

Own the 1099 Dollar

Self-Employment Tax, Schedule C, and Quarterlies - the 2026 Owner's Edition

"Same dollar earned. Different rules. Different rows."



A PREMIUM LESSON · CHARTS · REAL EXAMPLES · ACTION STEPS · GLOSSARY

- ▶ Explain why the same dollar lives under two rulebooks - W-2 withholding versus 1099 self-employment - and what disappears when no one withholds for you.
- ▶ Compute 2026 self-employment tax: 15.3% on 92.35% of net earnings, with the Social Security portion capped at the \$184,500 wage base, then claim the half-SE-tax deduction.
- ▶ Build a Schedule C that captures every ordinary and necessary expense, including the 2026 split-year mileage rates (72.5 cents, then 76 cents) and the exclusive-and-regular home-office tests.
- ▶ Set up 2026 quarterly estimated payments around the four IRS due dates and the 90% / 100% / 110% safe harbor, funded by a 30-cent-per-dollar sweep.
- ▶ Apply the owner's stack: the now-permanent 20% QBI deduction under 2026 rules, self-employed retirement limits, and the new 2026 information-reporting thresholds.

Two Rulebooks for the Same Dollar

The episode opens on the gap nobody warns you about. A W-2 dollar arrives pre-processed: before it reaches your account, payroll has already sliced off federal income tax, state tax, Social Security, and Medicare, and sent each slice where it belongs. A 1099 dollar arrives whole. The client pays the invoice, the full amount lands, and it feels like a raise. It is not. You are now holding the slices the payroll wall would have cut - plus one extra slice that used to be your employer's problem.

When you earn self-employment income, there is no employer, so there is no withholding department. You are the worker, the bookkeeper, the payroll clerk, and the tax sender - four jobs in one person. The IRS wrote a different rulebook for that person: Schedule C to report the business, Schedule SE to compute the self-employment tax, and Form 1040-ES to send money in during the year. None of it is optional once net self-employment earnings reach \$400.

This is also where the founder's ledger starts. Professional 1099 income, a consulting practice, a trade business, rental operations that rise to a trade or business - they all begin with the same discipline: know what the whole dollar owes before you spend it. In the video, a first-year tutor learns this with a four-hundred-dollar-scale shock in April. The adult version of that shock has more zeros, so the adult version of the fix has to be systematic.

THE \$10,000 SIDE CONTRACT - WHAT THE WHOLE DOLLAR OWES (ILLUSTRATIVE)

A single consultant in the 22% federal bracket lands a \$10,000 side contract with no expenses. No one withholds anything. Here is the approximate 2026 math on that stand-alone gig.

Contract revenue (1099 income)	\$10,000
Self-employment tax (15.3% x 92.35% x \$10,000)	\$1,413
Deduction for half of SE tax	-\$707
QBI deduction (20% of \$9,293)	-\$1,859
Federal income tax (22% x \$7,434)	\$1,635

The 15.3% You Now Own: Self-Employment Tax

FICA never went away when you left payroll - it doubled. A W-2 employee pays 7.65% (6.2% Social Security plus 1.45% Medicare) and the employer silently matches it. Self-employed, you are both parties, so you pay both halves: 12.4% Social Security plus 2.9% Medicare equals 15.3%. That is the silent gap that makes a freelance dollar cost more than the identical W-2 dollar, and it applies from very low income levels - long before income tax becomes the bigger line.

Two mechanics soften it. First, SE tax is not charged on 100% of net profit; Schedule SE multiplies net earnings by 92.35% first, mirroring the employer-half exclusion W-2 workers get. Second, half of the SE tax you pay is deductible above the line on Schedule 1 - it reduces adjusted gross income whether or not you itemize. Softened is not erased: on six-figure net profit, SE tax is usually the largest single federal line an owner pays.

Know the caps and the surcharge. For 2026, the 12.4% Social Security portion stops at the \$184,500 wage base - a maximum Social Security piece of about \$22,878 for a fully self-employed earner. The 2.9% Medicare portion never stops, and an Additional Medicare Tax of 0.9% applies once wages plus self-employment income pass \$200,000 (single) or \$250,000 (married filing jointly). High-earning professionals with W-2 salary and 1099 income stack toward the same caps and thresholds.

SE TAX ON \$100,000 OF NET PROFIT (2026)

A consultant's Schedule C shows \$100,000 of net profit, all below the Social Security wage base. Schedule SE runs the math in three lines.

Net profit from Schedule C	\$100,000
SE tax base (x 92.35%)	\$92,350
Social Security portion (12.4%)	\$11,451
Medicare portion (2.9%)	\$2,678
Total self-employment tax	\$14,130
Above-the-line deduction (half of SE tax)	-\$7,065

→ About \$14,130 leaves before federal income tax even enters the conversation - and \$7,065 of it comes back as a deduction, not as cash. Budget SE tax as its own bill, separate from income tax.

★ 2026 anchors: the Social Security wage base is \$184,500 (up from \$176,100 in 2025), the SE rate is 15.3% on 92.35% of net earnings, and the 0.9% Additional Medicare Tax starts at \$200,000 single / \$250,000 MFJ (SSA; IRS Topics 554 and 560).

Schedule C: You Are Taxed on Profit, Not Revenue

Schedule C is a one-page business ledger: revenue at the top, expenses below, net profit at the bottom - and only the bottom line is taxed. Every legitimate cost you fail to record is a voluntary tax increase at your combined marginal rate plus 15.3%. The IRS standard for what counts is two words: ordinary (common in your line of work) and necessary (helpful and appropriate for the business). Software, professional insurance, contract labor, supplies, advertising, business meals within the rules, education that maintains your skills - real costs, really deductible.

Vehicles are the most under-logged deduction in small business, and 2026 is a split year: the standard business mileage rate is 72.5 cents per mile for January 1 through June 30, and 76 cents per mile for July 1 through December 31 (the IRS raised it mid-year for fuel costs). The rate is generous, but it is a log-or-lose deduction - date, destination, business purpose, miles. Ten seconds in a notes app after each trip survives an audit; a year-end guess

Quarterlies and the Safe Harbor

The U.S. tax system is pay-as-you-go. Employees comply automatically through withholding; owners comply on purpose through estimated payments. For 2026 income the four due dates are April 15, June 15, and September 15, 2026, and January 15, 2027. Miss them and the IRS charges an underpayment penalty under Section 6654 - computed like interest, quarter by quarter, even if you pay in full the following April.

The safe harbor is the friendliest rule owners have never read. No penalty applies if your timely payments reach 90% of this year's tax, or 100% of last year's total tax - 110% if last year's adjusted gross income topped \$150,000. For lumpy founder income, the prior-year harbor is the planning anchor: take last year's total tax, apply 100% or 110%, divide by four, automate it, and reconcile the true bill at filing.

The cash-flow fix from the episode scales up without modification: the sweep. Every time client money lands, move a fixed share - about 30 cents per dollar of profit for most single-state professionals - into a separate tax-only account before anything else is spent. The quarterly deadline stops being a scramble because the money was never in the spending account to begin with. April becomes arithmetic, not archaeology.

ONE YEAR OF QUARTERLIES ON \$100,000 OF NET PROFIT (SINGLE FILER, 2026, ILLUSTRATIVE)

Using this book's running example, total federal tax lands near \$22,365 (SE tax plus income tax after the stack in Section 5). Here is the estimated-payment plan.

Projected total federal tax	\$22,365
Current-year safe harbor (90%)	\$20,129
Per-quarter payment (90% route)	\$5,033
Round-up habit per quarter (canon: send a little extra)	\$5,100
Sweep rate that funds it (approx. share of profit)	30%

→ Four scheduled transfers of about \$5,100 replace one April emergency of \$22,000. The safe harbor converts an unpredictable penalty into a known, automatable number.

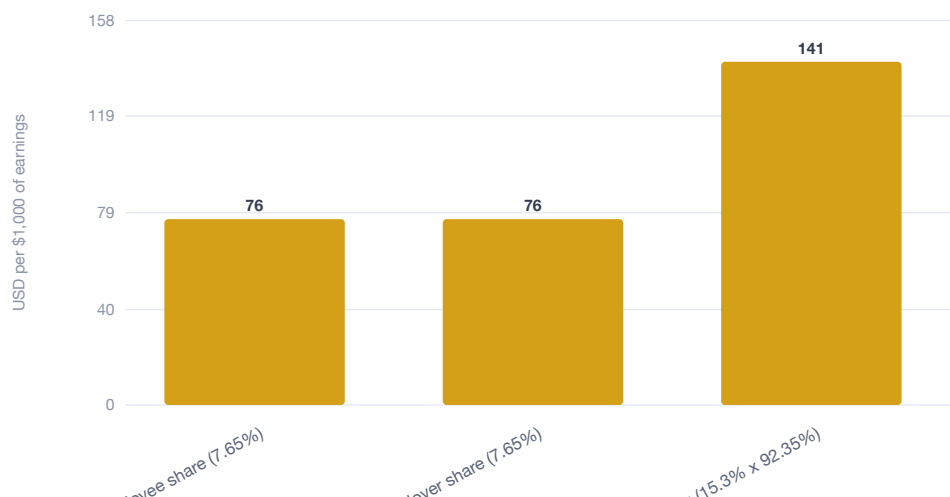
- ✓ Prior year lumpy, this year lumpier? Anchor on 100% (or 110% above \$150,000 AGI) of last year's tax - it is a fixed number you already know in January - then true-up at filing (IRS Pub 505; Form 2210).

The Owner's Stack: QBI, Retirement, and the 2026 Reporting Reset

The QBI deduction is the sleeper benefit of pass-through ownership - sole proprietors, LLCs, S corporation shareholders, and many rental enterprises. It lops 20% off qualified business income before federal income tax is computed, and the One Big Beautiful Bill Act (P.L. 119-21) made it permanent. For 2026, the specified-service and wage-limit guardrails begin near \$201,750 of taxable income (single) / \$403,500 (joint), with widened \$75,000 / \$150,000 phase-in ranges, and a new floor: at least \$1,000 of active QBI guarantees a minimum \$400 deduction. The deduction is capped at 20% of taxable income minus net capital gain, so the standard deduction interacts with it - run the order of operations before you count the savings.

Retirement accounts are where owner tax planning compounds. For 2026, a solo 401(k) takes up to \$24,500 of employee deferral (\$8,000 catch-up at 50-plus) plus an employer profit-sharing layer, up to a combined defined-contribution cap of \$72,000; a SEP-IRA reaches the same \$72,000 ceiling on employer contributions alone. Every

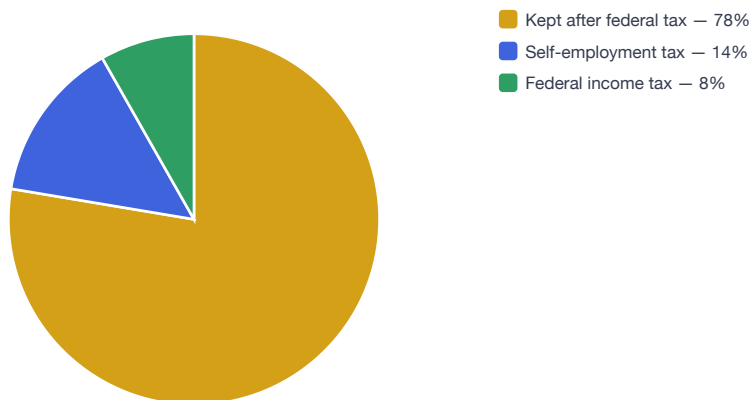
Payroll Tax on the Same \$1,000: W-2 vs. Self-Employed (2026)



An employee sees only the \$76.50 employee share; the employer quietly pays the match. A self-employed owner pays both halves in one line - \$141.30 per \$1,000 after the 92.35% adjustment - before any income tax.

Source: About Schedule SE (Form 1040); Topic No. 751 and 554 · Internal Revenue Service (2026) · <https://www.irs.gov/forms-pubs/about-schedule-se-form-1040>

Where \$100,000 of Net 1099 Profit Goes (Single Filer, 2026, Illustrative)



Illustrative single filer, standard deduction, QBI applied, no state tax shown. SE tax (\$14,130) outweighs federal income tax (\$8,235) - the reverse of most W-2 intuition. State tax would carve a further slice.

Source: IRS tax year 2026 inflation adjustments (IR-2025-103; Rev. Proc. 2025-32), computation per Schedule SE · Internal Revenue Service (2025) · <https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2026-including-amendments-from-the-one-big-beautiful-bill>

STORY BREAK

The Whole Dollar

DANA

Ten thousand dollars - my first big consulting contract!

Warm family kitchen in the evening. Dana, a woman in her mid-30s in a blazer, holds up her phone triumphantly while Marcus, her husband in a rolled-sleeve dress shirt, looks up from chopping vegetables at the counter.

MARCUS

Congratulations. So who handles your withholding?

1. The contract lands - and the whole amount hits the account.

DANA

Nobody withheld anything. I owe both halves now?

Small home office at night. Dana sits at a desk lit by a lamp, calculator in hand, shoulders slumped, while Marcus leans in the doorway holding two mugs.

MARCUS

Fifteen point three percent. That is the owner's share.

2. No employer means no employer half - both slices are hers now.

DANA

Thirty cents of every dollar sweeps here first.

Kitchen table in morning light. Dana slides a short stack of bills into a glass jar while a second jar sits beside her laptop; Marcus nods approvingly with coffee in hand.

MARCUS

Future you already paid April.

3. The sweep: a fixed share of every deposit moves before it can be spent.

MARCUS

Four dates a year. No April panic.

Same kitchen, evening. Dana stands relaxed beside a wall planner with four days circled in red marker - circles only, no readable writing - while Marcus raises his mug in a toast.

DANA

The quarterly is just a habit now.

4. Four scheduled payments replace one April emergency.

The Thirty-Cent Sweep: Build Your Owner's Tax System in One Sitting

Time: 45 minutes · You need: Bank app or website (ability to open a second checking or savings account) · Last year's completed tax return (Form 1040) · Phone calendar and notes app · Calculator · This book's quarterly dates and safe-harbor table

1. Open (or relabel) a separate account used only for taxes. Name it so you cannot mistake it - 'IRS - do not touch' works.
2. Set the sweep rule: every time business income lands, immediately move about 30% of it into the tax account.
Automate the transfer if your bank allows rules.
3. Put all four estimated-tax dates in your calendar with one-week warnings: April 15, June 15, September 15, 2026, and January 15, 2027.
4. Compute your safe-harbor installment: last year's total tax x 100% (or x 110% if AGI was over \$150,000), divided by 4.
Write that number on each calendar entry.
5. Create a mileage log template in your notes app - date, destination, business purpose, miles - and log your next business trip to lock the habit.
6. Photograph this month's business receipts into a single folder and set a monthly 15-minute recurring reminder to keep it current.

Check yourself

- ☐ **Why does a self-employed consultant pay 15.3% in Social Security and Medicare tax when a W-2 employee sees only 7.65% withheld?**

Employees pay half of FICA and the employer pays the matching half. A self-employed person is both employer and employee, so Schedule SE charges both halves - 12.4% Social Security plus 2.9% Medicare - applied to 92.35% of net earnings, with half of the result deductible above the line.

- ☐ **Your business collected \$120,000 but spent \$20,000 on ordinary and necessary costs. What number does the IRS tax?**

Net profit - \$100,000. Schedule C taxes revenue minus deductible expenses, never gross receipts. Every documented business cost reduces both income tax and self-employment tax.

- ☐ **Name the four due dates for 2026 estimated taxes and one safe-harbor formula that avoids the underpayment penalty.**

April 15, June 15, September 15, 2026, and January 15, 2027. Pay 90% of the current year's tax, or 100% of last year's tax (110% if last year's AGI exceeded \$150,000), spread across timely installments, and no Section 6654 penalty applies.

- ☐ **In 2026 a client pays you \$1,500 and sends no 1099-NEC. Is the income taxable?**

Yes. The 2026 form threshold rose to \$2,000, so no form is required - but reporting thresholds do not set taxability. If total net self-employment earnings are \$400 or more, the income is reportable and SE tax applies.

WORDS TO KNOW

Self-employment (SE) tax

The 15.3% Social Security (12.4%) plus Medicare (2.9%) tax owed by people who work for themselves - both the employee and employer halves - computed on Schedule SE.

Net profit

Business revenue minus deductible business expenses on Schedule C. The only business number income tax and SE tax are computed on.

Schedule C

The Form 1040 attachment where a sole proprietor or single-member LLC reports business income and expenses - money in, money out, profit at the bottom.

Schedule SE

The Form 1040 attachment that computes self-employment tax on 92.35% of net earnings and awards the half-SE-tax deduction.

Form 1099-NEC

The information form a client files when it pays a non-employee at or above the threshold - \$2,000 for payments in 2026 (indexed after 2026). A receipt the IRS also gets, not a bill.

Form 1099-K

The information form payment platforms file for business payments over \$20,000 AND more than 200 transactions - the pre-2021 threshold restored by the 2025 tax law.

Estimated tax (quarterlies)

Pay-as-you-go installments self-employed people send with Form 1040-ES four times a year because no employer withholds for them.

Safe harbor

The rule that waives the underpayment penalty if timely payments hit 90% of this year's tax or 100% of last year's (110% when prior-year AGI tops \$150,000).

Above-the-line deduction

A deduction subtracted before adjusted gross income - like half of SE tax - available whether or not you itemize.

QBI deduction (Section 199A)

The now-permanent deduction of up to 20% of qualified pass-through business income, with 2026 guardrails starting near \$201,750 single / \$403,500 joint and a \$400 minimum for active businesses with \$1,000+ of QBI.

Ordinary and necessary

The two-part IRS test for deductible business expenses: common in your trade, and helpful and appropriate for the business.

Social Security wage base

The annual earnings cap for the 12.4% Social Security portion - \$184,500 in 2026. Medicare's 2.9% has no cap.

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