Date:

From:

To:

Re: Tax advice for our valuable Client, Mike Mony

**Memorandum: Tax Advice**

***Introduction***

Education credit (EC) is a policy that enables families to claim the educational expenses which they spend on their college-level children. If a student is dependent on his parents then parents have the right to claim the EC. No matter who pays the expenses of education, EC can claim by student himself or by his parents. Mike is a university student at Huston Baptist University. His tuition fee was paid by his grandfather, Mega. According to the tax laws, EC cannot be claimed by the grandparents. It only can be claimed by parents or by the student himself only if he is a taxpayer. Mike's parents claim an EC for mike's educational expenses by showing him a dependent on them. So they will get this EC. Mike is also a taxpayer and he can also claim for the EC. But only if his parents don't claim the EC.

***Claim for Education Credit***

 Education credit generally goes to the parents of the college level students if they claimed. A student can only get the EC if he is a taxpayer and his parents do not claim for the EC (*Tax Benefits for Education*). So, Mike can claim for EC even though his educational expenses were paid by his grandfather, Mega. But he will get the EC only if his parents do not have the privilege for this credit.

***Mike as an Independent Taxpayer***

Mike's parents claim him as a reliant on on their tax returns but they both cannot claim the EC at the same time. Only one of the parents has the right to claim the EC. Both of the parents can claim for EC only if they have a joint tax return. Mike's parents have right to claim the EC only if they claim Mike as a dependent on them, (*Self Employed Individuals Tax Center | Internal Revenue Service*). But if they failed to prove mike as a reliant on on their tax return, they would not be able to get this EC. If mike is proved as an independent taxpayer and his parents or grandparents failed to prove him as a dependent then they will not be eligible to claim for EC for the educational expenses of Mike. In this situation, only Mike can apply for EC. But to claim an EC, mike must be a tax filer. So, in a situation where nobody can prove a student as dependent, nobody have the right to claim the EC for that student. In this situation, the student himself can claim an EC (“Understanding Tuition Tax Credits”). A student only can claim for EC if he files his tax return. In the given situation, when Mike's parents cannot claim mike as dependent on them, then mike can claim the EC.

***Options for Mike***

The CPA firm in Huston offers mike to work for them as an independent contractor so that he can also attend his university. The CPA firm offers Mike a 5% increase in salary if he works as an independent contractor instead of a full-time job or internship. There are some different tax laws for an independent contractor as compared to the tax laws that are for job holders or internees. An independent contractor or freelancer is generally considered self-employed. A self-employed person has to pay tax on his income as well as Self-Employment tax. Self-Employment tax is a tax for social security and Medicare. In mike's case, he has to pay much attention either he should work as a freelancer/independent contractor or as an internee. In both cases, tax returns can be different for him. If he works as an independent contractor, then he will be considered as a self-employed person on his tax return and he will have to pay not only the Income Tax but will also have to pay Self-Employment tax. But he will get an extra salary of 5% if he works as an independent contractor. Moreover, there will be opportunities for him have to work at the farmhouse of his father. He will also get extra time for his studies. On the other hand, if he works as an internee at CPA firm, he will get 5% less salary as compared to the salary that he would get if he works as an independent contractor. Moreover, he will not be able to work on the farmhouse of his father in Montana if he joins the CPA firm as an internee. There will be less time that he can be able to give his studies. But if he works as an internee at CPA firm, there can be some benefits that he can avail. These benefits can be in the form of some relaxations in the tax returns. As a job holder, he only has to pay income tax. But if he works as a freelancer then he also has to pay self-employment tax. So, there is a trade-off in both choices.

***Conclusion***

Mike can choose anyone offer but each offer has its benefits and consequences. Mike should do some calculations regarding his tax returns and should try to figure out the net benefits of the offer for working as an independent contractor. Are the benefits that Mike will get from the additional 5% of salary is enough to compensate for the additional tax burden that he has to bear in the form of self-employment tax? If this addition of 5% in salary is enough to compensate for the extra burden of taxes in the form of Self-Employment tax, then he must choose to work as an independent contractor. Because working as an independent contractor will provide him more time to work on his father's farmhouse. There will be more time that he can give to his studies. But if the additional tax burden in the form of the Self-Employment tax increases the benefits of a 5% increase in the salary, then he must have to look at his net earnings. He might have some other options. He can demand a 10% increase in salary instead of a 5% increase so that this increase can compensate for the additional burden of self-employment tax.

***Works Cited***

*Self Employed Individuals Tax Center | Internal Revenue Service*. https://www.irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center. Accessed 14 Nov. 2019.

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“Understanding Tuition Tax Credits.” *2019 TurboTax® Canada Tips*, 13 Nov. 2019, /tips/understanding-tuition-tax-credits-6549.