

W-2 vs. 1099

Moderate · 20 min · Free

On a W-2 you're an employee: taxes come out of every check and your employer pays half of Social Security and Medicare. On a 1099 you're self-employed: nothing comes out, you owe 15.3% self-employment tax on top of income tax, and you may need to pay four times a year.

YOU'LL NEED

- ☐ Your offer letter or contract
- ☐ A separate savings account for tax money if you're paid on a 1099
- ☐ Records of what you earn and spend for the work

WHAT TO KNOW

- 1 **Know what each form means.** An employer generally withholds income tax, Social Security and Medicare from an employee's wages, pays a matching share, and pays unemployment tax. For an independent contractor, a business generally withholds nothing.
- 2 **Know the self-employment tax.** It's 15.3%: 12.4% for Social Security and 2.9% for Medicare. You can deduct the employer-equivalent half when you figure your adjusted gross income.
- 3 **Know when you must file.** If you have \$400 or more in net earnings from self-employment, including gig work and side jobs, you must file a tax return.
- 4 **Set money aside from every payment.** Nobody is withholding for you. A separate savings account for tax money keeps it from getting spent. If you expect to owe \$1,000 or more when you file, you generally have to make estimated payments.
- 5 **Put the estimated tax dates on your calendar: April 15, June 15, September 15 and January 15 of the next year.** For example, 2026's last payment is due January 15, 2027.
- 6 **Report all of it.** You must report all your gig income, even if no business sends you a 1099. Payment apps and online marketplaces send a Form 1099-K when payments for goods or services top \$20,000 in more than 200 transactions, but you must report the income either way.
- 7 **Keep records.** Track the money you receive and your expenses; records help you deduct expenses and fill out your return.

Watch out Being called a contractor doesn't make you one. If a business controls how and when you do the work like an employee, ask about it. Either the business or the worker can file Form SS-8 to ask the IRS to decide.

DAD NOTE *The first 1099 check feels like a raise because nothing came out. It isn't. Move a chunk to savings the day it lands, before you get used to it.*

Full lesson: aptkeys.com/money/taxes-for-regular-people/w-2-vs-1099/

Checked October 3, 2026. Sources: Internal Revenue Service.