

Week 6 Understanding Income (W-2, 1099, gig work)

Income is the starting point for any financial plan. Before you can save, invest, or budget effectively, you must understand where your money is coming from, how it's earned, and how it's taxed. For Gen Z—many of whom are navigating part-time jobs, gig work, and digital side hustles—understanding the different types of income is essential.

There are several ways people earn income, but most fall into two primary categories: ****earned income**** (money received from working) and ****unearned income**** (money received from investments, interest, or passive sources). In this lesson, we focus on earned income and the three most common forms Gen Z encounters: ****W-2 employment****, ****1099 contract work****, and ****gig or freelance work****.

W-2 Employment

When you're hired as an employee by a company, you typically receive a ****W-2 form**** at the end of the year. This form summarizes how much you earned and how much was withheld in taxes. W-2 employees are considered traditional employees and usually work under the direction and supervision of an employer.

Advantages of W-2 employment include consistent paychecks, employer-paid payroll taxes, and access to benefits such as health insurance, 401(k) plans, and paid time off. Employers automatically withhold income taxes, Social Security, and Medicare taxes from your paycheck, making it easier to stay compliant with tax obligations.

However, being a W-2 employee also means you have less flexibility in your schedule, and your earning potential is typically capped by your hourly wage or salary.

1099 Contract Work

If you're classified as an ****independent contractor****, you'll receive a ****1099-NEC form**** instead of a W-2. Contractors are self-employed and typically take on work for a company or individual without becoming an employee. Freelance graphic designers, tutors, Uber drivers, and many gig workers fall into this category.

As a 1099 worker, you're responsible for managing your own taxes. No federal or state taxes are withheld from your payments, so it's crucial to set aside money—usually about 25–30%—to pay your taxes later. You may also need to make quarterly estimated tax payments to the IRS.

One major benefit of 1099 work is flexibility. You control your hours, choose your clients,

and often set your own rates. You can also deduct business-related expenses like equipment, internet, mileage, or home office use—reducing your taxable income.

However, the downside is less stability and no access to employer-sponsored benefits.

Gig Work and Side Hustles

The rise of platforms like DoorDash, Etsy, YouTube, TikTok, and Fiverr has opened doors to new income streams. Gig workers often juggle several short-term jobs or projects rather than committing to one employer. While these opportunities are empowering, they also come with challenges.

Gig income is typically reported on a 1099 form or may be considered ****self-employment income****, even if the platform doesn't send you a tax document. You're responsible for tracking your earnings and reporting them accurately to the IRS.

It's common for young workers to have multiple sources of income—perhaps a W-2 job during the day, freelance gigs on weekends, and an Etsy shop or monetized social media channel on the side. This diversification is great, but it requires a deeper understanding of how income is taxed and reported.

Summary

Knowing how your income is categorized impacts more than just your taxes. It influences how you budget, what benefits you receive, how you save for retirement, and how you plan for financial goals. W-2 income provides predictability and benefits. 1099 income offers independence and potential for higher earnings. Gig work brings flexibility, but requires careful tracking and tax planning.

To take control of your financial future, you must understand how income flows into your life, how it's classified, and how it can be managed effectively.