

Paychecks and taxes

A simple tax plan for contractors and gig workers

When no one withholds taxes for you, a few habits do the job: set money aside from every payment, pay four times a year and keep business money separate.

7-minute read • Updated October 2026 • Checked against its sources



The short version

- ✓ On a 1099, no one withholds tax for you. You may owe income tax, and once your net earnings reach \$400, you owe self-employment tax at a rate of 15.3%.
- ✓ Set aside part of every payment in a separate account. Kieren Reilly, a CFP® professional, suggests 25% to 30% as a starting rule of thumb.
- ✓ Pay estimated tax four times a year, generally by April 15, June 15, September 15 and January 15, and keep simple records every week.

Rather talk it through?

A volunteer financial adviser can help with your situation, one-on-one, for free.



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From a nonprofit. Every volunteer adviser is a fiduciary, which means they must put your interests first. We never sell your information.

1

Why taxes feel harder on a 1099

When you work for an employer and get a W-2, your employer takes taxes out of every paycheck. When you're paid as a contractor, usually on a Form 1099, nothing is taken out. As Kieren Reilly, a CFP® professional who volunteers with Advisers Give Back, puts it, the tax burden falls on you. ¹

The tax still has to be paid as you go. The IRS says taxes must be paid as you earn income during the year, through withholding or estimated tax payments. If you're in business for yourself, you generally need to make estimated payments. ²

Uneven income makes this harder. In a 2025 Federal Reserve survey, self-employed adults were about twice as likely as people who worked for someone else to say their income changed from month to month. ³

Self-employed people are about twice as likely to have income that swings month to month

Adults whose income varied from month to month, by how they worked, 2025



"Worked for someone else" means in the month before the survey, which was fielded in October 2025.

Source: Federal Reserve Board, Economic Well-Being of U.S. Households in 2025 (May 2026)

And 22% of self-employed adults had trouble paying bills because their income varied, compared with 10% of those who worked for someone else. ³ A simple system lets you set money aside in good months, so a tax bill doesn't land in a lean one.

2

What you owe, and on what

As a contractor, you're taxed on your profit: what you were paid, minus what it cost you to do the work. ¹ You report both on Schedule C of your tax return, and you figure self-employment tax on Schedule SE. ⁴

On that profit, you may owe income tax, and state income tax if your state has one, depending on your total income and deductions. You also owe self-employment tax, which is Social Security and Medicare for people who work for themselves. ⁸

15.3%

is the self-employment tax rate: 12.4% for Social Security and 2.9% for Medicare

You can deduct the employer-equivalent half of it when you figure your adjusted gross income.

Source: Internal Revenue Service, Self-employment tax (Social Security and Medicare taxes) (Updated June 27, 2026)

Employees pay these taxes too, but they split them with their employer, 7.65% each. ⁹ When you work for yourself, you pay both halves. The IRS softens this a little: you can deduct the employer's half when you figure your income tax. ⁸

Two rules catch people off guard:

- **Small amounts count.** Once your net earnings from self-employment reach \$400 in a year, you must file a return and pay self-employment tax, even if it's from a side job.^{8 4}
- **All income counts.** You must report all of your income, even if no one sends you a 1099 for it.⁴ That includes money paid in cash.⁵ You may not get a form at all. For payments in 2026, a business generally has to send you a Form 1099-NEC only if it paid you \$2,000 or more.⁶ A payment app or online marketplace generally sends a Form 1099-K only if it paid you more than \$20,000, in more than 200 payments, during the year.⁷

The good news is that business costs lower your profit. To count, an expense must be both ordinary and necessary: common in your line of work, and helpful and appropriate for it.¹⁰ Kieren's examples include a laptop or software you need for the job, a business cell phone, professional services and the business use of your car.¹

For a car, you generally deduct either your actual costs, like gas and repairs, or the IRS standard mileage rate, but not both.^{10 12} To use the standard rate for a car you own, you must choose it in the first year the car is available for your business.¹² For business miles driven from July 1 through December 31, 2026, the rate is 76 cents a mile. Earlier in 2026, it was 72.5 cents.¹¹ One kind of driving never counts: trips between your home and your main or regular place of work. That's commuting, and it isn't deductible.¹²

3

The set-aside habit

The simplest fix, Kieren says, is a set-aside rule: a regular habit of moving a set percentage of your income into a separate account that's only for taxes. Then the money isn't sitting in the account you buy groceries from.¹ Doing it each time you're paid makes it hard to forget.

How much? As a starting rule of thumb, Kieren suggests 25% to 30% of what you earn, toward the higher side of that range in a higher-tax state like California or New York. If you earn a lot, you may want to be closer to 35% or even 40%.¹ It's a starting point, not a formula. Your own number depends on your profit, your state and your other income.



Watch · 1:49

The set-aside rule for 1099 income

For 1099 and gig income: set aside 25–30% of your income every month in a separate tax-only account, so tax money never mixes with grocery money. Go higher in high-tax states or at higher incomes.

Kieren Reilly, a volunteer CFP® professional

Scan the code to watch it, or go to advisersgiveback.org/resources/contractor-taxes/



Try your own numbers. The calculator shows how much of a payment to set aside, and what's left for you.



Set aside for taxes, every payment

Worked example

Scan the code to try your own numbers, or go to advisersgiveback.org/resources/contractor-taxes/

A payment you received **\$1,000** Share to set aside: **25%**

25%

75%

\$250

to your tax-only account

\$750

yours to spend and save



After your first year, look at your return. Compare the tax you owed with the profit on your Schedule C, and use that to fine-tune your percentage. ¹



Try it this week

Open a separate savings account and name it “Taxes.” The next time you’re paid, move your set-aside percentage into it the same day. If your bank lets you, set up an automatic transfer.

4

Pay four times a year

Estimated tax payments are how you pay as you go when nothing is withheld. Individuals generally have to make them if they expect to owe \$1,000 or more when they file. ² The year is split into four payment periods, each with its own due date: ¹³

1

April 15.

For income from January 1 through March 31.

2**June 15.**

For April 1 through May 31.

3**September 15.**

For June 1 through August 31.

4**January 15 of the next year.**

For September 1 through December 31.

The periods aren't equal, so don't count on "quarterly" to tell you the dates. When a due date falls on a weekend or a legal holiday, you can pay on the next business day.¹³ If you'd rather pay monthly, or with each job, you can, as long as you've paid in enough by each due date.^{2 13}

You can pay online, by phone, by mail with Form 1040-ES, or through your IRS Online Account, where you can also see your payment history.² If you mail a payment, send it a few days early. The postmark date counts as the day you paid, and it may be later than the day you drop it in the mail.¹³

If your state has an income tax, check whether it wants estimated payments too, and when. State schedules can differ. California, for example, asks for 30% of the year's required estimated tax in April, 40% in June, nothing in September and 30% in January.¹⁴

**How to avoid an underpayment penalty**

You may owe a penalty if you pay too little or pay late, even if you get a refund when you file. Most people avoid it if they owe less than \$1,000 after withholding and credits. They also avoid it if they paid at least 90% of the current year's tax, or 100% of the prior year's tax, whichever is smaller. Some higher earners have special rules. And if your income comes in unevenly, you may be able to lower or avoid the penalty by annualizing your income and making unequal payments, using Form 2210.² A tax professional can help with that.

Also have a job with a W-2? You may be able to skip estimated payments on your side income by having more tax withheld from your paycheck instead. Use the IRS Tax Withholding Estimator, then give your employer a new Form W-4.⁴

5**Keep business money separate**

The biggest mistake Kieren sees self-employed people make is mixing business and personal money. The fix is to open a separate checking account for your business, and to get a separate card if you have a lot of business costs.¹ The IRS says the same: open a

business checking account when you start, and keep it separate from your personal account.¹⁰

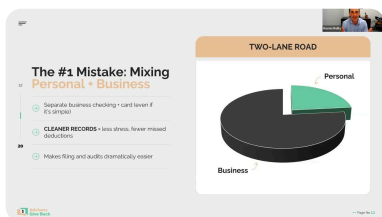
Watch · 1:31

Keep business and personal money apart

Keep business money separate: a business checking account and card (a sole proprietor can open one with a Social Security number; a bank will often ask an LLC for an EIN). Filing gets easier and records stay clean.

Kieren Reilly, a volunteer CFP® professional

Scan the code to watch it, or go to advisersgiveback.org/resources/contractor-taxes/



With separate accounts, your statements show your business income and costs in one place, and they become the backbone of your records.¹⁰ Kieren suggests opening the account as soon as you start spending money on the work, even before the first payment comes in.¹

6

A little record keeping every week

Good records can lower your tax bill and your stress. As the IRS points out, you may forget expenses at tax time unless you record them when they happen.¹⁰ Kieren suggests a short check-in once a week, while the week is still fresh in your mind:¹

- What came in, and from whom.
- What went out, with a receipt or a photo of one, and a note on anything unusual.
- Your miles, if you drive for work, logged as you go.
- Whether you moved your set-aside into your tax account.
- If a due date is near, how much to send for your estimated payment.

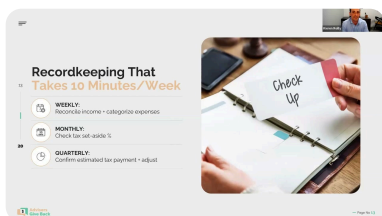
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Ten minutes a week for your records

A weekly 10-minute money check-in: log income and expenses, confirm the tax set-aside, and when an estimated payment is due, work out and send it while the details are fresh.

Kieren Reilly, a volunteer CFP® professional

Scan the code to watch it, or go to advisersgiveback.org/resources/contractor-taxes/



At the end of the year, check your bank records against your 1099s and any platform reports, and gather it all in one tax folder.¹ In most cases, keep your tax records for at least three years. Some need to be kept longer, like records for a car or equipment you

use in the business.¹⁵ Our guide to [getting ready for tax time](#) has a checklist.

Online: advisersgiveback.org/resources/tax-season-starts-now/

For anything in a gray area, like a home office, a phone or internet plan you also use personally, or unusual car costs, Kieren recommends asking a tax professional.¹

When no one withholds taxes for you, a simple system does the job: a set percentage put aside, four payments a year, and records you keep as you go.

Kieren walks through all of this in the workshop [The Contractor Tax Playbook](#). And if you'd like help building a system that fits your work, a volunteer adviser can go through it with you, one-on-one and for free.

Online: advisersgiveback.org/resources/workshops/the-contractor-tax-playbook/

Questions to bring to your adviser

A volunteer adviser is ready when you are.

A volunteer adviser can look at your numbers with you and help you decide what to do first.

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