net amount of qualified items of income, gain, deduction and loss, with respect to any domestic qualified trade or business of the taxpayer.” In non-tax speak, this means you add all of your qualified domestic trade or business (officiating) income then subtract deductions and expenses. The resulting amount is qualified business income. Taxpayers may claim the deduction for that QBI regardless of whether they claim the standard deduction or they itemize their deductions.

There are a few provisions that also will affect the deduction. First, the qualifier “domestic.” This means that the income and deductions must be incurred by a United States business. If you are one of the lucky few officials who get to work internationally, any income and deductions incurred outside of the United States are not included in the calculation for QBI. Second, if you have income from a “specified service trade or business,” your QBI could be limited or even excluded. Specified service trade or business is defined by the IRS as “any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners.” Again, in non-tax speak, officials perform services where their reputation and skill is the principal asset of the business so they have a specified service trade or business.
I mentioned above that the QBI could be limited if it is a specified service trade or business. Since the overall intent of the deduction is to help small businesses, Congress put in certain minimums before the limitations. So, if you are single or married but file a separate tax return from your spouse, and your taxable income is equal to or less than $157,500, then you are excluded from the limitation. If you are married and file a joint tax return, or you file as Head of Household, your taxable income can be equal to or less than $315,000 before the limitation is in place. Above those income levels the deduction is phased out between $157,500 and $207,500 for single taxpayers and $315,000 and $415,000 for married taxpayers. Above those higher income levels the QBI deduction is eliminated for specified service businesses. Note that the thresholds are for taxable income which is your income from all sources, after all deductions. Finally, the deduction is 20 percent of the QBI for most taxpayers, again with some exceptions and calculations. So for an easy example, if your net earnings from your U.S. officiating was $40,000, your QBI deduction would be 20 percent of that amount, or $8,000. For most officials, the new TCJA means you will only pay income taxes on 80 percent of your net earnings. You will still be responsible for self-employment taxes however.

One downside to the TCJA is that officials who receive a W-2 as an employee will no longer be able to deduct their expenses related to officiating, as those unreimbursed business expenses previously deducted as part of Schedule A have been eliminated.
The sports official has many ways to create expenses. Some of the expenditures are deductible for income tax purposes and some are not. Generally, any items that are personal in nature are not deductible, and items that have a business purpose are deductible. The tax law defines a trade or business expense as an amount that is ordinary and necessary to the business and paid during the tax year. Definitions of the components of that statement are:

1. "Ordinary" refers to an expense that is common and acceptable in the taxpayer's type of business.

2. "Necessary" means it must be appropriate or helpful to the business. Deductible expenses must be both "ordinary and necessary."

3. The term "trade" or "business" is generally defined as an activity undertaken with the expectation of making a profit. Actually making a profit is not required in order for the expense to be deductible.

What can and cannot deducted? Remember, we are dealing in generalities. Anyone can have special circumstances that could apply to their specific case. Consult your own tax advisor with questions that involve your individual circumstances. There might be something unusual that will allow the deduction to be appropriate.

Officials who claim deductions for expenses and are independent contractors will do so on a Schedule C (see Exhibit 2). However, if your
expenses are $5,000 or less and other qualifications are met, you may be able to file Schedule C-EZ of Form 1040. See Exhibit 3 for criteria.

Officials classified as employees who have business expenses related to officiating are no longer allowed to deduct those costs.

The following are some types of expenses that officials may incur:

- Automobile
- Legal and Professional
- Travel
- Meals and Entertainment
- Dues and Subscriptions
- Uniforms
- Supplies
- Home Office Expense

**AUTOMOBILE**

If you use your auto for officiating purposes, which most officials do, you may be able to deduct the expenses related to the operation of the auto. Deductions can be computed using the standard mileage rate or actual expenses. Both methods rely on accurate documentation of the number of miles driven for business. Use of a basic auto log or the Sports Officials Game Log in Part 6 of this booklet can simplify that record-keeping requirement. The standard mileage rate can be used only when the following requirements are met:

1. You must own or lease the car.

   A. The election to use the standard mileage allowance for a leased vehicle must be elected in the first year of the lease and must be used for the entire term of your lease.

   B. If the lease was entered into prior to 2018, you can elect the standard mileage allowance for 2018 and all remaining years on that lease. If the lease was entered into prior to 2018 and you did not make the election for standard mileage for 2017, it is too late. You must continue with the actual cost method.

2. The election to use the standard rate must be made in the first year the car is available for use in your business and cannot be changed in later years.
3. You cannot use the car for hire (such as a taxi, Uber or Lyft).

4. You cannot operate two or more cars simultaneously. (Note: You can alternate between two vehicles and still use the standard mileage rate). Your deduction is equal to your business miles times the standard rate. The rate for 2018 is 54.5 cents per mile. This is up 1.0 cents per mile from 2017. You can also deduct any business-related parking fees and tolls. Speeding and parking fines are not deductible.

If you use actual expenses, the business percentage of your total miles is multiplied times your actual expenses to determine the amount of deduction. Actual expenses include gas, oil, insurance, repairs, maintenance and lease payments. If you use actual expenses you may be entitled to deduct depreciation. There are special rules for depreciation so consult a knowledgeable tax professional.

What miles are deductible? Exhibit 6 shows clearly what can and cannot be deductible. Generally, only your mileage from your primary job (assuming officiating is a second job) to your game site, meeting location, etc. is deductible. If you leave from home to a game or meeting, that is not deductible. If you have a home office, the rules are a little different.

**LEGAL AND PROFESSIONAL**
If you require any legal assistance connected to sports officiating and it falls under "ordinary and necessary," it may be deductible. The IRS has issued a ruling allowing taxpayers to allocate a portion of their tax preparation fees to various tax-return schedules, including Schedule C, which means if you pay someone to prepare your tax return then a portion of that fee could be a deduction against officiating income.

**TRAVEL**
For tax purposes, travel expenses are the "ordinary and necessary" expenses of traveling away from your tax home for officiating. They include transportation, lodging, meals and incidentals. (See Exhibit 7 for details.) What is your tax home? Generally, your tax home is where your regular place of business is located, regardless of where you maintain your family home. It includes the entire city or general area in which your primary place of employment is located. In simple
language, you generally would have to remain overnight in order to qualify for travel expenses beyond transportation expenses.

It is necessary to keep a record of all expenses you incur and any advances you receive. You can use a log, diary, notebook or any other written record to keep track of those expenses. Exhibit 8 details what elements are required for proper record-keeping of various types of expenses.

**MEALS AND ENTERTAINMENT**
Meals and entertainment have a long history of debate in the tax law. Congress has continuously worked at minimizing the tax benefit for those items because of high abuse. The general rule is that meals and entertainment are personal in nature and not deductible. For those expenditures to be deductible, they must meet very stringent record-keeping requirements. That is, the meal or entertainment event must be directly preceded or followed by a business activity. Documentation of who is in attendance, what business topic was discussed, and when/where the meal took place must be made at or close to the time the expense is incurred. Meals and entertainment for building general goodwill in your business is not a deductible expense.

Meals while away from home for a business purpose are not required to pass the “directly related to a business activity” test. The fact you are away from home for business is sufficient to make those meals deductible. All meals, whether for entertainment or while away from home, are subject to a 50 percent limitation.

**DUES AND SUBSCRIPTIONS**
Dues and subscriptions that are specific to carrying out the duties of your job are generally deductible. Professional or trade association dues like NASO’s or a subscription to Referee Magazine are examples of deductible dues and subscriptions. Booking fees are another example.

**UNIFORMS**
You can deduct the cost and upkeep of work clothes only if you must wear them as a condition of your employment and they are not suitable for everyday wear. If the shirt you wear for officiating has a
patch or emblem on it, it would be considered a uniform. Additionally, items considered protective clothing, like shin guards, chest protectors or steel-toe shoes, would be deductible.

**SUPPLIES**
Supplies necessary to carry out your officiating duties would also be deductible. Examples might be whistles, flags, penalty cards or a plate brush. Those supplies may vary by sport, but all sports require officials to have certain tools of the trade.

**HOME OFFICE EXPENSE**
There is now a simpler option for computing the business use of your home. The simplified option can significantly reduce the recordkeeping burden by allowing a qualified taxpayer to multiply a prescribed rate by the allowable square footage of the office in lieu of determining actual expenses of the home office.

Taxpayers using the regular method instead of the optional method, must determine the actual expenses of their home office. Those expenses may include mortgage interest, insurance, utilities, repairs and depreciation. Generally, when using the regular method, deductions for a home office are based on the percentage of your home devoted to business use. So, if you use a whole room exclusively for conducting your business, you need to figure out the percentage of your home devoted to your business activities.

Regardless of the method chosen, there are two basic requirements for your home to qualify as a deduction:

1. **Regular and Exclusive Use**
   You must regularly use part of your home exclusively for conducting business. For example, if you use an extra room to run your business, you can take a home office deduction for that extra room.

2. **Principal Place of Your Business**
   You must show that you use your home as your principal place of business. If you conduct business at a location outside of your home (as all officials do), but also use your home substantially and regularly to conduct business, you may qualify for a home office
deduction. For example, if you have a room solely for the purpose of storing uniforms, equipment, work desk and computer, even though you also carry on business at another location, you can deduct your expenses for the part of your home used exclusively and regularly for business. You can deduct expenses for a separate free-standing structure, such as a studio, garage, or barn, if you use it exclusively and regularly for your business. The structure does not have to be your principal place of business or the only place where you conduct business.

Generally, deductions for a home office are based on the percentage of your home devoted to business use. So, if you use a room for conducting your business, you need to figure out the percentage of your home devoted to your business activities.

Unless a taxpayer qualified for the home office deduction, use of his auto from his home to the first job site within the metropolitan area is considered commuting and is non-deductible even though the home office might be the only location of the business. Remember that Exhibit 6 is only applicable if you do not qualify for the office in the home deduction.

The law around the home office deduction is very complex and not a do-it-yourself project. It is highly recommended that you seek tax advice before you file your return if claiming the home office deduction.

**DOCUMENTATION**

Keep your receipts! They serve two purposes. First, they will aid you in preparing your tax return. Second, if your return is subjected to an audit, the receipts will help establish the validity of the expense. The basic rule of the IRS is that if it is not documented then it did not happen.
PART 4

FREQUENTLY ASKED QUESTIONS

What should I do if I receive notice from the IRS saying my return has been selected for examination?

After picking yourself up off the floor, consider hiring an experienced tax professional to represent you at the examination. The most common mistake made by taxpayers who represent themselves is saying something that causes the examiner to look into issues other than those that they originally intended to audit. IRS agents are trained to audit the taxpayer, not just the return. Because of that frame of reference, some of the questions asked by the examiner are hot buttons or emotional areas for the taxpayer. To avoid the audit being based on emotions instead of facts, it is very important that the person dealing with the agent be knowledgeable about both the tax issues that may be raised and the system in which the auditor must work. Your most important job is having complete documentation in good order. That process starts when the expenses are incurred, not when your return is prepared or when your return is selected for examination. If you have knowingly understated your income or grossly overstated your deductions, what the IRS calls fraud, do not disclose that to anyone but your attorney. An attorney, not a CPA or tax preparer, is the only person having privileged communication.

Do I have any retirement plan options from my officiating activity?

Yes. If you’re being treated as an independent contractor, you may be able to contribute to a retirement plan over and above what you are
doing now. The options and limitations available to you will vary based on the rest of your tax facts. This area requires consultation with a professional familiar with your situation and goals.

Are the officiating camps I attend deductible?

Yes. Your education and training to stay current in your skills are directly related to the business of officiating. For example, your attendee fee for the NASO Sports Officiating Summit would be deductible. Some of the expenses that might be incurred include travel, meals (at 50 percent) and registration fees. Keep careful record of those expenses at the time they are incurred. If your camp fee includes meals it is 100 percent deductible, no adjustment is required for the value of the meals.

Is all my mileage deductible if I leave my primary employment and stop by home on the way to a game?

No. If you went home before you went to the game site, the miles from home to the game site would be personal miles. A simple way of looking at it is if you are going from one business location to another business location, your miles are business. If you are leaving from your home, the miles are personal. This gets even more complicated if your home is also your business location (office in the home). The key to maximizing the deduction is keeping good records of the use of your vehicle and using common sense when traveling from your primary job to your officiating assignments, meetings, etc.

If I receive my fee in cash, do I have to report it?

Yes. Income is not determined based on how it is paid to you or how much it is. If you provided services for the cash, it is income to you. That will be true even if you do not receive a Form 1099 for the income.

If I travel away from home overnight, can I deduct my spouse's expenses if she or he travels with me?

No. Unless your spouse is also on a business related trip with you, those expenses are personal. Only your expenses would be deductible.
Can I deduct my cell phone for use in my officiating business?

Yes, you may deduct the amount related to your business. If you have a flat fee plan, you need to document the portion that is used for officiating, usually by looking at the minutes used.

If I go to a game in the sport I officiate to watch the officials, can I deduct those expenses?

Maybe. The expenses related to this activity will usually be personal and therefore nondeductible. The training you might gain is too ambiguous to be directly related to your business. If the purpose is to evaluate the officials for your association, then the expenses would be deductible.

Can I deduct my computer?

Again, maybe. If you are officiating as an independent contractor, then you can deduct the business portion of your computer. If you are officiating as an employee, the computer must be a condition of employment before the business portion would be deductible.

How long should I keep my records?

For federal purposes you should keep proof to support your claim to a deduction for as long as your income tax return can be examined. Generally, it will be necessary for you to keep your records for three years from the date you file the income tax return. A return filed early is considered as filed on the due date. The statute of limitations for state returns will vary by state. Check with your tax professional for your state requirements.
Download the Sports Official's Game Log to track game site information, mileage, expenses and more.

NASO.ORG/RESOURCES/TAX-TIPS/GAME-LOG