

There are two common types of forms to report income from work on your annual federal income taxes. The W-2 form and the 1099 form.

- A W-2 reports your pay as an employee of a business. With a W-2, your employer withholds taxes from your paycheck, and sends copies of your W-2 to both the IRS and you.
- A 1099 reports your pay as an independent contractor. If someone gives you a 1099 instead of a W-2, they have NOT withheld taxes from your pay. YOU are responsible for withholding and paying any taxes you may owe on that income

Independent Contractors are considered self-employed and so are subject to Self-Employment Taxes. This tax rate in most cases (as of 2023) is 15.3%. If you do not withhold any taxes as an independent contractor, then you may find you still owe an entire year's worth of income taxes, come Tax Day!

Am I An Independent Contractor?

- According to the IRS, "The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done."
- Construction Contractors are one example. If you are hired to build part of a house, but the person who hired you doesn't control the specific construction methods, you are probably an independent contractor. Many gig economy jobs, such as rideshare drivers, may be independent contractor jobs.
- Keep in mind that an independent contractor might have employees of their own who are not themselves independent contractors.
- If you aren't sure how you are classified, ask your employer if they are going to issue you W2s or a 1099.
- If someone sends you a 1099 and there is an error on it, get in contact with them right away. They may be able to correct the form before they send it to the IRS. You can contest incorrect income information, but it is much better not to having to in the first place.

When to Pay?

- Taxes must be paid as you earn or receive income during the year, either through withholding or estimated tax payments. If you do not receive a W-2 and your employer does not withhold taxes as you are paid, then you will likely be required to make **Estimated Tax Payments** periodically throughout the year or pay penalties.
- **Estimated Tax Payments** are payments you calculate yourself, and pay to cover a portion of your expected tax bill for the year. They can be paid in multiple different ways; Read IRS Publication 505 (2023), Tax Withholding and Estimated Tax, for specific instructions.