

A CPA for the Shared Economy

An Uber ride led Derek Davis to create a new firm

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BY TAMIKA CODY

During a routine pickup, an Uber driver expressed his concerns to Derek Davis about reduced wages and being able to provide for his family. A CPA working as a transfer pricing senior associate at Big Four firm PwC, Davis briefed the Uber driver about tax deductions — but he also had a hunch that more people earning a living in the shared-economy sector would probably also need guidance.



CPA Derek Davis (right) and his first Uber client

Davis' instincts were spot on. He realized that there was a void that needed to be filled when it comes to serving 1099 independent contractors who are working with rideshare companies like Uber and Lyft, and hospitality hosts conducting business through Airbnb. Knowing this gave Davis a reason to branch out on his own.

It didn't happen right away, however: He completed several years of tax seasons before having an epiphany. "I just realized with four busy seasons under my belt that this wasn't for me," said Davis, who admitted that he had mixed feelings about taking that leap into entrepreneurialism. He ended up staying for one more season: "I

didn't want to leave my group at PwC [in the middle of busy season]. I believe that all business is built on relationships and that would have really tarnished the relationship."

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By September 2014, Davis was on the road to independence and he launched the virtual accounting practice, The Shared Economy CPA. The leads came easily for Davis, and he quickly found out that some accountants and CPAs aren't knowledgeable about how to handle taxes for independent contractors in the shared economy business.

"A new client recently called me because his accountant was so worried about how to prepare his taxes that he was told to look for someone else," Davis explained.

Bloomberg
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ATTRACTING CLIENTS

Close to 200 people have reached out to The Shared Economy CPA, though the virtual firm has spent nothing on marketing. Davis said all of this was possible by word of mouth that sprouted from the growing shared economy community. "What's happening in the shared economy space is that each platform provider [Airbnb, Lyft and other companies] — they won't give [independent contractors] advice. If you're stuck on your taxes and you have a question, you can't ask them because they don't want to get involved with

employer-employee relationships. They are exclusively hands-off. So what we are starting to see are these really strong communities of shared economy independent contractors grow as a result of all of this and everyone is asking each other what to do.”

The plan for future growth will start with the firm’s existing user base. Davis will continue to follow up with clients, reach out to new ones, and provide a stream of resources on his Web site that will be helpful to independent contractors looking for help.

“I think [the Internet] is where people consume most of their tax information. We are seeing a shift of people not blindly trusting their accountants anymore. They are doing their own research on how to deduct, how much to pay and how to do their taxes,” explained Davis. “For the bulk of clients that we lose, we are losing them because they want to do their taxes on their own. They think they have the expertise to figure it out on their own. We are not losing them to another CPA, we are losing them to themselves.”

To help the shared economy community handle their business, Davis developed the Tabby app with his technical co-founder, Damien Sutevski. The free mobile app keeps track and classifies business expenses for all 1099 independent contractors.

“What we are seeing is that people are overpaying their taxes on their 1099 because it is so hard to keep track of all of their expenses. People are still keeping paper receipts, which is insane because it’s 2015,” Davis said. “There’s a big urban myth that you need to keep your receipts for taxes, but you actually don’t, according to the IRS.”

Davis is now faced with the task of growing the user base of the Tabby app. “It’s hard to show the need for a tax app during the off-season,” he said. “Taxes are like a vicious cycle. It’s usually uncomfortable for some people and they just want to forget about it. Then August rolls around and they aren’t doing anything to keep track of their expenses. Then when they get to March or April they have to figure it out, but then all of their receipts are lost and they end up overpaying their taxes. It’s a continuous loop of unpleasantness.”

RESEARCH, TRAIL AND WAIT

Taking on shared economy clients can be a bit of a challenge because there’s really no precedent for court cases and every situation can be more complex than the last. To stay up to speed, Davis and his team flip through a variety of Internal Revenue Service publications, and he also keeps an eye on court cases. “Just being exposed to more cases and scenarios, I am able to learn a lot. And based on the clients coming in and the issues they are facing, I am able to do my research on those circumstances,” explained Davis.

To get a sense of the unique circumstances he’s trying to filter through, Davis shared some details on a case he’s currently working on with a Airbnb host. The host is being audited for putting their income and expenses on a Schedule E, instead of a Schedule C. “That’s a really tricky place to be in for an Airbnb host,” said Davis.

“Those are just some of the issues we are working on and have to deal with. We are waiting to hear back from the IRS, but it’s hard to say when everything will wrap up.” Davis said he hopes to hear back from the IRS about his client’s audit in roughly six months.

VIRTUAL CLIENTS

The Shared Economy CPA conducts business exclusively online. However, there are some clients who are opposed to engaging solely through the Internet and prefer to meet face-to-face, because they want to get a personal sense of trust. For clients who insist on that, Davis and his team log on to Skype. “We are attracting a lot of younger people who are OK with virtual meetings. But it’s generally the older folks who aren’t really comfortable with having a virtual accountant. We try to keep things virtual because it’s more time-efficient.”

The virtual clients range across the generations, from Millennials to Gen Xers to Boomers. “More than anything, we have people who are willing to adapt and try new technologies,” said Davis. “Our ridesharing clients from Uber and Lyft, they tend to be younger, but our Airbnb clients are older and they are open to trying new things. They are willing to post a rental of their apartment or extra bedroom on the Internet. For the most part, people would prefer to meet in person, but in the end their major concern is getting their taxes done right.”

VIRTUAL OFFICE

Currently, The Shared Economy CPA has three people on staff, as well as Davis. The 28-year-old operates out of several shared working spaces throughout the Los Angeles area. His most recent setup was at NextSpace in Culver City, where approximately 30 to 60 entrepreneurs were also running their businesses. Locations vary month to month, but given that he is running a virtual office, he can respond to e-mails, conduct virtual meetings and answer leads from prospective clients anywhere and anytime, just as long as he has an Internet connection.

Office occupancy is paid for on a membership model, where he spends at least \$300 a month. Davis doesn’t have to worry about many of the costs that go into running a traditional office. Utilities, furniture and cleaning services are all part of the monthly membership. This keeps the cost of running his virtual office at a minimum. “Because our overhead is so low, we’ve been cash-flow-positive since Day One,” Davis shared.

LESSON LEARNED

Davis has learned a great deal during the transition phase from working at a Big Four to branching out to start his own virtual firm. His biggest takeaway from his time at PwC was the strong work ethic the firm instilled in him. “Professionally, that really helped me become an entrepreneur, especially having that grit and grind. Personally, I felt that I needed to start all over fresh again in terms of tax knowledge,” he said, explaining that because of the good foundation he got while at PwC, he was able to catch on fairly quickly to the new tax criteria he had to learn for his own business.

“What I really learned in the first two weeks of launching my firm is that life can be as fulfilling, fun and challenging as you make it, or as boring as you make it,” Davis recalled. When he made up his mind that working at a Big Four firm wasn’t his calling, Davis learned another lesson — to start a project while he was still employed and to make sure there was no conflict of interest. “I believe lots of people want to be entrepreneurs and be their own bosses. You watch TV shows like Shark Tank and you think anyone can do it. But it’s really not that glamorous. A year leading up to me leaving the firm, I was working on a dating site startup. It really tested me because when I came home from work at 8 o’clock, I was tired but I made it a point to work on it every night and on the weekends. When I quit PwC, I felt comfortable enough with my determination that I would go ahead and see The Shared Economy CPA through.”

THE VOICE OF RIDESHARING

The client who inspired Davis to start his shared-economy practice, Harry Campbell, isn't just an Uber driver; he's also a resource for the shared-economy himself, as the owner and founder of The Rideshare Guy – a blog and podcast for rideshare drivers. Davis describes Campbell as, "having the largest blogger voice of all Uber and Lyft drivers."

Campbell, who is a full-time engineer, launched the Web site in May 2014 as a resource for the rideshare community. "If you're a new or even experienced driver, you probably have a lot of questions going through your head and I'm going to do my best to answer them," Campbell notes on his [About page](#).

The site provides answers for new and experienced Lyft, Uber and Sidecar drivers, from rideshare insurance, products and services to ridesharing business courses. Campbell's team posts several articles a week, produces a bi-weekly podcast and gives subscribers the "Ultimate Guide to Being a Rideshare Driver." The Rideshare Guy even has an app for Android and iOS, and for visual content, Campbell answers questions on the [RSG YouTube channel](#).

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