

The Benefits of Self-Employment for Landmen: 2018 Tax Law Offers New Deduction

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Landmen often give a long list of reasons they like to be an employee, and many have a negative opinion about the benefits of self-employment. Most think they pay more in taxes. The reality is there is not a huge difference in the two employment types.

I could provide a very lengthy, detailed list of all the similarities and differences, but no one wants to read a couple of hundred pages of tax code and jargon. So instead I will keep it simple and highlight the benefits. I will also debunk one of the biggest myths that many people believe makes it better to be an employee.

First I want to mention that everyone has a different situation. Some people are married, some have children, some have passive income, some have Social Security income, some have rental income — a myriad of things could make each individual situation unique.

Therefore, for the sake of keeping it simple, I am assuming just landman income and no other sources. So the question becomes: Why is it beneficial to be self-employed? The list can be quite long, but let's focus on what benefits landmen most.

The most beneficial advantage on the list is tax deductions. The tax code was written for businesses and the self-employed. When you are self-employed, you are deemed to be your own company; therefore all the available deductions in the Internal Revenue Code open up to you. These deductions include expenses for all mileage driven for work, cell phone, travel, business meals, interest paid on your business vehicle, health insurance, office supplies, equipment, home office and much more. A person who is self-employed gets to take these deductions prior to calculating income tax.

Consider the example of an employee making \$75,000 and a self-employed landman making \$75,000. The employee receives a W-2 for the gross earnings and pays his or her tax based on that number. A self-employed landman can take his or her gross earnings and deduct all available business expenses against that number in order to arrive at a "net" earnings figure. A self-employed landman then pays the tax based on the "net." A self-employed landman can also deduct up to an additional 20 percent of "net" earnings from their income. This is a new provision in the tax code that started for the 2018 tax filing year.

For example, when the employee incurs costs that the employer does not reimburse — such as cell phone, mileage to and from the office, laptop, scanner, software, tax preparation fees, continuing education, licenses, dues and many others not listed here — the employee is not allowed to deduct any of those expenses under the new 2018 tax law. In contrast, the self-employed landman can deduct business expenses directly off the top before any taxes are calculated. These are just a few of the expenses that a self-employed landman can deduct that are not allowed on an employee's return.

In addition to deducting the expenses, self-employed landmen can take up to 20 percent of their "net" earnings as an additional deduction on their tax return under the new tax law. This new deduction will greatly benefit all self-employed landmen. Employees do not get this new deduction.

Furthermore, I want to debunk the biggest myth regarding employee status — that employees are given more benefits. Health insurance, life insurance and retirement plans are also available to the self-employed individual. The main difference is that the employer handles most of those items for the employee. People who are self-employed must set up their own. A self-employed landman can deduct

the cost of health insurance, set up and fund a retirement plan and even provide employee-sponsored life insurance at the company level, if set up correctly. For employees, their company will match between 3 and 7 percent of their annual salary contributed to a retirement plan. One major thing that most people do not realize is that when you are self-employed, you can set up your own 401(k) and match up to 25 percent of your salary — which provides a much more substantial tax deduction. In conclusion, there are many tax breaks available to the self-employed landman that employees do not get because the tax code was not written for a W-2 employee. When you are self-employed, you do have to set these things up for yourself in order to be on equal terms.

However, these are easy to put in place and manage, and you have greater potential for tax deductions and retirement deferrals.

There is nothing wrong with being an employee, but being self-employed can have some significant tax advantages, especially with the new 20 percent deduction available to the self-employed. Before deciding what is best for your individual situation, you should consult your tax adviser. Planning is the key to everything.

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