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This documentation contains information in a summary format. It does not provide tax advice to any taxpayer because it does not take into account any specific taxpayer’s facts and circumstances. Furthermore, it assumes that all services are performed in the United States of America, that the *only* business use of a Sitter’s vehicle is Rover related, and that no other business uses exist. Rover also explicitly disclaims providing any guidance on the tax treatment of the business use of a Sitter’s home or Qualified Business Income (“QBI”). For further tax guidance beyond the scope of this document, we recommend you consult your own independent tax advisor.

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Please refer to <https://get.rover.com/Sitter/taxes> for additional general information about Rover + taxes in the United States.

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1. Key takeaways: Why should I read this guide?

As a Sitter operating your business on Rover in the U.S., you are responsible for reporting your business earnings each year on your income tax return and paying any applicable income and/or self-employment taxes. The sections that follow in this tax guide will provide more detail on how to report your business income, potential tax deductions you can take to reduce your business income, what your tax reporting obligations are, and resources that are available to you as a Rover Sitter. This guide is an overview of the federal income tax rules; it does not address state income tax rules that may differ from the federal rules. To make it easier to navigate this guide and file your taxes, we've included an overview of the key takeaways:

A. How to report your income when you don't receive a Form 1099-K from Rover

You may not receive a Form 1099-K from Rover if the amount of gross income earned through Stripe does meet the required thresholds. Even if Rover does not provide you a Form 1099-K, you will still need to report your business income for income and/or self-employment tax purposes. This also applies to any payments you received via PayPal or check during the year for services you provided on Rover. You should continue to follow the rules of this guide, utilizing your Withdrawal History by Year in your Dashboard as a handy reference when preparing your tax return.

To see an example of Schedule C and how your business income earned via Rover should appear, see *Figure A-1* below. For more info, visit *section 6 (How do I report...)*.

B. How to report your gross income when you receive a Form 1099-K from Rover

If you qualify, you will receive a Form 1099-K and a 1099-K Summary from Rover by January 31 after the relevant tax year. Your gross income should be reported on Schedule C (Form 1040), line 1, in your income tax return.

To see an example of Schedule C and how your business income earned via Rover should appear, see *Figure A-2* below. For more info, visit *section 4 (What is included...)* and *section 6 (How do I report...)*.

C. How to claim tax deductions for items included in your Rover Form 1099-K gross income

The most important items to look out for when receiving your tax documents from Rover include (1) the total Rover fees and sales tax processed on your payments and (2) the gross payments that were refunded to your customers throughout the year. You will be able to find these using the 1099-K Summary provided by Rover and can take these as a business deduction in the year. If you did not receive a Form 1099-K from Rover for the year, you do not need to enter these amounts as your income from your Withdrawal History will have already been reduced by these expenses.

See *Figure A-2* for info on where your business deductions provided on your 1099-K Summary from Rover should be on Schedule C. Visit *section 4 (What is included...)*, *section 5 (What business expenses...)*, and *section 6 (How do I report...)* for more information.

D. Other tax deductions you may be able to claim to pay less taxes (and how to report them)

Besides the deductions on your 1099-K Summary, you can deduct other expenses as long as they qualify as business expenses. This includes unreimbursed out of pocket expenses, reasonable costs of managing your business, business transportation costs, and more.

Report qualifying deductible expenses on Schedule C, lines 8–27a (see *Figures A-1* and *A-2* for examples) and see *section 5 (What business expenses...)* and *section 6 (How do I report...)* for more information.

E. How to report taxes for self-employment on your business earnings

As a Rover Sitter and self-employed individual, you are subject to a self-employment tax at approximately 15.3% of your business income if it is \$400 or more. Self-employment tax is a separate tax, apart from regular income taxes. You must use Schedule SE – Self Employment Tax to figure out the tax owed and then you must report it on Schedule 2 (Form 1040, U.S. Individual Income Tax Return), line 4.

See *Figures B* and *C* for an example of Schedule SE and Schedule 2 and see *section 10 (Do I owe self-employment tax...)* for more information.

2. Who is this guide for?

This guide is for Rover Sitters who are subject to U.S. income tax and/or self-employment tax and report their business income on Schedule C as part of their Form 1040 (U.S. Individual Income Tax Return).

I am a Rover Sitter. Am I subject to income and/or self-employment tax in the U.S. on the earnings I make operating my business on Rover?

You are subject to U.S. income tax if you have U.S. sourced income. Generally, income derived from providing a service in the U.S., such as pet sitting or dog walking, is U.S. sourced business income and subject to U.S. income tax.

A business is generally an activity conducted for a living or with the intention of making a profit. Whether an activity is a business depends on the regularity of the tasks performed, transactions, revenue, and continual attempts to advance business goals.

Income earned from providing services as a Rover Sitter is considered self-employment income and is subject to self-employment tax. Self-employment income is income that you earn if you are operating a business for yourself as a sole proprietor or an independent contractor.

How do I know whether I report my business income on my Form 1040 individual income tax return?

You report your business income on your Form 1040 individual income tax return if you operate your business as an individual or a single-member LLC. Most Rover Sitters operate their business this way. If you report your business earnings on a separate business tax return, such as a Form 1120 (U.S. Corporation Income Tax Return), Form 1065 (U.S. Return of Partnership Income), or other type of tax return, or are not sure which tax return you should report your business earnings on, please engage a tax advisor for guidance on how to report your business earnings.

Types of taxpayers: cash-basis vs. accrual-basis

If you are subject to U.S. income tax, you must report your business income as a cash-basis or accrual-basis taxpayer.

If you are a cash-basis taxpayer, you report your income on your return for the year you actually or constructively receive it and you deduct all expenses in the year you actually pay them. You are a cash-basis taxpayer if you report income in the year you receive it, regardless of when it is earned. Most

individuals are cash-basis taxpayers. You constructively receive income when it is made available to you, for example, by being credited to your account. For the purposes of this guide, we are assuming you've withdrawn your funds in the same tax year these funds were credited to your Rover account after your booking ended. If this is not the case, please consult with a tax advisor.

If you are an accrual-basis taxpayer, you generally report income when you earn it instead of when you receive it and you deduct expenses when you incur them instead of when you pay them. Accrual-basis taxpayers should engage a tax advisor to ensure that all business income and expenses are correctly reported.

3. What tax information will Rover provide?

Rover is here to help with tax reporting for your business on the Rover platform! In addition to providing you, where required, a Form 1099-K, Rover will also provide a 1099-K Summary to all U.S. Sitters eligible for a Form 1099-K as a key document to help with your taxes. Both documents will be made available electronically on an annual basis, based on your account election, by January 31 of the year following the year you performed services or received payment as a Sitter.

For Rover Sitters who are not eligible to receive a Form 1099-K, you are still able to see the earnings you withdrew for the tax year in your Withdrawal History by Year to help report your business income on your tax return. Please see this help center article for additional information on how to locate your annual withdrawals in your dashboard: <https://support.rover.com/hc/en-us/articles/360020803472-Where-can-I-view-my-total-earnings>.

You can also visit the Rover tax resources center at <https://get.rover.com/Sitter/taxes> for more information on what tax documents you can expect to receive, how to access them, and how to update your election to receive your tax information electronically.

4. What is included in my gross payments earned via Rover and reported on my Form 1099-K?

If you are subject to U.S. income tax from your business, you must include in your gross income all payments you earned performing services during the year.

Here are some amounts that may be includible in gross payments, what reporting Rover will provide on these amounts, and what you should do with them:

- Rover fees are included in your gross business income from providing pet care services. These are fees paid to Rover to help cover Rover's maintenance and improvements to the platform you use to meet new clients and manage your business, Rover's marketing and promotions to attract new clients to the site, and Rover's 24/7 support, and to provide the Rover Guarantee for bookings. At the end of the year, Rover will provide a 1099-K Summary detailing how much of your reportable gross income consisted of Rover fees. These fees can be deducted as business expenses in the same year (i.e., deductible Rover fees will offset your reportable gross income related to Rover fees so you will not owe taxes on these fees). See *Figure A-2* for how these amounts are reported in your tax return.

Example 1 (standard booking): You receive a booking from an Owner to board their dog for 4 days at your set price of \$75 per day, for a total of \$300 plus the Rover fee to the Owner of \$33. After the booking is completed, your payout (net of the Rover fee) of \$240 is initiated 48 hours later for payment into your bank account. Your gross income for the booking is \$300 and reported as such on your Form 1099-K. On your tax return, you report \$300 as gross income and \$60 as a deduction for Rover fees to arrive at your net business income of \$240.

- Any payments refunded to an Owner due to cancellations are not included in your net business income. However, your Form 1099-K is reported on a gross basis prior to the issuance of refunds. Like Rover service fees, any gross payments that are refunded should be included as gross income and also taken as a deduction. At the end of the year, Rover will provide a 1099-K Summary detailing how much of your reportable gross income consisted of refunds from cancellations, which you may deduct. See *Figure A-2* for how these amounts are reported in your tax return.

Example 2 (booking with partial refund): You have the same booking facts as Example 1; however, after the initial booking, the Owner ends up deciding they only need 3 days of boarding, so you agree, based on your cancellation policy, to offer a refund for the 4th day at \$75. Rover also then refunds the fee to the owner of \$8.25 and reduces the fee to be charged to you by \$15 for the one cancelled night.

This results in the gross stay price to the Owner, after refunds, to be \$249.75, which includes the reduced Rover fee to the owner of \$24.75. After the booking is completed, your payout (net of fees and refunds) of \$180 is initiated 48 hours later for payment into your bank account. Your gross income for the booking is \$300 and reported as such on your Form 1099-K. On your tax return, you report \$300 as gross income. You also report \$75 in refunds and \$45 in Rover fees as deductions to arrive at your net business income of \$180.

- Any discretionary tips you receive from pet owners are included in your gross business income. If these are paid via the Rover platform, these amounts will be included in your Form 1099-K and 1099-K Summary. If you receive tips paid outside the platform, these are still required to be reported in your gross business income, but you will need to add any amount you receive outside the Rover platform to your gross business income included on your Form 1099-K.

Example 3 (booking with tip): You have the same booking facts as Example 1, but this booking includes a tip of \$50 made inside the Rover platform. Your gross income for the booking is \$350 and reported as such on your Form 1099-K. On your tax return, you report \$350 as gross payments and \$60 as a deduction for Rover fees to arrive at your net business income of \$290.

However, if you had received the same \$50 tip outside of the Rover platform, you would report the \$300 gross payment that was included in your Form 1099-K on your tax return and then add the \$50 tip to that total gross business income. You should then arrive at a net business income of \$290 after deducting the \$60 Rover fees.

If applicable, sales tax may be a part of the gross payments reportable by Rover on your Form 1099-K. Any sales tax collected on gross payments we've processed on your behalf will be included in the 1099-K Summary with Rover fees and can be deducted on the same line as Rover fees on your Schedule C. See *Figure A-2* for how these amounts are reported in your tax return.

Example 4 (booking with sales tax): You have the same booking facts as Example 1, but you live in a state where Rover is required, as a marketplace, to collect a 6.5% sales tax on the pet care services you rendered. Your gross income for the booking is now \$319.50 and it is reported as such on your Form 1099-K. On your tax return, you report \$319.50 as gross income, and \$79.50 as a deduction for Rover fees and sales taxes, which is provided on your 1099-K Summary, to arrive at your net business income of \$240.

5. What business expenses can I claim to reduce my gross business income?

As outlined above, business income is the gross amount of payments earned less any allowable expenses. In general, a deductible or allowable expense is one that is ordinary and necessary, has actually been paid (for a cash basis taxpayer), and is not regarded as capital in nature. Examples of deductible expenses can be broken down into three categories:

Direct expenses (i.e., business deductions unrelated to the use of your home or vehicle)

- Rover fees
- Owner refunds from cancellations
- Cost of individuals you employ (i.e., payroll costs) or contract with (i.e., 1099 contractor costs)
- Out of pocket unreimbursed expenses related to your business (dog walking shoes, pet harnesses or leashes, pet food purchases, pet toys, animal enclosures, etc.)
- The cost of managing your business (e.g., legal or accountancy fees incurred with operating your trade or business)
- Public transportation expenses (e.g., bus, train, or ride-share costs you pay to travel to customers)

See *section 9 – Computing deductible expenses – Direct Expenses* for more details.

Automobile Expenses (i.e., driving to and from Owners' homes to provide services)

- If using the Standard Mileage Rate Method
 - Business mileage
 - Interest on a loan taken out to buy your vehicle
- If using the Actual Expense Method
 - Cleaning and maintenance services, including car washes and cleaning supplies purchased

- Gasoline and oil changes
- Interest on a loan taken out to buy your vehicle
- Lease payments
- Repairs
- Tires
- Depreciation on amounts paid to acquire the vehicle, subject to certain limitations
- Vehicle registration fees and legal fees

See *section 9 – Computing deductible expenses – Automobile Expenses and Flowchart (B)* for more information.

Business use of home expenses (*i.e., expenses incurred while providing services related to your business exclusively in a dedicated area of your own home*)

- Due to the complexity of claiming these types of expenses, we recommend seeking professional tax advice if you intend to deduct such expenses when providing services from your home.

These lists are not exhaustive.

6. How do I report my business income and expenses?

For Rover Sitters who did not receive a Form 1099-K from Rover:

Step 1: Income Tax (see *Figure A-1* for an example):

- Use Schedule C, line 1 to report your earnings from Rover for the year. If you are using the Withdrawal History by Year in your Rover Dashboard as a guide, the amount under “Bank” and “PayPal” will already include tips from within the Rover platform and any payments you received via check and Stripe (under “Bank”) or PayPal (under “PayPal”) in the year. If you received payment outside the Rover platform for your business, add the total non-platform payments along with your amounts in Withdrawal History by Year to the income you report on Schedule C, line 1.
- Use Schedule C, line 9 to report your deductible automobile expenses.
- Use the other expense categories on Schedule C to report other deductible amounts not previously covered.
- For business use of home expenses, please consult a professional tax advisor for further guidance.

Step 2: Self-employment Tax (see *Figure B* for an example):

- Once you have computed your taxable income on Schedule C, line 31, transfer that amount to Schedule SE, Part I, line 2. Completing the rest of the form will determine what amount of self-employment tax and associated deductions should be reportable on your return.

For Rover Sitters who received a Form 1099-K from Rover:

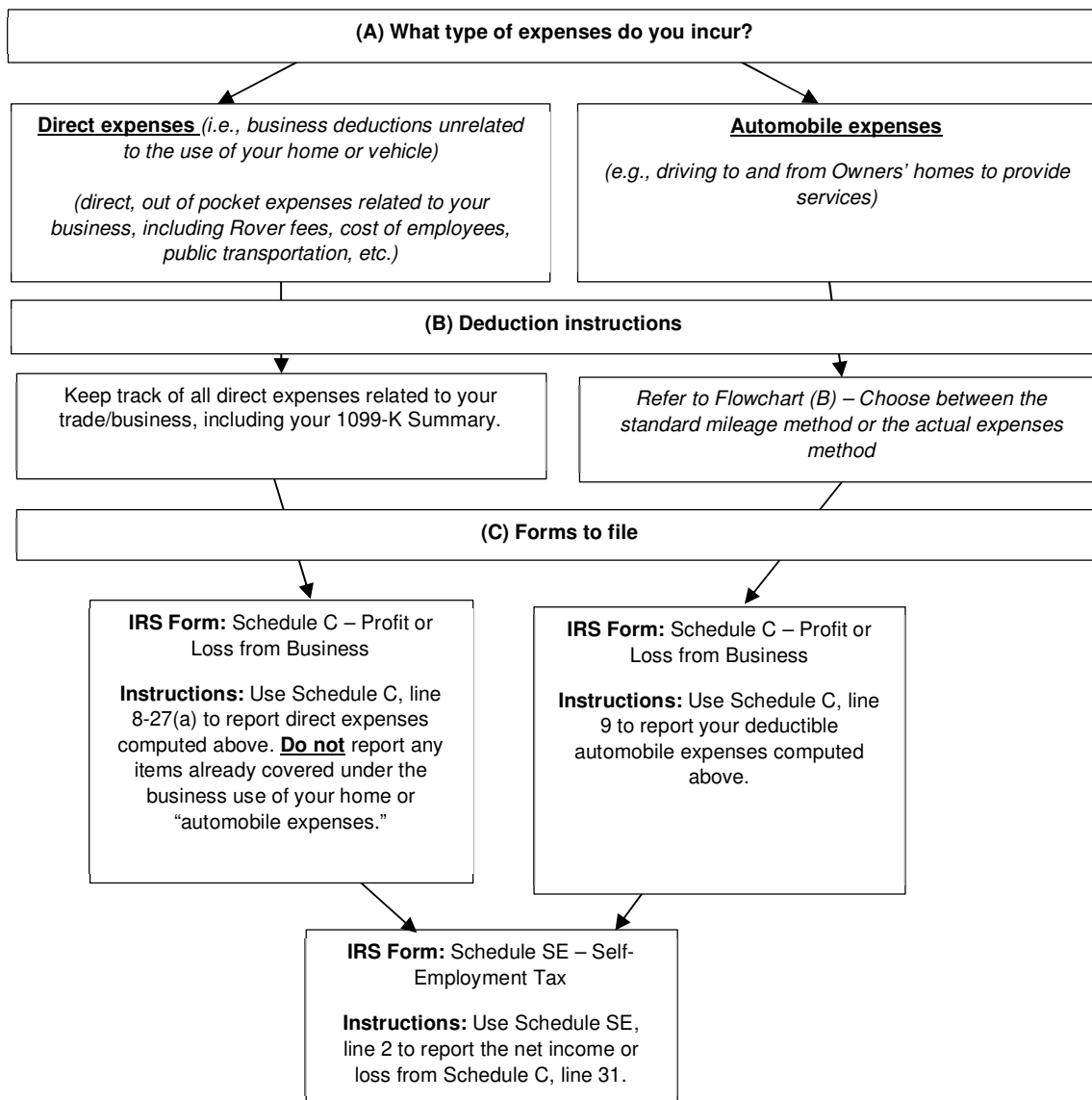
Step 1: Income Tax (see *Figure A-2* for an example):

- Use Schedule C, line 1 to report gross receipts in box 1(a) from your Rover provided Form 1099-K. This amount will already include tips from within the Rover platform and gross payments processed since you added Stripe as a payment method. If you received payment outside the Rover platform or payment via PayPal or check, add the total non-Stripe payments along with the reported gross receipts in box 1(a) from the Form 1099-K in line 1 of your Schedule C.
- Use Schedule C, line 2 to report any refunds issued to your customers from Rover due to cancellations (which will be provided to you on your 1099-K Summary).
- Use Schedule C, line 27a to report any Rover fees and sales tax collected (which will be provided to you on your 1099-K Summary).
- Use Schedule C, line 9 to report your deductible automobile expenses.
- Use the other expense categories on Schedule C to report other deductible amounts not previously covered.
- For business use of home expenses, please consult a professional tax advisor for further guidance.

Step 2: Self-employment Tax (see *Figure B* for an example):

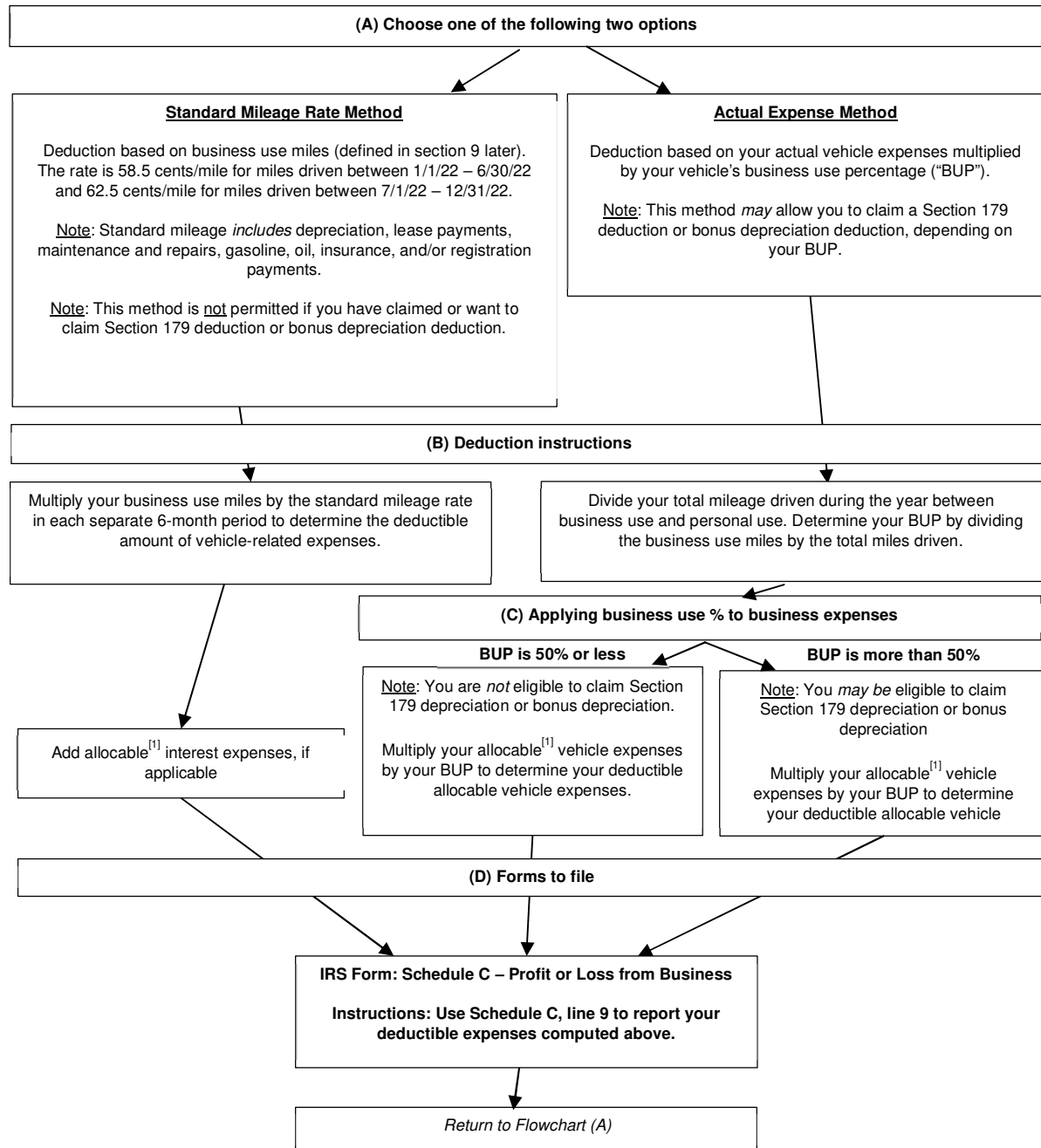
- Once you have computed your taxable income on Schedule C, line 31, transfer that amount to Schedule SE, Part I, line 2. Completing the rest of the form will determine what amount of self-employment tax and associated deductions should be reportable on your return.

7. Flowchart (A) for reporting business expenses



8. Flowchart (B) for automobile expenses

There are two options you may use to deduct your automobile-related expenses. The following flowchart will help you determine the best method to use. In general, you should pick the method that results in the biggest allowable deduction and for which you have the appropriate documentation to support that deduction. A more detailed discussion related to automobile expenses will follow.



^[1] Allocable expenses include costs that would apply to both business and personal use (e.g., depreciation, lease payments, maintenance and repairs, gasoline, oil, interest, insurance, and/or registration payments).

9. Computing deductible expenses

Direct Expenses

i. General rule

You are generally allowed to deduct the full amount of business expenses if they are considered ordinary and necessary, and they are otherwise not required to be capitalized (e.g., certain business startup costs, business assets, improvements). These expenses *do* not include expenses related to the business use of your home or automobile. Examples include:

- Rover fees¹
- Refunds from cancellations²
- Cost of individuals you employ (i.e., payroll costs) or contractor costs (i.e., Form 1099 contractor costs)
- Out of pocket unreimbursed expenses related to your business (dog walking shoes, pet harnesses or leashes, pet food purchases, pet toys, animal enclosures, parking fees, bridge tolls, etc.)
- The cost of managing your business (e.g., legal or accountancy fees incurred with operating your trade or business)
- Public transportation expenses associated with getting to and from an Owner's home to provide pet care services.
 - Examples of such costs could include bus fare, taxi, rideshare expenses, and train tickets.
 - You must keep track of all your business-related transportation costs to claim these deductions.
 - Costs incurred traveling to and from your residence to the Owner's location as well as costs incurred traveling between Owners' locations are all deductible transportation expenses. If you travel for personal purposes after visiting an Owner, that portion of travel is NOT considered as having a business purpose and cannot be deducted.

Automobile Expenses

i. Deduction methods: standard mileage rate vs. actual expenses

In the first year your vehicle was available for use in your business, you have the option of choosing which deduction methodology favors you the most. Therefore, you may find it beneficial to perform calculations under both methodologies, choosing whichever one is more suitable for you. If you choose to use the standard mileage rate method, it must be in the first year the car was available for use in your business. In later years, you are then permitted to switch between methods. If you use the standard

¹ If you are using your Withdrawal History by Year to help with filing your taxes, the amounts in your dashboard are already reduced by these amounts.

² If you are using your Withdrawal History by Year to help with filing your taxes, the amounts in your dashboard are already reduced by these amounts.

mileage for a car you lease, that method must be used for the entire lease period (including renewals). If you used the actual expenses method in the first year the car was available for use in your business, then you must continue to use the actual expense method.

To calculate the deduction under either method, you must differentiate what miles driven are “business use” miles versus what miles are not business use. In general, business use miles are miles that are driven between your home and the Owner’s home, between Owners’ homes, or for other business purposes, such as to purchase equipment or products necessary for use in your business (e.g., pet treats).

Standard Mileage Rate Method

This method is the simplest way to deduct your expenses, due to the straightforward nature of reading your vehicle’s odometer to determine the business use miles (see *section 15* on documentation you need to keep supporting your business miles). To calculate your expense deduction using the standard mileage rate method, multiply the number of business miles driven during 1/1/22 – 6/30/22 by 58.5 cents/mile. Then multiply the number of business miles driven during 7/1/22 – 12/31/22 by 62.5 cents/mile. Add these two amounts to determine your deductible vehicle expenses for 2022.

Other deductions not allowed: Since the standard mileage rate represents a “standard” rate for all vehicle expenses, you are **not** permitted to deduct any additional allocable vehicle expenses related to depreciation, lease payments, maintenance and repairs, gasoline, oil, insurance, and/or registration payments.

Note: Interest expense *can* be deducted under the Standard Mileage Rate Method. Follow the instructions under the *Actual Expense Method*, later, to determine the deductible portion of interest expense if you are otherwise using the Standard Mileage Method for tax reporting purposes.

Certain Sitters are prohibited from using the standard mileage rate and **must** use the actual expenses approach instead. The following prohibited individuals include those who:

- Lease 5 or more vehicles at the same time
- Have already claimed a depreciation deduction for a vehicle under any method other than straight-line depreciation (see *section iii “Depreciation”*)
- Have already claimed a Section 179 deduction or special depreciation (AKA “bonus”) deduction on the vehicle (see *section iii “Depreciation”*), or
- Claimed actual car expenses after 1997 for a car that was leased

Actual Expense Method

Under this method, in addition to tracking your vehicle’s business miles, you must also track your vehicle’s personal miles as well. You must also record all of the allocable expenses incurred in relation to your vehicle’s total use. See *section 15* on documentation you need to keep supporting your business and total miles. This method requires more time and effort to compute but may yield a larger deduction than the Standard Mileage Rate method.

Under this method, your allocable expenses are all expenses that could be assigned to both business and personal use (e.g., depreciation, lease payments, maintenance and repairs, gas, oil, insurance, and/or registration payments).

For Sitters using the Actual Expense Method, include interest expense in “allocable expenses” as listed in the previous paragraph. For Sitters using the Standard Mileage method, calculate your allocable share of interest expense **only** (as outlined in the next paragraph) and include it as part of deductible expenses along with the Standard Mileage deduction.

To calculate the expense deduction using your actual expenses, you must first calculate your vehicle's business use percentage (“**BUP**”) by allocating the total miles driven in the calendar between personal use and business use. Do so by reviewing and documenting your vehicle's odometer throughout the year. Divide the business miles driven by the total miles driven to get your BUP. Next, multiply the BUP by all the allocable expenses related to the vehicle. The result is your actual expense deduction for the automobile.

Limitations:

- Depending on your BUP, you may or may not be able to claim a Section 179 deduction or bonus depreciation deduction. If your BUP is 50% or less, you **cannot** claim Section 179 depreciation or bonus depreciation deduction; further, depreciation deductions may be computed under longer recovery periods and slower recovery methods. If your BUP is more than 50%, you are eligible to claim Section 179 depreciation or bonus depreciation (See *section iii “Depreciation”*).
- If your BUP shifts from more than 50% to 50% or less in any tax year, consult your tax advisor for additional details.

Example:

Standard Mileage Rate

Your vehicle was placed in service for business use for the first time in 2022 and was driven for 1,500 miles for business purposes. 1,000 of those miles were driven in the first six months of 2022 and the remainder of the miles were driven in the last six months of 2022. You can deduct **\$897.50** ($[1,000 \text{ miles} \times 58.5 \text{ cents}] + [500 \times 62.5 \text{ cents}]$) for the year. You may still have additional allocable interest expense to consider.

Actual Expense

You had total allocable expenses of \$8,250 (including interest) for the same vehicle. The vehicle was used for business purposes for 1,500 miles and used for personal purposes for 5,800 miles. You divide the business use miles by the total miles to determine a BUP of 20.5% ($1,500 / 7,300 \text{ miles}$). Your deductible expenses are **\$1,691.25** ($\$8,250 \times 20.5\%$). You do not have additional allocable interest expense to consider.

a. Special rules for lease payments

If you lease a vehicle for 30 days or more, a portion of your allocable and deductible business lease payments may be subject to the lease inclusion rules. You may need to reduce your business portion of the lease payment deduction by the lease inclusion amount. Your lease inclusion amount is determined, in part, by what type of vehicle you are renting, the vehicle's BUP, the fair market value of the vehicle at the time the lease commenced, what date the lease commenced and will end, and what year of the lease you are currently in.

See the *Example under Chapter 4 “Leasing a Car”* as listed in *IRS Publication 463, Travel, Gift, and Car Expenses* for an example of calculating a lease inclusion amount. For additional assistance, consult your tax advisor.

ii. Repairs and maintenance vs. improvements – deduct in the current year or capitalize to deduct in future years

In general, expenses incurred to repair and maintain your vehicle are deductible as repairs and maintenance expenses (oil changes, replacement of windshield wipers, etc.). With that said, in certain instances amounts paid may rise to an improvement of your vehicle (replacement of major components such as the engine, etc.) that must be capitalized. If you incur costs for work performed on your vehicle, it is best to consult your tax advisor for the tax treatment of any costs incurred.

iii. Depreciation

Vehicle owners can recover the purchase cost of their vehicles attributable to business use through yearly tax deductions. These deductions are called *depreciation*. Depreciation is a *non-cash* deduction since it does not represent an actual outflow of money.

Five factors determine how much depreciation you can deduct each year: (1) your **business use percentage** (“BUP”), (2) your **basis** in your vehicle, (3) the **recovery period** of the vehicle, (4) the **depreciation method** used, and finally, (5) the **depreciation convention** used.

- (1) Your business use of your vehicle is the mileage your vehicle is driven for business, as opposed to personal, purposes. This use is generally determined as a percentage of your overall use.
- (2) Your **basis** in your vehicle is generally the purchase price of the vehicle, plus any registration fees and other costs you incurred. Legal fees, documentation fees, recording fees, and transfer taxes are examples of other costs you need to add to your basis of the property.

Note: Your basis in your vehicle may need to be adjusted if any credits were taken when the vehicle was purchased (e.g., electric vehicle tax credits). Please consult your tax advisor if this situation applies to you.

Note: If you purchased a vehicle in a previous tax year, and placed it in service for business use the first time in a different tax year, your basis in the vehicle is the *lower* of the fair market value on the date you placed it in service for business or the original basis (i.e., the original purchase price). You may still be able to take bonus depreciation on the vehicle, but you cannot take a Section 179 deduction.

- (3) The **recovery period** for vehicles represents the number of years over which you will depreciate your vehicle and claim a depreciation expense. For vehicles, your recovery period is 5 years (or 60 months). The recovery period starts when the property is placed in service for business use. Note that a 5-year recovery period is actually deducted on 6 years of consecutive tax returns since the year 1 and year 6 expenses include a fraction of a year’s worth of depreciation.

Example: You acquire a vehicle that you own in year 1 and place it into service in year 1. The vehicle has a recovery period of 5 years. Depreciation of the vehicle starts in year 1 and will continue until year 6, when the vehicle is fully depreciated.

- (4) The current **depreciation method** used for tax purposes is called the Modified Accelerated Cost Recovery System (“MACRS”). Under MACRS, vehicles are able to be depreciated under the straight-line (“SL”) or declining balance (“DB”) method. The SL method means you depreciate your vehicle pro rata over the years of the recovery period. The DB method allows you to accelerate the depreciation deductions during the earlier years of your vehicle’s life.

Note: If the BUP of your vehicle is 50% or less, you *must* use the SL method under the 5-year MACRS recovery period.

- (5) In addition to choosing a depreciation method, you must determine a **depreciation convention**. There are two conventions available: half-year (“HY”) or mid-quarter (“MQ”). Unlike depreciation methods, your depreciation convention is not a choice, but a factual test. If 40% of the total depreciable basis of your MACRS property was placed in service during the last 3 months of the tax year, then all your MACRS property (including your vehicle) is subject to the mid-quarter convention. If not, you are subject to the half-year convention.

Note: The rules for determining convention become more complicated if Rover income is not your only business (as the convention test looks at the depreciable basis of *all* your businesses), or if you have other types of depreciable property, such as residential or non-residential real property, or property placed in service and disposed in the same year. If you are unsure as to which convention applies to you, consult your tax advisor.

IRS Publication 946, Appendix A Chart 1 provides a MACRS Percentage Table Guide that provides each year’s depreciation deduction (reflected as a percentage of the depreciable basis placed in service in year 1 under each method and convention).

Example 1: You purchased your vehicle in cash on June 1, 2022 for \$32,000. As part of the purchase, you paid legal and registration fees of \$2,000. You started using the vehicle immediately after your purchase. The BUP for the year is 35%.

The depreciable basis of your vehicle is \$34,000 (purchase price of \$32,000 plus other costs of \$2,000). Since the vehicle is the only asset purchased during the year used in a trade or business, you are subject to the HY convention. Since the BUP is 50% or less, you are required to use the SL method to compute your depreciation deduction.

Based off *IRS Publication 946, Appendix A, Chart 1*, the depreciation percentage to apply in the first year of the vehicle’s recovery period using the HY convention and SL method is 10% (*Table A-8*). Your maximum depreciation deduction is \$3,400 (10% times \$34,000). **Note that this amount has not yet factored in the BUP of your vehicle for the tax year or the passenger automobile depreciation limits, as discussed later.**

In general, DB methods tend to generate larger depreciation deductions in earlier years followed by smaller ones in later years, whereas SL/ADS methods provide equal yearly deductions. Over the course of the vehicle’s recovery period, the depreciation deductions should be the same (without factoring in BUP and passenger automobile depreciation limits).

Finally, your vehicle is subject to a maximum amount of depreciation that may be claimed in a given tax year, given the date the vehicle was placed in service. These maximum amounts can be found in *IRS Publication 946, How to Depreciate Property*. Electric vehicles have separate (higher) limitations.

To determine the final deductible amount of depreciation expense in the current year, multiply your vehicle's BUP by the maximum depreciation allowable for your vehicle based on its year placed in service under the passenger automobile limitations in "Maximum Depreciation Deduction" as listed in *IRS Publication 946 [a]*. Then, compare that amount [a] to your vehicle's depreciation deduction as computed under the *IRS Publication 946, Appendix A* amounts (i.e., without the passenger automobile limitations), multiplied by your vehicle's BUP [b]. You are permitted to deduct up to [b], as long as it is equal to or smaller than [a]; otherwise, your deduction is limited to [a]. Any amount under [b] that is not recovered in the tax year due to the amount being larger than [a] is subject to potential deduction in a later tax year.

Example 2: Your BUP for the vehicle in Example 1 above is 35%. Therefore, your maximum depreciation deduction in year 1 before the application of the passenger automobile limitations is \$1,190 (35% x \$3,400 depreciation before passenger automobile limitation rules).

You look up the maximum depreciation deduction allowable under the passenger automobile limitations in *IRS Publication 946*. For automobiles placed in service in 2022, the maximum first year depreciation deduction is \$11,200 (assume no bonus depreciation is taken). You multiply the maximum deduction within the automobile limits by the BUP to get a maximum depreciation deduction of \$3,920 (\$11,200 x 35%).

Since your depreciation deduction without regard to the automobile limits (\$1,190) is smaller than your depreciation deduction with regard to the automobile limits (\$3,920), your depreciation deduction is NOT limited.

The determination of which depreciation method is most beneficial to you over the life of your vehicles planned life is complex. In these circumstances, please consult your tax advisor.

1. Section 179 depreciation deduction

If your vehicle is used more than 50% for business in the first year it is placed in service, you may be eligible to deduct the full purchase price of the vehicle in the first year of service.

2. Special ("bonus") depreciation deduction

If your vehicle is used more than 50% for business in the first year it is placed in service, you may be eligible to deduct the full purchase price of the vehicle in the first year of service (after claiming any applicable Section 179 deductions).

Note: Taxpayers are still required to allocate their Section 179 and bonus depreciation expenses based on the BUP of their vehicles.

The rules for determining when it is acceptable to use the Section 179 and special bonus depreciation amounts are extremely complex. Please consult your tax advisor for additional details.

Business use of Home

Due to the complexity of claiming these types of expenses, we recommend seeking professional tax advice if you intend to deduct such expenses when providing services from your home.

10. Do I owe self-employment tax (and how do I report it)?

I am a Rover Sitter. Am I subject to self-employment tax in the U.S. on the earnings I make operating my business on Rover?

Self-employed persons are persons who are in business for themselves. In addition to owing regular income tax on your earnings, you may also be subject to self-employment tax. Self-employment tax applies to individuals operating their own business who earned net income of \$400 or more during the tax year. Self-employment tax consists of two types of taxes: social security taxes and Medicare taxes. The Social Security tax rate is 12.4%. The Medicare tax rate is 2.9%. Combined, they make up the self-employment tax rate of 15.3%. For tax year 2022, you are generally only required to pay self-employment tax on the first \$147,000 of wages, tips, and other self-employment income you earn during the year. However, if you earn over \$147,000 during the year, you will generally be required to continue paying the 2.9% Medicare tax with no upper limit.

In addition, if your wages, compensation, and self-employment income exceed certain thresholds for your specific filing status, you will be responsible for paying what is called the *Additional Medicare Tax*, which is an extra 0.9% tax for each dollar of earned income over the threshold.

Self-employment income is reportable on Schedule SE – Self-Employment Tax (Form 1040). You will utilize the income or loss calculated on Schedule C – Profit or Loss from Business (Form 1040) to calculate the amount of income subject to Social Security and Medicare taxes and will report the total on Schedule 2 – Additional Taxes (Form 1040), line 4. You will also be able to deduct ½ of any self-employment tax paid on Schedule 1, Part II, line 15.

See *Figure B* for an example on Schedule SE (Form 1040) and *Figure C* for an example of Schedule 2 (Form 1040).

11. I have people who work for my business. What other tax filings do I need to think about?

If you make \$600 or more in payments to independent contractors for services performed for your business, you are required to issue Form 1099-NEC to the independent contractors and submit a copy to the IRS. See IRS instructions on how to complete Form 1099-NEC.

If you have any employees working for you, either full-time or part-time, you must report any wages, tips, and other compensation that was paid to your employee throughout the year using Form W-2. You will provide this form to the IRS and a copy should be provided to the employee(s) no later than January 31 of the year following the year they performed services as your employee. See IRS instructions on how to complete Form W-2/W-3.

12. How is my (net) business income taxed?

Taxable business income is the gross amount of payments received less any allowable expenses. This can also be referred to as ‘net’ business income. If the allowable expenses are greater than the gross amount of payments received, a loss will arise. Taxable income/(loss) must be reported and calculated on Schedule C (Form 1040). See *section 6 (How do I report...)* for more information and *Figures A-1 and A-2* for an example of Schedule C.

For federal income tax purposes, net business income is taxed at ordinary income tax rates, subject to the limitations discussed above. Ordinary income tax rates vary, depending on your filing status and overall income levels. See *Figure E* for 2022 ordinary income tax rates for individual taxpayers.

13. Do I need to make estimated tax payments?

Estimated taxes are how you pay tax on business income that is not subject to withholding. If you do not pay enough tax through withholdings or estimated tax payments, you may be subject to an estimated tax payment penalty.

Generally, you should make quarterly estimated tax payments on your Rover income since no employer withholds taxes on your behalf. **Your tax obligations include both income tax and self-employment tax.** The 4 quarterly due dates for estimated taxes are April 15, June 15, September 15, and January 15 of the following year. In general, you can avoid an underpayment penalty if you pay (in 4 equal installments) the lesser of (1) 90% of your current year tax liability or (2) between 100% and 110% of your *prior year tax liability* (depending on your income).

Use the 2022 estimated tax worksheet found within Form 1040-ES, Estimated Tax for Individuals to determine what your required estimated taxes should have been, and whether you will owe any penalty for an underpayment. See *Figure D* for an extract from Form 1040-ES. If you have questions on how to estimate your taxes, please consult a tax advisor for assistance.

14. What do I need to know if I sell assets that have been used in my business?

Upon the sale of your vehicle that was used for business purposes, you must determine whether you have a taxable gain or loss. The rules for computing your taxable gain or loss, as well as reporting it, are complex. Please consult your tax advisor.

15. What documents do I need to keep?

All supporting documentation with respect to business income and expenses must be kept for tax purposes regardless of the length of the business period. You do not need to submit the supporting documentation with your return. However, the IRS may request copies of the documentation. You should keep a record of the following:

- Receipts for all deductible expenses, including repairs, supplies, cleaning services, etc.
- Your Rover provided Form 1099-K and 1099-K Summary, if applicable
- Any other Rover or PayPal provided Form 1099s for payments via PayPal or check
- Records of your deposited earnings from your business that were not reported on a Form 1099
- If you claimed business expenses related to your vehicle:
 - Vehicle purchase/lease contracts (including details regarding any financing)
 - Your vehicle odometer logs

- If you claimed business expenses related to use of your home for business:
 - Home purchase/rental contracts (including details regarding any financing)
- Form 1099-NEC issued to independent contractors
- Form W2 / W3 issued to employees

Generally, you must keep records that support items shown on your return until the period of limitation for that return runs out. The period of limitation is the period of time during which you can amend your return to claim a credit or refund or the IRS can assess additional tax.

If you	Then the period of limitation is:
(a) Owe additional tax and (b), (c), and (d) do not apply to you	3 years
(b) Do not report income that you should and it is more than 25% of the gross income shown on your return	6 years
(c) File a fraudulent return	No limit
(d) Do not file a return	No limit
(e) File a claim for credit or refund after you filed your return	The later of 3 years or 2 years after tax was paid
(f) File a claim for a loss from worthless securities	7 years

Additionally, you should keep records relating to your basis in your home or vehicle until the period of limitations expires for the year in which you sell either. You must keep these records to figure any depreciation deduction and to figure the gain or loss when you sell or otherwise dispose of the property.

If you do not keep the requisite records, it may be impossible for you to prove that you incurred deductible expenses or to establish your basis for gain or loss. Without such proof, the IRS can deny you a deduction.

When your records are no longer needed for tax purposes, do not discard them until you check to see whether you must keep them longer for other purposes. For example, your insurance company or creditors may require you to keep them longer than the IRS does.

16. What other resources should I check out?

Below is a list of resources that you can reference for a more thorough explanation on the topics discussed above.

IRS Guidance & Publications:

Business Activities (Trade or Business), <https://www.irs.gov/businesses/small-businesses-self-employed/business-activities>

IRS Publication 535 (2022), Business Expenses, <https://www.irs.gov/publications/p535>

Business Use of a Car, <https://www.irs.gov/taxtopics/tc510>

IRS issues standard mileage rates for 2022, <https://www.irs.gov/newsroom/irs-issues-standard-mileage-rates-for-2022>

IRS increases standard mileage rate for remainder of 2022, <https://www.irs.gov/newsroom/irs-increases-mileage-rate-for-remainder-of-2022>

IRS Publication 463 (2022), Travel, Entertainment, Gift, and Car Expenses, <https://www.irs.gov/publications/p463>

Recordkeeping, <https://www.irs.gov/taxtopics/tc305>

IRS Publication 946 (2022), How to Depreciate Property, <https://www.irs.gov/pub/irs-pdf/p946.pdf>

Form 8995-A Qualified Business Income Deduction, <https://www.irs.gov/pub/irs-pdf/f8995a.pdf>

Self-Employment Tax (Social Security and Medicare Taxes), <https://www.irs.gov/businesses/small-businesses-self-employed/self-employment-tax-social-security-and-medicare-taxes>

Instructions for Forms 1099-MISC and 1099-NEC, <https://www.irs.gov/instructions/i1099mec>

General Instructions for Forms W-2 and W-3, <https://www.irs.gov/pub/irs-pdf/iw2w3.pdf>

Figure A-1 – Schedule C (Form 1040) – For Rover Sitters not eligible for a Form 1099-K

SCHEDULE C (Form 1040) Profit or Loss From Business (Sole Proprietorship)

Department of the Treasury Internal Revenue Service

Go to www.irs.gov/ScheduleC for instructions and the latest information. Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

GMB No. 1545-0074
2022
Attachment Sequence No. **09**

Name of proprietor: _____ Social security number (SSN): _____

A Principal business or profession, including product or service (see instructions) _____ **B** Enter code from instructions _____

C Business name. If no separate business name, leave blank. _____ **D** Employer ID number (EIN) (see instr.) _____

E Business address (including suite or room no.) _____
City, town or post office, state, and ZIP code _____

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) _____

G Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses Yes No

H If you started or acquired this business during 2022, check here Yes No

I Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions Yes No

J If "Yes," did you or will you file required Form(s) 1099? Yes No

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked. **1**

2 Returns and allowances **2**

3 Subtract line 2 from line 1 **3**

4 Cost of goods sold (from line 42) **4**

5 Gross profit. Subtract line 4 from line 3 **5**

6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) **6**

7 Gross income. Add lines 5 and 6 **7**

Part II Expenses. Enter expenses for business use of your home only on line 30.

8 Advertising **8**

9 Car and truck expenses (see instructions) **9**

10 Commissions and fees **10**

11 Contract labor (see instructions) **11**

12 Depletion **12**

13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions) **13**

14 Employee benefit programs (other than on line 19) **14**

15 Insurance (other than health) **15**

16 Interest (see instructions):
a Mortgage (paid to banks, etc.) **16a**
b Other **16b**

17 Legal and professional services **17**

18 Office expense (see instructions) **18**

19 Pension and profit-sharing plans **19**

20 Rent or lease (see instructions):
a Vehicles, machinery, and equipment **20a**
b Other business property **20b**

21 Repairs and maintenance **21**

22 Supplies (not included in Part III) **22**

23 Taxes and licenses **23**

24 Travel and meals:
a Travel **24a**
b Deductible meals (see instructions) **24b**

25 Utilities **25**

26 Wages (less employment credits) **26**

27a Other expenses (from line 48) **27a**

27b Reserved for future use **27b**

28 Total expenses before expenses for business use of home. Add lines 8 through 27a **28**

29 Tentative profit or (loss). Subtract line 28 from line 7 **29**

30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions.
Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30.

31 Net profit or (loss). Subtract line 30 from line 29. **31**

32 If you have a loss, check the box that describes your investment in this activity. See instructions.
• If you checked 32a, enter the loss on both **Schedule 1 (Form 1040), line 3**, and on **Schedule SE, line 2**. (If you checked the box on line 1, see instructions.) Estates and trusts, enter on **Form 1041, line 3**.
• If a loss, you **must** go to line 32.
• If you checked 32b, enter the loss on both **Schedule 1 (Form 1040), line 3**, and on **Schedule SE, line 2**. (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on **Form 1041, line 3**.
• If you checked 32b, you **must** attach **Form 6196**. Your loss may be limited.

32a All investment is at risk.
32b Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P Schedule C (Form 1040) 2022

Withdrawal History by Year

Total by Year	Paypal	Bank
2023: \$1,666	\$0	\$1,666
2022: \$46,107	\$5,285	\$40,822
2021: \$23,753	\$19,760	\$3,993
2020: \$4,848	\$4,848	\$0
2019: \$2,453	\$2,453	\$0
2018: \$721	\$721	\$0

[More info...](#)

Include any other direct expenses in Schedule C, Part II, lines 8, or 10-27(a). See section 7 for more information on business expenses.

Include deductible automobile expenses under the standard mileage or actual expenses method in Schedule C, line 9. See section 8 for more information on automobile expenses.

Disclaimer

This documentation is intended solely for information purposes and no Rover Sitter or other third party may rely upon it as tax or legal advice or use it for any other purpose. As such, EY and Rover assume no responsibility whatsoever to Rover Sitters or other third parties as a result of the use of information contained herein. This documentation was prepared by EY and does not necessarily reflect the views of Rover. Please refer to the disclaimer on page 1 for more information.

Figure A-2 – Schedule C (Form 1040) – For Form 1099-K eligible Rover Sitters

SCHEDULE C (Form 1040)
Department of the Treasury
Internal Revenue Service

Profit or Loss From Business (Sole Proprietorship)
Go to www.irs.gov/ScheduleC for instructions and the latest information.
Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

OMB No. 1545-0074
2022
Attachment Sequence No. **09**

Name of proprietor: _____ Social security number (SSN): _____
Employer ID number (EIN) (see instr.): _____

A Principal business or profession, including product or service (see instructions) _____
B Enter code from instructions _____

C Business name. If no separate business name, leave blank. _____
D Employer ID number (EIN) (see instr.) _____

E Business address (including suite or room no.) _____
City, town or post office, state, and ZIP code _____

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) _____

G Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses Yes No

H If you started or acquired this business during 2022, check here Yes No

I Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions Yes No

J If "Yes," did you or will you file required Form(s) 1099? Yes No

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked. <input type="checkbox"/>	1
2 Returns and allowances	2
3 Subtract line 2 from line 1	3
4 Cost of goods sold (from line 42)	4
5 Gross profit. Subtract line 4 from line 3	5
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6
7 Gross income. Add lines 5 and 6	7

Part II Expenses. Enter expenses for business use of your home only on line 30.

8 Advertising	8	18 Office expense (see instructions)	18
9 Car and truck expenses (see instructions)	9	19 Pension and profit-sharing plans	19
10 Commissions and fees	10	20 Rent or lease (see instructions):	20a
11 Contract labor (see instructions)	11	a Vehicles, machinery, and equipment	20a
12 Depletion	12	b Other business property	20b
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	21 Repairs and maintenance	21
14 Employee benefit programs (other than on line 19)	14	22 Supplies (not included in Part III)	22
15 Insurance (other than health)	15	23 Taxes and licenses	23
16 Interest (see instructions):		24 Travel and meals:	
a Mortgage (paid to banks, etc.)	16a	a Travel	24a
b Other	16b	b Deductible meals (see instructions)	24b
17 Legal and professional services	17	25 Utilities	25
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28	26 Wages (less employment credits)	26
29 Tentative profit or (loss). Subtract line 28 from line 7	29	27a Other expenses (from line 48)	27a
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____ Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	27b Reserved for future use	27b
31 Net profit or (loss). Subtract line 30 from line 29.	31		

31 If a profit, enter on both **Schedule 1 (Form 1040), line 3**, and on **Schedule SE, line 2**. (If you checked the box on line 1, see instructions.) Estates and trusts, enter on **Form 1041, line 3**.

31 If a loss, you **must** go to line 32.

32 If you have a loss, check the box that describes your investment in this activity. See instructions.

32a All investment is at risk.

32b Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P Schedule C (Form 1040) 2022

2022 Annual Stripe net earnings and payment summary

Sally Sitter

Gross payments	\$1,334.56
Refunds	-\$100.64
Taxes and fees	-\$208.64
Stripe net earnings	\$1,025.28

Of the \$1025.28 you earned this year, \$109 of it is still in your Stripe Connect account and ready to withdraw to your bank. Visit [Rover's Help Center](#) to learn how to add your bank account information to Stripe.

Net earnings from all sources

Stripe net earnings	\$1,025.28
PayPal earnings	\$234.56
Check earnings	\$34.56
Total annual earnings	\$1,194.40

Include the taxes and fees per your 1099-K summary plus any other direct expenses in Schedule C, Part II, lines 8, or 10-27(a). See section 7 for more information on business expenses.

Include deductible automobile expenses under the standard mileage or actual expenses method in Schedule C, line 9. See section 8 for more information on automobile expenses.

Disclaimer

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Figure B – Schedule SE (Form 1040)

SCHEDULE SE (Form 1040)		Self-Employment Tax		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		Go to www.irs.gov/ScheduleSE for instructions and the latest information. Attach to Form 1040, 1040-SR, or 1040-NR.		2022 Attachment Sequence No. 17	
Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)		Social security number of person with self-employment income			
Part I Self-Employment Tax					
Note: If your only income subject to self-employment tax is church employee income, see instructions for how to report your income and the definition of church employee income.					
A If you are a minister, member of a religious order, or Christian Science practitioner and you filed Form 4361, but you had \$400 or more of other net earnings from self-employment, check here and continue with Part I <input type="checkbox"/>					
Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.					
1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A		1a			
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH		1b			
Skip line 2 if you use the nonfarm optional method in Part II. See instructions.					
2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order		2			
3 Combine lines 1a, 1b, and 2		3			
4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3		4a			
Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.					
b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here		4b			
c Combine lines 4a and 4b. If less than \$400, stop; you don't owe self-employment tax. Exception: If less than \$400 and you had church employee income, enter -0- and continue		4c			
5a Enter your church employee income from Form W-2. See instructions for definition of church employee income		5a			
b Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0-		5b			
6 Add lines 4c and 5b		6			
7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2022		7		147,000	
8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$147,000 or more, skip lines 8b through 10, and go to line 11		8a			
b Unreported tips subject to social security tax from Form 4137, line 10		8b			
c Wages subject to social security tax from Form 9919, line 10		8c			
d Add lines 8a, 8b, and 8c		8d			
9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11		9			
10 Multiply the smaller of line 6 or line 9 by 12.4% (0.124)		10			
11 Multiply line 6 by 2.9% (0.029)		11			
12 Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040), line 4		12			
13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter here and on Schedule 1 (Form 1040), line 15		13			
Part II Optional Methods To Figure Net Earnings (see instructions)					
Farm Optional Method. You may use this method only if (a) your gross farm income ¹ wasn't more than \$9,060, or (b) your net farm profits ² were less than \$6,540.					
14 Maximum income for optional methods		14		6,040	
15 Enter the smaller of: two-thirds (2/3) of gross farm income ¹ (not less than zero) or \$6,040. Also, include this amount on line 4b above		15			
Nonfarm Optional Method. You may use this method only if (a) your net nonfarm profits ³ were less than \$6,540 and also less than 72.189% of your gross nonfarm income, ⁴ and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. Caution: You may use this method no more than five times.					
16 Subtract line 15 from line 14		16			
17 Enter the smaller of: two-thirds (2/3) of gross nonfarm income ⁴ (not less than zero) or the amount on line 16. Also, include this amount on line 4b above		17			

Your net profit or Loss from Schedule C, line 31 should flow here to line 2.

Self-employment tax, as calculated, will appear on line 12. This amount then flows to Schedule 2, Part II, line 4 (see Figure C on next page).

This line 13 amount should show as a deduction on Schedule 1, Part II – line 15.

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Figure C – Schedule 2 (Form 1040)

SCHEDULE 2
(Form 1040)
Department of the Treasury
Internal Revenue Service
OMB No. 1545-0047
2022
Attachment
Sequence No. 02
Go to www.irs.gov/Form1040 for instructions and the latest information.
Name(s) shown on Form 1040, 1040-SR, or 1040-NR
Your social security number

Part I Tax

1	Alternative minimum tax. Attach Form 6251	1
2	Excess advance premium tax credit repayment. Attach Form 8962	2
3	Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17	3

Part II Other Taxes

4	Self-employment tax. Attach Schedule SE	4
5	Social security and Medicare tax on unreported tip income. Attach Form 4137	5
6	Uncollected social security and Medicare tax on wages. Attach Form 8919	6
7	Total additional social security and Medicare tax. Add lines 5 and 6	7
8	Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required. If not required, check here <input type="checkbox"/>	8
9	Household employment taxes. Attach Schedule H	9
10	Repayment of first-time homebuyer credit. Attach Form 5405 if required	10
11	Additional Medicare Tax. Attach Form 8959	11
12	Net investment income tax. Attach Form 8960	12
13	Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12	13
14	Interest on tax due on installment income from the sale of certain residential lots and timeshares	14
15	Interest on the deferred tax on gain from certain installment sales with a sales price over \$150,000	15
16	Recapture of low-income housing credit. Attach Form 8611	16

(continued on page 2)
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71478U Schedule 2 (Form 1040) 2022

Your calculated self-employment tax on Schedule SE from line 12 should flow to line 4.

If you're subject to Additional Medicare Tax, this should get reported on line 11.

Schedule 2 (Form 1040) 2022 Page 2


Part II Other Taxes (continued)

1	Other additional taxes:	
a	Recapture of other credits. List type, form number, and amount:	17a
b	Recapture of federal mortgage subsidy, if you sold your home see instructions	17b
c	Additional tax on HSA distributions. Attach Form 8889	17c
d	Additional tax on an HSA because you didn't remain an eligible individual. Attach Form 8889	17d
e	Additional tax on Archer MSA distributions. Attach Form 8853	17e
f	Additional tax on Medicare Advantage MSA distributions. Attach Form 8853	17f
g	Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property	17g
h	Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A	17h
i	Compensation you received from a nonqualified deferred compensation plan described in section 457A	17i
j	Section 72(m)(5) excess benefits tax	17j
k	Golden parachute payments	17k
l	Tax on accumulation distribution of trusts	17l
m	Excise tax on insider stock compensation from an expatriated corporation	17m
n	Look-back interest under section 167(g) or 460(b) from Form 8697 or 8866	17n
o	Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR	17o
p	Any interest from Form 8621, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund	17p
q	Any interest from Form 8621, line 24	17q
z	Any other taxes. List type and amount:	17z
18	Total additional taxes. Add lines 17a through 17z	18
19	Reserved for future use	19
20	Section 965 net tax liability installment from Form 965-A	20
21	Add lines 4, 7 through 16, and 18. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b	21

Schedule 2 (Form 1040) 2022

Self-employment tax will flow to Form 1040, line 17, along with other taxes.

Figure D – Form 1040-ES, Estimated Tax Worksheet

2022 Estimated Tax Worksheet		Keep for Your Records 
1	Adjusted gross income you expect in 2022 (see instructions)	1
2a	Deductions	2a
	<ul style="list-style-type: none"> If you plan to itemize deductions, enter the estimated total of your itemized deductions. If you don't plan to itemize deductions, enter your standard deduction. 	
b	If you can take the qualified business income deduction, enter the estimated amount of the deduction	2b
c	Add lines 2a and 2b	2c
3	Subtract line 2c from line 1	3
4	Tax. Figure your tax on the amount on line 3 by using the 2022 Tax Rate Schedules.	
	Caution: If you will have qualified dividends or a net capital gain, or expect to exclude or deduct foreign earned income or housing, see Worksheets 2-5 and 2-6 in Pub. 505 to figure the tax.	4
5	Alternative minimum tax from Form 6251	5
6	Add lines 4 and 5. Add to this amount any other taxes you expect to include in the total on Form 1040 or 1040-SR, line 16.	6
7	Credits (see instructions). Do not include any income tax withholding on this line	7
8	Subtract line 7 from line 6. If zero or less, enter -0-	8
9	Self-employment tax (see instructions)	9
10	Other taxes (see instructions)	10
11a	Add lines 8 through 10	11a
b	Earned income credit, refundable child tax credit* or additional child tax credit, fuel tax credit, net premium tax credit, refundable American opportunity credit, section 1341 credit, and refundable credit from Form 8885*	11b
c	Total 2022 estimated tax. Subtract line 11b from line 11a. If zero or less, enter -0-	11c
12a	Multiply line 11c by 90% (66 2/3% for farmers and fishermen)	12a
b	Required annual payment based on prior year's tax (see instructions)	12b
c	Required annual payment to avoid a penalty. Enter the smaller of line 12a or 12b	12c
	Caution: Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 12c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 11c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 11c. For details, see chapter 2 of Pub. 505.	
13	Income tax withheld and estimated to be withheld during 2022 (including income tax withholding on pensions, annuities, certain deferred income, etc.)	13
14a	Subtract line 13 from line 12c	14a
	Is the result zero or less? <input type="checkbox"/> Yes. Stop here. You are not required to make estimated tax payments. <input type="checkbox"/> No. Go to line 14b.	
b	Subtract line 13 from line 11c	14b
	Is the result less than \$1,000? <input type="checkbox"/> Yes. Stop here. You are not required to make estimated tax payments. <input type="checkbox"/> No. Go to line 15 to figure your required payment.	
15	If the first payment you are required to make is due April 18, 2022, enter 1/4 of line 14a (minus any 2021 overpayment that you are applying to this installment) here, and on your estimated tax payment voucher(s) if you are paying by check or money order	15

*If applicable.

Your regular income tax due will be reported on line 4 and will be based on your inputs on line 1 and 2a.

Report your self-employment tax ("SE") on line 9 (see instructions for Form 1040-ES on how to calculate this).

Total 2022 estimated tax to be paid is reported on line 11c.

Lines 12a-c will help you determine what your required annual payments should be, based on your current and prior year tax liabilities.

Figure E – 2022 Tax Rates for Individual Taxpayers

Single

Taxable Income	Tax Rate
\$0 to \$10,275	10%
\$10,276 to \$41,775	\$1,027.50 plus 12% of the amount over \$10,275
\$41,776 to \$89,075	\$4,807.50 plus 22% of the amount over \$41,775
\$89,076 to \$170,050	\$15,213.50 plus 24% of the amount over \$89,075
\$170,051 to \$215,950	\$34,647.50 plus 32% of the amount over \$170,050
\$215,951 to \$539,900	\$49,335.50 plus 35% of the amount over \$215,950
\$539,901 or more	\$162,718 plus 37% of the amount over \$539,900

Married Filing Joint Returns and Surviving Spouses

Taxable Income	Tax Rate
\$0 to \$20,550	10%
\$20,551 to \$83,550	\$2,055 plus 12% of the amount over \$20,550
\$83,551 to \$178,150	\$9,615 plus 22% of the amount over \$83,550
\$178,151 to \$340,100	\$30,427 plus 24% of the amount over \$178,150
\$340,101 to \$431,900	\$69,295 plus 32% of the amount over \$340,100
\$431,901 to \$647,850	\$98,671 plus 35% of the amount over \$431,900
\$647,851 or more	\$174,253.50 plus 37% of the amount over \$647,850

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Married Filing Separate Returns

Taxable Income	Tax Rate
\$0 to \$10,275	10%
\$10,276 to \$41,775	\$1,027.50 plus 12% of the amount over \$10,275
\$41,776 to \$89,075	\$4,807.50 plus 22% of the amount over \$41,775
\$89,076 to \$170,050	\$15,213.50 plus 24% of the amount over \$89,075
\$170,051 to \$215,950	\$34,647.50 plus 32% of the amount over \$170,050
\$215,951 to \$323,925	\$49,335.50 plus 35% of the amount over \$215,950
\$323,926 or more	\$87,126.75 plus 37% of the amount over \$323,925

Head of Household

Taxable Income	Tax Rate
\$0 to \$14,650	10%
\$14,651 to \$55,900	\$1,465 plus 12% of the amount over \$14,650
\$55,901 to \$89,050	\$6,415 plus 22% of the amount over \$55,900
\$89,051 to \$170,050	\$13,708 plus 24% of the amount over \$89,050
\$170,051 to \$215,950	\$33,148 plus 32% of the amount over \$170,050
\$215,951 to \$539,900	\$47,836 plus 35% of the amount over \$215,950
\$539,901 or more	\$161,218.50 plus 37% of the amount over \$539,900

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