

# Managing Finances and Navigating Employment in the Gig Economy

September 2020

A “Gig” can be defined as any job, especially one of short or uncertain duration. Depending on the industry, temporary employees may be called contingent workers, virtual or remote workers, independent contractors, consultants or freelance workers. In the last two decades, from the dot.com bubble in 1999-2000 to the 2008-09 financial crisis, and most recently, with the COVID-19 pandemic, finding work to earn a steady income has become increasingly more difficult for everyone. However, it has become even more problematic for younger generations to find work in the fields in which they have been trained or educated to work. It should therefore come as no surprise that there has been a corresponding increase in the number of Gig workers during the same time. This article addresses some of the challenges faced by Gig workers, estate and tax considerations, along with tips to manage finances and navigate employment in the Gig economy.

Regardless of the title, the Gig workforce includes highly educated individuals who have been faced with unemployment or underemployment before, and after the events in these last two decades. Many of our youth and younger generations have had to find temporary work, or Gigs, wherever they can land opportunities to earn an income. These workers have been forced to be flexible, while working intermittently between part or full-time jobs to shore up their income, while others may have strung together several Gigs at once to earn a living.

## **Unemployment and underemployment raises uncertainty**

A lot has occurred within the workforce in the last decade and, more recently, due to the COVID-19 pandemic: many of our youth were hampered in securing summer employment, and many seeking full-time employment have had to reinvent themselves within the changing economy. This unemployment or underemployment brings with it uncertainty and insecurity, and lack of employment or engagement in Gig-type employment can present financial downsides. While there are benefits to working in the Gig economy – you have the choice and flexibility of choosing when, where and what kind of work you do – the drawbacks of fluctuating income, lack of employment insurance or health and medical benefits, and ineligibility for employer retirement plans makes it hard to budget, manage debt or save for long-term goals.

## **Tips to succeed in the Gig economy**

Here are some general tips to help manage finances and navigate employment in the Gig economy:

### **1. Have a plan**

Business plans and financial plans have very different focuses, but for the Gig worker it is very important that the two plans work together. At its most basic, a business plan documents what you will do to make money, and unfortunately this is often overlooked by the self-employed. A valid business plan outlines your expertise, services, products, clientele, marketing plan, fees, location, hours, expenses, etc. Addressing these will help you manage some of the challenges of Gig work, and also work in tandem with your financial plan to achieve the personal financial goals that are important to you.

In the Gig economy, it's likely that your income will be variable. This means your financial plan should be flexible and reassessed regularly. In a good month, you can contribute more to savings and your emergency fund. If income is low, be prepared to suspend savings in the short term. A BMO financial professional can help you monitor and assess your spending and saving on a regular basis, so you can stay within budget and achieve your short- and long-term financial goals.

### **2. Know your Gig and leverage technology to get the job**

There are two main Gig segments: the knowledge-based Gigs (such as independent consultants); and the service-based Gigs (such as tradespeople and delivery drivers). Your business plan will outline the segment you're targeting to seek employment. A large part of this economy is driven by technology, and there are many software platforms that enable this so-called “sharing economy”

(such as Uber and AirBnB). Further, there are many websites and apps like Handy, LinkedIn and TaskRabbit to help you connect with paying jobs. Leverage all aspects of social media to advertise and amplify your skills, experience, and availability for employment.

### 3. Have a spending plan (or budget)

As a Gig worker, business and personal finances will become intertwined; however, you should try to keep these finances separate, and that means budgeting so that the business supports your personal finances. A spending plan outlines your expenses – what you are paying out on bills and other outgoings each month – and is funded by your income. Consider a minimalist budget that requires the least spending, and focus on expenses that you can control, such as food, transportation and entertainment. Managing these expenses may help when income fluctuates from month to month.

### 4. Be organized

As a self-employed worker, you must report all your income to the appropriate tax authorities, and you may have other remittance and reporting obligations to the tax authorities. It pays to be organized, so keep detailed records of your income and expenses. It is advisable to work with a tax professional to help you address your income tax situation and reporting requirements and budget for any tax remittances.

### 5. Have an emergency fund

Try to allocate liquid funds that can cover three to six months of minimal spending if an unexpected expense occurs; this fund can fulfil a dual role by covering day-to-day expenses when work is scarce.

### 6. Get individual healthcare coverage

Having your own private health and medical benefits coverage means you can get the treatments you need to take care of your health, even when the budget is tight. This will allow you to get back to work, and do what you like doing in the best of health.

### 7. Save for other goals

It can be difficult to think about the future when focusing on the management of day-to-day needs. Without access to an employer-sponsored pension plan, you will need to consider retirement savings to complement any government pensions. Regular contributions to a Registered Retirement Savings Plans and/or Tax-Free Savings Account can be automated to develop consistent saving habits, but may need to be adjusted as your monthly income fluctuates. Therefore, plan to assess finances and adjust these savings plans on a quarterly or semi-annual basis.

### 8. Protect against risks

Your greatest asset is your ability to work and earn an income; you don't have the luxury of an employer-provided disability benefit

as a Gig worker, so it's your responsibility to protect your earning potential with a private disability insurance plan. As a self-employed professional who provides services, you may also want to consider liability insurance. If you're a member of a professional association, you should review their insurance offerings as they may offer insurance at a discounted price or with added benefits for members.

### 9. Pay off debt – and avoid debt if possible

It's easy to incur debt when income is low. If you must take on debt, make sure to include debt payments in your budget, and consider creditor insurance should you become unable to meet your debt obligations.

#### Tax considerations

If you provide goods or services through any platform, it is important that you are aware of your tax obligations, both for income tax and goods and services tax/harmonized sales tax ("GST/HST").

An important tax consideration is whether or not you are considered an employee or a self-employed contractor. Employment status directly affects entitlement to employment insurance ("EI") benefits and can have an impact on how a worker is treated under other legislation, such as the Canada Pension Plan ("CPP") and the Income Tax Act. Facts related to the working relationship as a whole determine the employment status.

In an employer-employee relationship, employers are responsible for deducting CPP contributions, EI premiums, and income tax from remuneration or other amounts they pay to their employees. On the other hand, if you are self-employed, you are required to pay tax on income earned from taxable activities when filing your income tax return, as taxes are not withheld from your pay. Depending on the amount of taxes owed at the end of the year, you may be required to remit income tax instalments in future years. In addition, as a self-employed individual, you pay both the employer and employee portions of CPP contributions – or the Quebec Pension Plan ("QPP") if you are a resident of Quebec. Being self-employed may also entitle you to deduct certain expenses you incurred in generating your income, but could introduce GST/HST reporting and remittance requirements.

#### Estate considerations

Whether you are a young millennial struggling to get work experience under your belt, or a boomer trying to earn some extra income to supplement retirement savings, estate planning remains important for the Gig worker and should not be brushed aside as irrelevant while you focus on your more immediate concerns or situation.

A proper estate plan (which should always include a Will and powers of attorney) takes the burden off your family in deciding what needs

to be done and decisions to be made after you are gone. This can be a huge relief to your family who will be grieving your loss. Other benefits include the following:

- Having a Will in place allows you to decide who will be in charge of your affairs when you are gone, including who will administer your assets, make your funeral arrangements, and act as guardian for your minor children, if any. Similarly, powers of attorney allow you to entrust the people you want to make decisions for you if you lose capacity to manage your own financial or personal care matters.
- You should have a say in how your assets will be dispersed. Without a Will, any assets that you own at death will be distributed to the beneficiaries determined by legislation, which may not coincide with your wishes. No matter the value of your assets, you should ensure they go to the beneficiary(ies) of your choice.
- Finally, access to digital rights is quickly becoming a critical part of everyone’s estate plans, but may be particularly important if you are managing your Gig work and/or earnings on an online platform, or simply want to ensure your online accounts are accessible to your loved ones.

**Seek advice**

The Gig economy is growing and shows no signs of going away, especially in the current economic environment. While unemployment or underemployment can prompt feelings of uncertainty and insecurity, there are actions you can take to alleviate these concerns. Implementing the tips and suggestions provided can help overcome some of these challenges and lead to successfully managing finances and securing confidence in your future. Remember, you’re not alone facing these challenges. A BMO financial professional can provide advice and guidance to help manage your finances and plan for your financial wellness in the future.



**For more information, speak with your BMO financial professional.**



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