Unit 5 · Weeks 5-6

Taxes

Understanding your civic and financial obligation

LESSON 5.1

What are taxes?

LEARNING OBJECTIVES

- Identify the three levels of US taxation
- Explain what taxes fund
- Distinguish progressive from regressive tax systems
- Form an evidence-based opinion on the role of taxes

READ THIS FIRST

Taxes are not optional, and they are not a punishment. They are the mechanism by which a society funds shared infrastructure — roads, schools, fire departments, the military, Medicare, Social Security, national parks, and public health systems. Whether you agree with how every tax dollar is spent is a legitimate political question. What you owe legally is not. Understanding the tax system isn't about politics — it's about making sure you don't overpay, don't underpay, and don't get surprised by a bill you didn't see coming.

There are several different types of taxes, and most Americans pay multiple kinds simultaneously. **Income tax** is charged on money you earn — wages, salaries, freelance income, investment gains. The federal government charges income tax, and most states do too. **Payroll taxes** (FICA) are charged specifically on wages to fund Social Security and Medicare — separate from income tax and taken out before you even see your paycheck. **Sales tax** is charged when you buy things — added at the register, currently ranging from 0% in states like Oregon and Montana to nearly 10% in some parts of Tennessee and Louisiana. **Property tax** is charged on real estate you own, typically collected annually and based on the assessed value of the property. Each type of tax funds different government functions and is administered by different agencies.

The federal income tax system in the United States is **progressive** — meaning higher income is taxed at higher rates. The tax code is divided into brackets, and each bracket's rate applies only to the income within that range, not to all your income. This is one of the most misunderstood aspects of the entire tax system. If you earn $50,000 as a single filer, you do not pay 22% on all $50,000. You pay 10% on the first bracket, 12% on the next, and 22% only on the portion that falls in the 22% bracket. Your **marginal**

tax rate is the rate on your last dollar of income. Your **effective tax rate** is your actual total tax as a percentage of your total income — always lower than your marginal rate.

Sales tax is considered a **regressive tax** — meaning it takes a higher percentage of income from lower-income people than from higher-income people. If a household earning $25,000 and a household earning $250,000 both spend $5,000 on taxable goods, they pay the same sales tax in dollars. But $500 in sales tax is 2% of the first household's income and 0.2% of the second's. The tax burden is mathematically heavier for lower-income families, even though the dollar amount is the same. This is one of the central arguments in debates about tax policy.

Taxes are collected primarily by three agencies. The **IRS (Internal Revenue Service)** administers the federal income tax. Your state's Department of Revenue or Department of Taxation handles state income tax. Local governments — cities and counties — typically handle property tax. Each agency has its own forms, deadlines, and rules. The federal filing deadline is April 15 each year. Most states align with this date, though some differ.

There's an important distinction between **tax avoidance** and **tax evasion**. Tax avoidance is legal — it means using every legitimate deduction, credit, and strategy available to reduce your tax bill. Tax evasion is illegal — it means lying about income, hiding money, or failing to file. The IRS expects you to use every legal tool to minimize your taxes. They do not expect you to pay more than you legally owe. Understanding the system is how you avoid overpaying.

> **Taxes in your daily life:** *Next time you buy something, look at the receipt. There's likely a sales tax line. Look at a pay stub — there are income tax and FICA lines. If you own anything of value someday — a car, a house — there are registration fees and property taxes. Taxes are not something that happen once a year in April. They happen with almost every financial transaction you make. Understanding how they work is part of understanding how money works.*

KEY VOCABULARY

Term	Definition
Progressive tax	A tax system where higher income is taxed at higher rates — but only the portion within each bracket, not all income
Marginal tax rate	The rate applied to your next dollar of income — the top bracket you fall into, NOT the rate on all your income
Effective tax rate	Your actual total tax paid divided by your total income — always lower than your marginal rate
Tax bracket	An income range with a specific tax rate — you may fall into multiple brackets on different portions of your income
Standard deduction	A flat amount subtracted from your income before tax is calculated — $15,000 for single filers in 2025
Taxable income	Your income after subtracting the **standard deduction** — the amount your tax is actually calculated on
W-2 form	A form your employer sends showing your annual wages and the taxes withheld — needed to file your tax return
W-4 form	A form you complete when starting a job telling your employer how much **federal tax** to withhold from your paycheck

LESSON 5.2

Income tax basics

LEARNING OBJECTIVES

- Explain marginal vs. effective tax rates
- Calculate taxable income after standard deduction
- Determine which bracket a given income falls into
- Describe the purpose of W-4 and W-2 forms

READ THIS FIRST

Every year, the IRS needs to know how much you earned and whether you paid the right amount of tax throughout the year. That process — comparing what you owed to what was already withheld from your paychecks — is called filing a **tax return**. The annual deadline is April 15. If your employer withheld too much throughout the year, you get a **refund**. If they withheld too little, you owe the difference. Either way, filing is required if your income exceeds certain thresholds — and failing to file on time results in penalties that add up quickly.

The starting point for calculating what you owe is your **gross income** — everything you earned from all sources: wages, tips, freelance income, investment gains, and any other taxable income. From gross income, you subtract **adjustments** (also called "above-the-line deductions") to arrive at your **Adjusted Gross Income (AGI)**. Common adjustments include student loan interest you paid, contributions to a traditional IRA, and certain business expenses. AGI is an important number because many other tax calculations — including eligibility for certain credits — are based on it.

From your AGI, you subtract either the **standard deduction** or your **itemized deductions** — whichever is larger. The standard deduction is a flat amount set by Congress each year. In 2025, it's $15,000 for a single filer, $30,000 for married filing jointly. The standard deduction requires no documentation — you just claim it. Itemized deductions are specific expenses you can deduct if they exceed the standard deduction: mortgage interest, state and local taxes (up to $10,000), charitable donations, and large medical expenses. About 90% of Americans take the standard deduction because it's larger than their itemized total.

After subtracting your deduction, you have your **taxable income** — the number your actual tax bill is calculated from. This gets applied to the **federal tax brackets**. The 2025 brackets for single filers: 10% on income from $0–$11,925, 12% from $11,926–$48,475, 22% from $48,476–$103,350, and higher rates above that. Each bracket's rate applies only to the portion of your income in that range. A $50,000 earner with $35,000 in taxable income (after the standard deduction) pays 10% on the first $11,925 and 12% on the remaining $23,075 — a total of about $3,962, an effective rate of about 7.9%.

The most common form for filing federal taxes is the **Form 1040**. Your employer sends you a **W-2** by late January showing your total wages and all tax **withholding** for the year. Freelancers and contractors receive **1099 forms** from clients who paid them $600 or more. Banks and investment firms send **1099-INT** and **1099-DIV** forms showing interest and dividends earned. All of this income goes on your 1040. Free filing options exist for most people: the IRS Free File program covers filers with income under $84,000, and many states offer free filing tools as well.

A common misconception worth permanently correcting: "Getting a raise will put me in a higher bracket and I'll take home less money." This is **mathematically impossible** under a **progressive tax** system. Only the dollars above the bracket threshold are taxed at the higher rate — not all your income. A raise always increases your take-home pay. The only question is how much of the raise is retained after taxes. More income at a higher marginal rate still means more money in your pocket.

Your first tax return: *If you had a job last year, you need to file. Gather your W-2 (from your employer), any 1099s, and your Social Security number. Use IRS Free File or a free version of TurboTax or H&R Block for simple returns. The process typically takes 30–60 minutes for a first-time filer with a single W-2. Many teens are surprised to receive a refund — because income tax is withheld assuming you work all year, but if you only worked part of the year, you likely overpaid and the IRS owes you money back.*

KEY VOCABULARY

Term	Definition
Tax return	The annual form filed with the IRS reporting your income, deductions, and tax owed — due April 15
Tax refund	Money returned to you when your withholding exceeded your actual **tax liability** — not a bonus, just your own money back
Standard deduction	A flat amount ($15,000 for single filers in 2025) subtracted from income before tax is calculated — no documentation required
Taxable income	Gross income minus the standard deduction (or itemized deductions) — the amount your tax rate is actually applied to
W-2 form	Annual wage and tax statement from your employer showing total earnings and all taxes withheld
1099-NEC	A form issued to freelancers and contractors showing non-employee compensation — no taxes are withheld
Itemized deductions	Specific documented expenses (mortgage interest, charity, medical) that can replace the standard deduction if they add up to more
Filing deadline	April 15 each year — the due date for your federal tax return; extensions are available but do not extend the payment deadline

LESSON 5.3

FICA: Social Security & Medicare

LEARNING OBJECTIVES

- Define FICA and its two components
- Calculate Social Security and Medicare tax on a given income
- Explain what they fund
- Engage with the long-term sustainability debate

READ THIS FIRST

Every paycheck you receive has two mandatory deductions that never change and cannot be avoided: **Social Security** and **Medicare**. Together they're called **FICA** — the Federal Insurance Contributions Act. For W-2 employees, your share is **7.65%** of every dollar you earn: 6.2% for Social Security and 1.45% for Medicare. Your **employer match**es this amount, paying another 7.65% directly to the IRS on your behalf — meaning for every $100 you earn, $15.30 total goes to FICA, split evenly between you and your employer. You only see your half on your pay stub, but the full amount funds the programs.

Social Security does three things: it funds retirement benefits for people 62 and older, disability benefits for workers who become unable to work, and survivor benefits for the families of deceased workers. The 6.2% you pay applies to your wages up to a cap — in 2025, that cap is $176,100. Income above that cap is not subject to Social Security tax. This **wage base limit** is why high earners pay a lower effective Social Security rate than middle-income workers — they stop paying the 6.2% after they hit the cap.

Medicare funds health insurance for Americans 65 and older, as well as certain disabled individuals. The 1.45% Medicare tax applies to all wages with no cap. High earners pay an additional 0.9% Medicare surtax on wages above $200,000 (single filers) or $250,000 (married filing jointly). Unlike **Social Security**, Medicare has no ceiling — every dollar you earn for your entire career is subject to the 1.45% tax.

Here's the math on a real paycheck. You earn $15/hour for 40 hours — $600 gross. Social Security takes $37.20 (6.2%). **Medicare** takes $8.70 (1.45%). Total **FICA**: $45.90 — 7.65% of your $600. Before federal income tax, state income tax, or any other deduction, FICA has already removed $45.90. Your employer sends another $45.90 to the IRS that never appeared on your pay stub at all. This is why your employer's cost of employing you is always higher than your gross pay — FICA employer matching is a real cost on top of your wages.

A question many people ask: will Social Security still exist when I retire? The Social Security trust fund is currently projected to face funding challenges around 2033 without congressional action — at which point incoming **tax revenue** would cover about 79% of promised benefits. This is a legitimate policy concern, but "Social Security will disappear" is an overstatement. The more realistic scenarios involve benefit adjustments, tax increases, or some combination. For your financial planning: don't count on Social Security as your primary retirement income source. Treat any benefits you receive as a supplement to savings you built yourself.

Self-employed people pay both halves of FICA — the employee portion and the employer portion — for a total of **15.3%**. If you babysit, mow lawns, sell on Etsy, or do any freelance work, you are self-employed for tax purposes. There is no employer to split the cost. The IRS does allow self-employed individuals to deduct half of this **self-employment tax** when calculating their income tax — but the full 15.3% still has to be paid. This is one of the most significant financial differences between being an employee and being self-employed, and it's why freelancers need to set aside money for taxes throughout the year rather than waiting until April.

See it on your pay stub: *Find your most recent pay stub (or ask a parent to see theirs). Locate the FICA lines — they may be labeled "Social Security," "OASDI," and "Medicare" or "Med." Calculate your FICA as a percentage of your gross wages. It should be close to 7.65%. Now multiply your gross pay by your employer's matching contribution (also 7.65%) — that's real money being paid on your behalf that never appeared in your gross pay. Your true compensation cost to your employer is your gross pay plus that amount.*

KEY VOCABULARY

Term	Definition
FICA	Federal Insurance Contributions Act — the **payroll tax** funding Social Security (6.2%) and Medicare (1.45%), totaling 7.65% for employees
Social Security	A federal retirement and disability insurance program funded by payroll taxes — benefits calculated from your 35 highest-earning years
Medicare	Federal health insurance for people 65+ and certain disabled individuals, funded by a 1.45% payroll tax with no income cap
Wage base limit	The maximum income subject to Social Security tax — $176,100 in 2025; income above this is exempt from the 6.2% SS portion
Self-employment tax	The 15.3% FICA rate paid by self-employed individuals who must pay both the employee AND employer share
Payroll tax	A mandatory tax withheld from wages to fund specific government programs — FICA is the primary payroll tax for most workers
Tax withholding	Taxes removed from your paycheck before you receive it — submitted to the IRS throughout the year on your behalf
Employer match	The equal FICA contribution your employer pays on your behalf — 7.65% on top of your wages, invisible on your pay stub

LESSON 5.4

Filing your tax return

LEARNING OBJECTIVES

- Identify who must file a federal return
- Gather documents needed to file
- Complete a simplified 1040 with guided practice
- Explain the difference between a credit and a deduction

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Filing a tax return is not optional if you meet the income thresholds — for 2025, roughly $14,600 in earned income for a single filer under 65. Even if you're below the threshold, you should still file if any taxes were withheld from your paychecks, because filing is the only way to get that money back. Most working teenagers and young adults are entitled to a refund — but only if they file. The IRS doesn't automatically send you money you're owed. You have to claim it.

What you'll need to file:

Your **W-2 form** is the most important document — your employer must send it by January 31 for the prior tax year. It shows your total wages (Box 1), federal income tax withheld (Box 2), Social Security wages and tax withheld (Boxes 3–4), and Medicare wages and tax withheld (Boxes 5–6). If you had multiple jobs, you'll have a W-2 from each employer. Freelance or contract income over $600 from any one client comes on a **1099-NEC** form. Bank interest over $10 comes on a **1099-INT**. Gather all these documents before starting your return.

How to actually file:

Most first-time filers with simple situations (one or two W-2s, standard deduction, no investments) can file for free. **IRS Free File** at irs.gov/freefile offers free guided software for filers earning under $84,000. Free File Fillable Forms are available for anyone, regardless of income — more like electronic paper forms for those comfortable with tax basics. Many states offer free filing through their own websites as well. Commercial software like TurboTax and H&R Block offer free federal filing for simple returns (watch for upsells). **VITA (Volunteer Income Tax Assistance)** sites offer free in-person help from IRS-certified volunteers — find locations at irs.gov/vita.

The filing process step by step:

Start with your gross income from all W-2s and 1099s. Subtract any above-the-line deductions (student loan interest, IRA contributions). This gives your Adjusted Gross Income (AGI). Subtract the standard deduction ($15,000 single filer in 2025). This gives taxable income. Apply the tax brackets to calculate tax owed. Subtract any credits you qualify for. Compare to what was already withheld. The difference is your refund (if withheld too much) or balance due (if withheld too little). Free File software does all of this math automatically — you just enter the numbers from your documents.

Common credits first-time filers miss:

The **Earned Income Tax Credit (EITC)** — even workers without children can qualify at lower income levels; a single filer with no children earning under $18,591 (2025) can claim up to $632. The **Saver's Credit** rewards low-to-moderate income workers who contribute to a retirement account — up to 50% of contributions, worth up to $1,000 for single filers. If you paid any student loan interest, deduct up to $2,500. These credits and deductions are built into Free File software — answer the questions honestly and the software finds them for you.

Filing deadlines and what happens if you miss them:

The federal deadline is April 15 (or the next business day if it falls on a weekend or holiday). If you need more time, file Form 4868 by April 15 for an automatic 6-month **extension** to October 15. Important: an extension to file is NOT an extension to pay. If you owe taxes, you must estimate and pay by April 15 even if you file later — or pay interest and penalties on the unpaid amount. If you're getting a refund (most first-time filers are), there's no financial penalty for filing late, though you should still file promptly to claim your refund.

> **Your first tax return checklist:** *Gather all W-2s (arrive by January 31), any 1099s, your Social Security number, and your bank account information for* **direct deposit**. *Go to irs.gov/freefile and select a free option. Follow the guided prompts — the software asks questions; you provide answers and numbers. Review before submitting. E-file for fastest processing (typically 21 days to refund with direct deposit). Save a copy of your return. The whole process takes 30–60 minutes for a simple return. It gets faster every year as you get comfortable with the forms.*

KEY VOCABULARY

Term	Definition
Form 1040	The primary US individual income tax return — the document you file annually to report income and calculate tax owed or refund due
Filing status	Your tax category based on marital and household situation — Single, Married Filing Jointly, Head of Household, etc.
Tax refund	The amount returned to you when your withholding exceeds your actual tax liability for the year
Filing deadline	April 15 — the annual due date for federal income tax returns; extensions are available to file but not to pay
IRS Free File	A free federal tax preparation and filing service for people with income under $79,000, available at IRS.gov
Extension	A 6-month delay on the **filing deadline** (to October 15) — does NOT extend the deadline to pay any taxes owed
Direct deposit	The fastest way to receive a **tax refund** — the IRS deposits directly to your bank account, typically within 21 days
Failure-to-pay penalty	A 0.5% per month penalty charged when taxes owed are not paid by April 15, regardless of whether a filing extension was requested

LESSON 5.5

Deductions & credits

LEARNING OBJECTIVES

- Compare standard vs. itemized deductions
- Identify at least three credits relevant to young workers
- Calculate tax savings from a deduction vs. credit
- Explain income phase-outs

READ THIS FIRST

Tax deductions and **tax credit**s are both ways to legally reduce what you owe the government — but they work completely differently, and the difference matters more than most people realize. A **tax deduction** reduces your **taxable income**. A **tax credit** reduces your **actual tax bill** directly. If you're in the 12% tax bracket, a $1,000 deduction saves you $120 in taxes ($1,000 × 12%). A $1,000 tax credit saves you $1,000 in taxes — regardless of your bracket. Dollar for dollar, credits are almost always more valuable than deductions.

The **standard deduction** is the foundation of most people's tax returns. In 2025, it's $15,000 for single filers and $30,000 for married filing jointly. This is a flat deduction you can claim with no documentation and no itemizing. It reduces your taxable income by that amount automatically. The vast majority of Americans — about 90% — take the standard deduction because their eligible itemized expenses don't exceed it. You only itemize if your deductible expenses (mortgage interest, state and local taxes, charitable donations, significant medical expenses) add up to more than the standard amount.

Common tax **deductions** include: **student loan interest** (up to $2,500 per year, for interest paid on qualified student loans), **IRA contributions** (up to $7,000/year to a traditional IRA reduces your taxable income for that year), **health savings account (HSA) contributions** (triple tax advantage: deductible going in, grows tax-free, tax-free when used for medical expenses), **self-employment expenses** (home office, equipment, mileage for freelancers), and **educator expenses** (up to $300 for teachers' out-of-pocket classroom costs). Each deduction has eligibility requirements and limits — always verify current rules since Congress adjusts them.

Tax **credits** are even more powerful. The **Child Tax Credit** provides up to $2,000 per qualifying child under 17 — directly reducing your tax bill. The **Earned Income Tax Credit (EITC)** is one of the largest anti-poverty programs in the U.S., providing up to $7,830 for working families with three or more children; even workers without children can claim a smaller version. The **American Opportunity Tax Credit** provides up to $2,500 per year for the first four years of college, covering tuition, fees, and required course materials — and up to 40% of it is **refundable**. The **Lifetime Learning Credit** offers up to $2,000 per return for any post-secondary education.

Refundable vs. non-refundable credits is an important distinction. A **non-refundable credit** can reduce your tax bill to zero but no lower — if you owe $500 and have a $1,500 non-refundable credit, you save $500 but don't receive the remaining $1,000. A refundable credit can reduce your tax bill below zero, meaning you receive the difference as a refund even if you owe no tax at all. The EITC is fully refundable, which is why it's so valuable to lower-income workers.

Pre-tax benefits through employers are a form of deduction built into your paycheck. Contributions to a **401(k)** or **403(b)** retirement plan reduce your taxable income for the year you contribute. Health insurance premiums paid through employer plans are typically pre-tax. **Flexible Spending Accounts (FSAs)** let you set aside pre-tax dollars for healthcare or dependent care expenses. These benefits are often underused by younger workers who don't realize that the tax savings are essentially a guaranteed immediate return on money they would have spent anyway.

> **Credits you might qualify for right now:** *If you work and earn income, check whether you qualify for the* **Earned Income Tax Credit** *— even younger, single workers with modest income may qualify for a small amount. If you're paying for college, the American Opportunity Tax Credit may cover a significant portion of your tuition. Many people leave these credits unclaimed simply because they don't know they exist. Free tax software will ask you about them automatically — but only if you use it.*

KEY VOCABULARY

Term	Definition
Tax credit	A dollar-for-dollar reduction in your actual tax bill — more valuable than a deduction of the same amount
Tax deduction	A reduction in your taxable income — saves you your **marginal tax rate** multiplied by the deduction amount
Standard deduction	A flat $15,000 reduction in taxable income for single filers in 2025 — no documentation required, available to everyone
Itemized deduction	Specific documented expenses that can replace the standard deduction if they total more than $15,000
Earned Income Tax Credit	A refundable credit for low-to-moderate income workers — up to $632 for single filers with no children in 2025
American Opportunity Credit	Up to $2,500/year for the first four years of college — 40% refundable even if no tax is owed
Refundable credit	A tax credit that can reduce your tax bill below zero — the IRS pays you the excess even if you owed nothing
Non-refundable credit	A tax credit that can reduce your tax bill to zero but no further — any excess is lost

LESSON 5.6

Self-employment taxes

LEARNING OBJECTIVES

- Distinguish W-2 from 1099 income
- Explain why self-employed pay a higher FICA rate
- Identify deductible business expenses
- Describe the quarterly estimated tax system

READ THIS FIRST

Millions of teenagers earn income outside a traditional job — babysitting, tutoring, lawn care, selling on Etsy, freelance design, YouTube ad revenue, social media sponsorships, flipping items online. This income is real, it's taxable, and the IRS treats it differently than W-2 wages. If you net more than **$400 in self-employment income** in a calendar year, the IRS requires you to file a tax return and pay **self-employment tax**. This applies even if your total income is below the standard deduction threshold. Not knowing this rule is not a defense — and the IRS does match income reports from platforms like Etsy, PayPal, and Venmo to your tax return.

The core issue with **self-employment tax** is that you pay **both sides of FICA**. When you're a W-2 employee, you pay 7.65% and your employer matches it. When you're self-employed, there's no employer — you pay the full 15.3% yourself. On $5,000 in self-employment profit, that's $765 in self-employment tax alone, before any income tax. The IRS does allow you to deduct half of this self-employment tax when calculating your income tax (to roughly mirror how employees are treated), but the full 15.3% still has to be paid out of pocket. This catches many first-time freelancers completely off guard.

Quarterly estimated taxes are the mechanism self-employed people use to avoid a large bill in April — and to avoid underpayment penalties. The IRS expects taxes to be paid throughout the year, not all at once. Employees do this automatically through paycheck withholding. Self-employed people do it manually, filing **Form 1040-ES** four times a year (due in April, June, September, and January). A simple rule: set aside 25–30% of every self-employment payment you receive into a dedicated savings account. Pay that in quarterly. If you end up owing less, the excess becomes a refund. If you owe more, you'll have cash to cover it.

The good news about self-employment is the **deductions**. Unlike employees, self-employed people can deduct legitimate **business expense**s directly from their income before calculating either self-employment tax or income tax. Common deductible expenses: supplies and materials used in the work, a portion of your phone bill if used for the business, any platform fees (Etsy listing fees, PayPal transaction fees), equipment purchased for the business, and mileage driven for business purposes (in 2025, the standard mileage rate is 70 cents per mile). These deductions reduce your **net profit** — the number everything else is calculated from — so good record-keeping directly reduces your tax bill.

Tracking income and expenses is therefore not optional when you're self-employed — it's a financial requirement. Keep a record of every payment you receive and every business expense you incur, with receipts or bank records to back them up. A simple spreadsheet works for small operations. Apps like Wave, QuickBooks Self-Employed, or even a dedicated bank account for business income can make this much easier. At tax time, you'll fill out **Schedule C** (Profit or Loss from Business) which lists your income and allowable deductions and calculates your net profit. That profit number flows to your 1040 as regular income.

If your self-employment income is significant and growing, there are additional structures worth knowing about. A **sole proprietorship** is the default — no paperwork required, you're just operating under your own name. An **LLC (Limited Liability Company)** provides legal separation between your business and personal assets, protecting you if the business faces legal claims. For teens with growing online businesses, the investment in forming an LLC is often worth it once annual revenue exceeds a few thousand dollars. Check your state's requirements — fees and rules vary considerably.

> **Do you have self-employment income?** *Add up all the money you earned outside of a W-2 job this year — babysitting, tutoring, selling anything online, any gig work. If it's over $400 net, you need to file. If it's over a few hundred dollars per month consistently, start a tax savings habit now: every time you get paid, move 25–30% into a separate account labeled "taxes." April will feel completely different when the money is already set aside.*

KEY VOCABULARY

Term	Definition
Self-employment tax	The 15.3% FICA tax paid by self-employed workers — covers both the employee share (7.65%) and the employer share (7.65%)
Schedule C	The IRS form attached to **Form 1040** where self-employed workers report business income and deduct business expenses
1099-NEC	A form issued by clients to contractors showing non-employee compensation paid — no taxes are withheld
Quarterly estimated tax	Required payments four times per year by self-employed workers — due April 15, June 15, Sept 15, Jan 15
Net profit	Business revenue minus deductible business expenses — the amount self-employment tax is calculated on
Business expense	An ordinary and necessary cost of running your business that can be deducted to reduce taxable income
Gig economy	Work arrangements where people earn income through short-term contracts or freelance work rather than permanent employment
Deductible mileage	Business driving deducted at the IRS standard rate ($0.70/mile in 2024) to reduce taxable self-employment income