AE FINANCIAL SERVICES

What to Check Before You File If You Made Money on the Side

A plain-English guide for W-2 earners with extra income from payment apps, online marketplaces, or rideshare and delivery work.

TAX YEAR 2026

A guide from

Chris Anderson

Read this first

You made money on the side last year. Maybe you sold some stuff on eBay, drove for a rideshare or delivery app, picked up freelance work paid through PayPal, ran a small Square account at a weekend market, or just cleaned out your closet.

Now a 1099-K showed up, and you're not sure what to do with it.

I get it. That form can make a small amount of extra income feel bigger and scarier than it really is. The number on it might not match what you actually kept. It can include refunds, fees, or money that wasn't really business income at all. And if you have a W-2 job, you may not be used to thinking about extra tax on money that didn't have anything taken out before you got it.

So let me walk you through what to check before you file. The numbers in here are for tax year 2026. Two figures were lower for tax year 2025: the mileage rate was 70 cents per mile, and the Social Security wage base was $176,100. Everything else is the same.

You're busy. You came for the facts. So I'm putting a short version at the top of each section. Read those if that's all the time you've got. But the details are where people get tripped up, so try to come back for the rest.

Hey, one more thing. I promised this was going to be five items. I lied. There are nine. I also said this was going to be one page. I lied about that too. Each one of these costs real money to get wrong, so I'd rather be long and useful than short and incomplete.

1. The form from the payment app

> **TL;DR:** The number on your 1099-K is gross, not net. Whether you get one depends on your state and how much volume ran through a single platform.

Let's start with what's in your hand.

If you got paid through PayPal, eBay, Uber, or any similar platform, the platform may have to send you a 1099-K. It also sends a copy to the IRS. The number on the 1099-K is the gross amount of payments that ran through your account on that platform.

The federal threshold for tax year 2026: more than $20,000 in payments AND more than 200 transactions on a single platform. The lower thresholds you may have heard about ($600, $2,500, $5,000) all got rolled back.

So if you're a casual seller, you probably won't get a federal form unless one platform did a lot of volume.

A few things to know:

- **It's per platform, not combined.** $15,000 through PayPal and $10,000 through eBay don't add up to hit the threshold. You might not get a form from either one.
- **No form doesn't mean no tax.** Even if you don't get a form, you still report income you actually earned. The form is paperwork. The tax rule doesn't go away just because the paperwork didn't show up.
- **Card processors send the form for ANY amount.** No minimum. If a customer paid you by card through Square, you can get the form for a handful of dollars.

Rideshare and delivery drivers may get more than one form. Uber, Lyft, DoorDash, and similar platforms send a 1099-K for ride and delivery fares once you cross the federal threshold. They send a separate 1099-NEC for non-fare income like sign-up bonuses, referral payments, and promotional incentives. For tax year 2026, the 1099-NEC threshold is $2,000 (up from $600 for 2025). So a driver who got both fares and bonuses could end up with both forms. Both get reported as self-employment income, and the rest of this guide still applies.

State thresholds run lower than federal. Massachusetts, Vermont, Virginia, Maryland, the District of Columbia, and Mississippi all require a 1099-K at $600. Illinois sits at more than $1,000 and four or more transactions. Arkansas is at $2,500. A Florida seller and a Maryland seller can do the same business and get different paperwork.

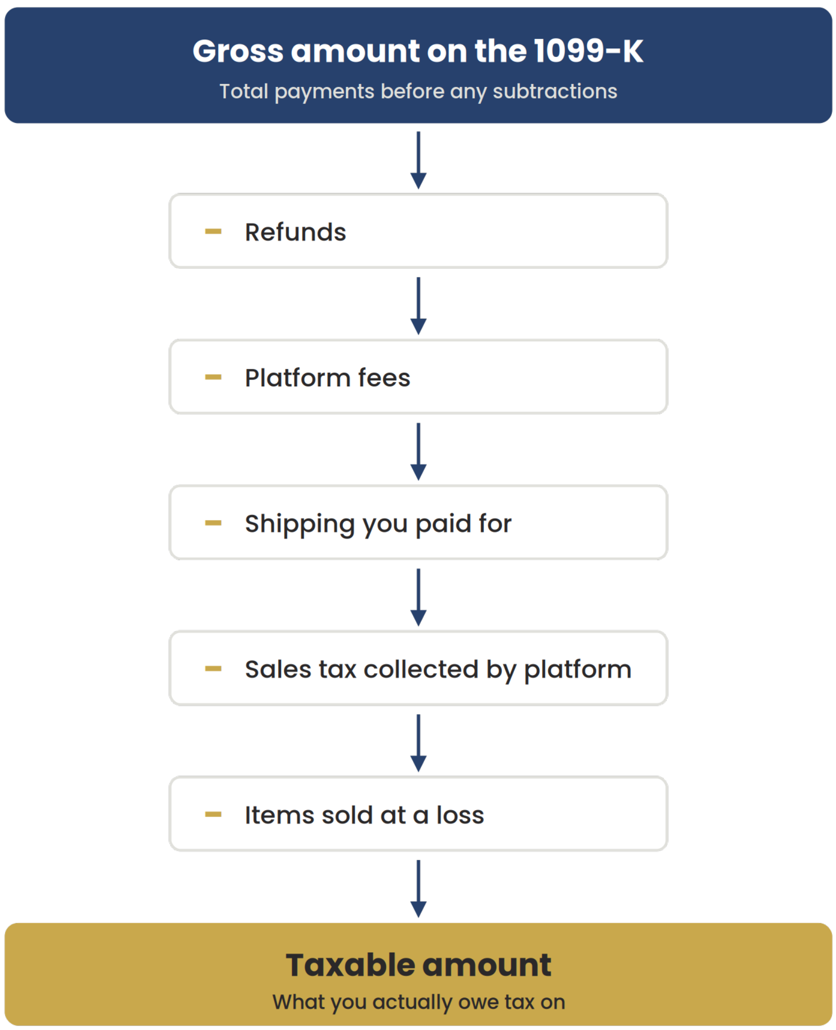
Here's the trap. That gross number includes everything the customer paid before any fees, refunds, shipping, or sales tax. It is not your profit. In a lot of cases it's not even close. The next item handles that.

Watch for personal payments. If friends or family used the same payment app to pay you back for dinner, split rent, or send a birthday gift, those aren't income and shouldn't be on the form. Sometimes they get tagged wrong. Pull the detail report from the platform and look for personal payments mixed in. Make a note of which ones were personal. If the form is wrong, you can ask the issuer to correct it.

2. Refunds, fees, and items sold at a loss

> **TL;DR:** The number on your 1099-K is the gross amount, not what you owe tax on. Subtract refunds, fees, shipping, and items sold at a loss to get to your actual income.

Here's what comes off the top before you owe a dime of tax:



- **Refunds.** If a buyer returned something and you refunded them, that money didn't stay with you. It's still in the gross.
- **Platform and processor fees.** eBay's fees, PayPal's cut, Square's percentage, Etsy's transaction fee, Uber and Lyft's commission and service fees. They came out of what you actually received. Still in the gross.
- **Shipping you paid for.** If you covered shipping, that's a cost.

- **Sales tax the platform collected.** Sales tax flows through but isn't your money. It usually shouldn't be in the gross, but it's worth checking on your platform.
- **What you originally paid for items you sold at a loss.** Sold an old laptop for $300 that you paid $1,400 for? That's a loss, not income.

A simple example. You sold a $40 sweatshirt and gave a $40 refund a week later. That $40 still shows up on the form. Your real income from that sale is zero. Don't pay tax on it.

Personal stuff sold at a loss. Used personal items sold for less than you paid for them aren't taxable. You also can't deduct the loss (the IRS doesn't let you write off losses on personal stuff). But you don't owe tax on the money you got back either.

On your return, there's a way to report the gross amount from the 1099-K and then zero it out so it doesn't add to your taxable income. Most tax software handles this if you answer the prompts about whether the items were personal and sold at a loss.

What you need: every record you can find. Platform statements showing refunds and fees. Receipts or order confirmations for big items you sold. Shipping costs. If you don't have a receipt for an old purchase, do your best with a reasonable estimate and write down how you got there.

The IRS doesn't expect perfect. It expects reasonable and consistent.

3. The deductions most people miss

> **TL;DR:** If your side activity is a business, deduct platform fees, mileage (72.5 cents per mile for tax year 2026), a portion of home expenses if you have a dedicated space, supplies, and software tied to the activity.

If what you did really is a business (more on that in item 6), and not just selling off personal stuff, you can deduct ordinary and necessary expenses tied to it. These are the ones people in your spot leave on the table.

Platform and processor fees. Even though they came out of the gross number on the form, you still deduct them as an expense. The two get reported separately. Pull the annual fee report from each platform.

Mileage. Did you drive to the post office, to drop boxes, to source inventory, to pick up packing materials, to meet a customer? For tax year 2026, the IRS rate is 72.5 cents per mile for business use.

You need a log. Use a mileage tracking app, not a notebook. Most tax preparers prefer a digital log and may charge extra to clean up a messy paper one. Most apps run in the background and tag trips automatically. Write down (or have the app capture) the date, where you went, the miles, and the business purpose. Personal trips don't count. Mixed trips count for the business portion only.

Home office. If you have a specific spot in your home that you use regularly AND only for the side work, you may be able to take the home office deduction. Think a dedicated desk, a corner of the garage where you pack, or a room where you store inventory.

The simplest way to claim it is the IRS's simplified method. For tax year 2026, that's $5 per square foot, up to 300 square feet. Maximum $1,500.

Two catches. First, the space has to be used regularly and only for the business. A kitchen table where you also eat doesn't qualify. Second, this deduction is only for self-employed work. If your activity is a hobby, you can't take it.

One important note on home office. The deduction can't be more than your business profit for the year. If your expenses are higher than your profit, the excess doesn't disappear. It carries forward to next year, where you can use it against future business income. So keep the full record even if you can't use it all now. (This concept is called a carryover. It's worth knowing because a few other deductions work the same way.)

Supplies and packaging. Boxes, tape, bubble wrap, mailers, labels, thermal printer rolls, tissue paper. If you bought it for the side activity, it's deductible.

Software and subscriptions. Inventory tools, listing tools, photo editing apps, accounting software, a cloud storage plan you use for business files, sourcing tools. Tied to the activity, deductible.

Stuff people forget. Mileage to the bank for a business deposit. Bank fees on a separate business checking account. The business portion of your phone bill. Mileage to a meeting with your tax preparer.

Two rules of thumb. First, the expense has to be ordinary and necessary for what you're doing. Second, if a purchase was partly personal and partly business, you only deduct the business portion. Don't write off the whole Costco run because some of it was packing peanuts. Pull the receipt and figure the business piece.

A mental test for anything you're not sure about: would this cost still exist in the same way if you weren't making money on the side? If yes, be careful. If no, and it clearly ties to the activity, keep the record and review it before you file.

Don't overreach. Round numbers, deductions bigger than what you made, write-offs that don't tie to anything real. Those get a return a closer look.

4. Self-employment tax

TL;DR: Side income gets hit with income tax AND a separate 15.3% self-employment tax. Move 25 to 30 percent of every net dollar into a savings account the day it lands.

This is the surprise.

When you're a W-2 employee, your paycheck has Social Security and Medicare taken out. Your employer pays half. You pay the other half. You don't think about it because it just happens.

When you make money on the side as your own boss, you pay both halves yourself. That's self-employment tax.

For tax year 2026, the rate is 15.3% of your net earnings:

- 12.4% for Social Security
- 2.9% for Medicare

This is on TOP of regular income tax. So if you're in the 22% federal bracket, your side income gets hit with a 37% tax before state tax even comes in.

A few things to know:

- **Net, not gross.** Self-employment tax applies after you subtract your expenses, not before.
- **The $400 floor.** It only kicks in if your net earnings from self-employment are $400 or more for the year. Below that, no self-employment tax.
- **The Social Security cap.** The 12.4% Social Security piece has a max. For tax year 2026, the most you would pay is $22,878. That's because Social Security only applies to the first $184,500 of income. Anything over that isn't taxed. The cap counts your W-2 wages AND your side work combined. So if your W-2 already paid you more than $184,500, you're maxed out, and your side work only owes the 2.9% Medicare piece.
- **You get half back.** You deduct half of your self-employment tax from your income on the income tax side. That softens the blow.
- **Hobbies don't owe it.** If the activity is a hobby and not a business, no self-employment tax. But you also can't write off expenses against it. See item 6.

A rough rule of thumb. If you don't know your tax bracket, set aside 25 to 30 percent of every net dollar for taxes. If you're a higher earner or you live in a high-tax state, lean closer to 35 percent.

Open a separate savings account. Move that percentage over the moment money hits. Don't touch it. It's not your money. It's the IRS's money sitting at your bank.

5. Whether quarterly payments apply to you going forward

> **TL;DR:** If you'll owe at least $1,000 at filing time after withholding, you probably need to make quarterly payments. The simplest play is paying last year's tax in four equal chunks across the year.

If your W-2 withholding covered your whole tax bill last year, you might be off the hook for quarterly payments. If your side work means you'll owe a meaningful amount when you file, you'll probably need to start making them.

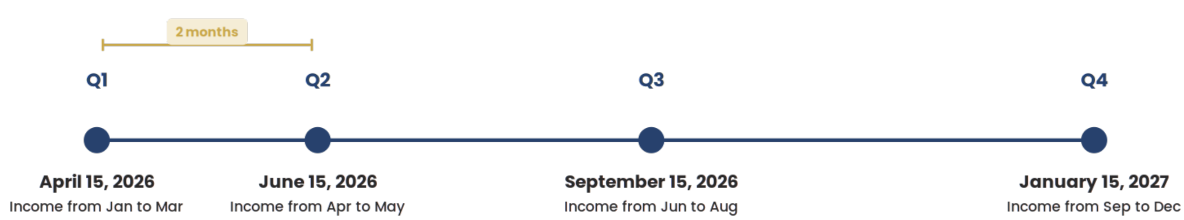
The first test. You generally need to make quarterly payments if you expect to owe at least $1,000 in tax when you file, after subtracting your withholding. If you'll owe less than that, you're fine.

If you're going to owe more, there are a few ways to avoid an underpayment penalty. The IRS calls these safe harbors. Hit any one of them and you're protected:

- Pay at least 90% of what you'll owe for the current year, spread across the year.
- Pay at least 100% of what you owed last year, spread across the year. If your adjusted gross income last year was more than $150,000 (or more than $75,000 if married filing separately), it's 110% instead of 100%.

For most W-2 earners with a side activity, the easiest path is the second one. You already know what last year's tax was. Divide by four, send a chunk on each quarterly date, and you're protected even if your side income grows.

Tax year 2026 quarterly due dates



The Q2 window is only two months. Plan accordingly.

Those aren't equal quarters. The "second quarter" is really only two months because of the April-to-June gap. The dates don't move.

Useful workaround if you also have a W-2 job. Withholding gets treated as if it was paid evenly across the year, no matter when it actually happened. So if you got behind on quarterly payments, you can bump up the withholding on your W-2 paycheck for the rest of the year and catch up that way without a timing penalty.

What happens if you skip. The IRS adds a penalty calculated like interest on what you came up short, charged separately for each quarter you didn't cover. For the first quarter of 2026 the annualized rate is 7%, dropping to 6% for the second quarter. It changes every few months after that.

Not catastrophic on small amounts. If you came up $1,000 short, the penalty might be $30 to $50 across the year. But on a $10,000 underpayment, the penalty climbs into the hundreds. It adds up. And it's avoidable.

Form 1040-ES is the quarterly payment voucher you mail in. You can also pay online directly through the IRS payment site, which is faster and gives you a confirmation right away.

6. Personal items versus a business

> **TL;DR:** Cleaning out a closet at a loss isn't taxable. Buying things to resell is a business. The IRS decides which one you are based on intent, behavior, and records.

This is where people get confused. So let me draw the line clearly.

Cleaning out a closet. You sold things you originally bought for yourself. If you sold most of it for less than you paid, you have no tax on it. You may still need to report the form, but you can zero out the loss so it doesn't add to your taxable income (we covered how in item 2). The IRS doesn't think of you as a business.

Buying to resell. You bought things specifically to sell at a higher price. Sourcing inventory at thrift stores, estate sales, auctions, wholesale, and listing it for resale is business activity. Now you have income, you have deductions, and the rules from items 3 and 4 apply to you.

Inventory rule that catches new resellers off guard. Inventory isn't a deduction when you buy it. It's a deduction when you sell it.

So if you bought $5,000 worth of inventory in December and it's still sitting in boxes on January 1, you didn't get to deduct that $5,000 yet. You only deduct what you actually sold during the year. The rest carries forward.

This is how some sellers feel cash-broke while showing a profit on paper. The money went into product that hasn't moved yet.

The middle case. You started clearing out your closet, you got into it, you picked up a few things at yard sales to flip, and now you're not sure what you are.

The IRS test: business or hobby?

Score yourself on these five factors. The overall pattern decides.

1. Are you trying to make a profit?
2. Are you keeping records of what you spend and what you make?
3. Do you operate in a businesslike way (separate account, regular activity)?
4. Have you actually made a profit in some of the last several years?
5. Do you depend on the income, or is it just fun money?

If mostly YES	If mostly NO
Business	**Hobby**
Report income. Deduct expenses.	Report income. No deductions.
Mileage, home office, supplies, platform fees all reduce your tax.	Hobby income gets taxed at full freight with no offsets.
Owes self-employment tax.	No self-employment tax.

The IRS looks at intent and behavior. The five factors above are how it decides. If most tip toward yes, you're probably a business. If most tip toward no, it's likely a hobby.

Why it matters. If it's a hobby, you still have to report the income. But you cannot deduct any expenses against it. None. The 2017 tax law took that away, and the 2025 tax law made the change permanent. Hobby income gets taxed at full freight with no offsets.

That's why people who are genuinely trying to grow something want to be sure they're running it like a business. Separate account, real books, a plan to be profitable.

If you're on the fence, this one is worth a closer look with someone before you file. Picking the wrong category costs real money.

7. State and local tax

> **TL;DR:** Your side income is also state income in most states. Big marketplaces handle sales tax for you in most cases. Check your home state and anywhere else with serious activity.

Most people focus on the federal return and forget that side income is also state income in most states.

Most states tax side income too. Nine states have no individual income tax on wages: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming. Everywhere else, your side income goes on your state return. Usually it's the same numbers you reported federally with whatever adjustments your state requires.

State forms can show up at lower numbers. As mentioned earlier, Massachusetts, Vermont, Virginia, Maryland, the District of Columbia, and Mississippi require a form at $600. Other states fall between $600 and $2,500. So you can get federal paperwork at one number and state paperwork at a much lower one. The state will be matching too.

Sales tax usually isn't your problem on big marketplaces. Every state that has a sales tax now requires the marketplace itself (eBay, Amazon, Etsy, Mercari, Poshmark) to collect sales tax and send it in. For most casual sellers, you're not registering for sales tax accounts or filing sales tax returns just because you sold things on a big platform. The platform handles it.

The exceptions: if you sell off-platform (your own website, in person, at a craft fair, social media direct), you may still have your own sales tax obligation. There are also some local-tax wrinkles in a few states.

Check your home state. Check any other state where you have meaningful activity. Most casual sellers don't need to worry about other states. A few do. Worth a closer look state by state if you're more than a casual seller.

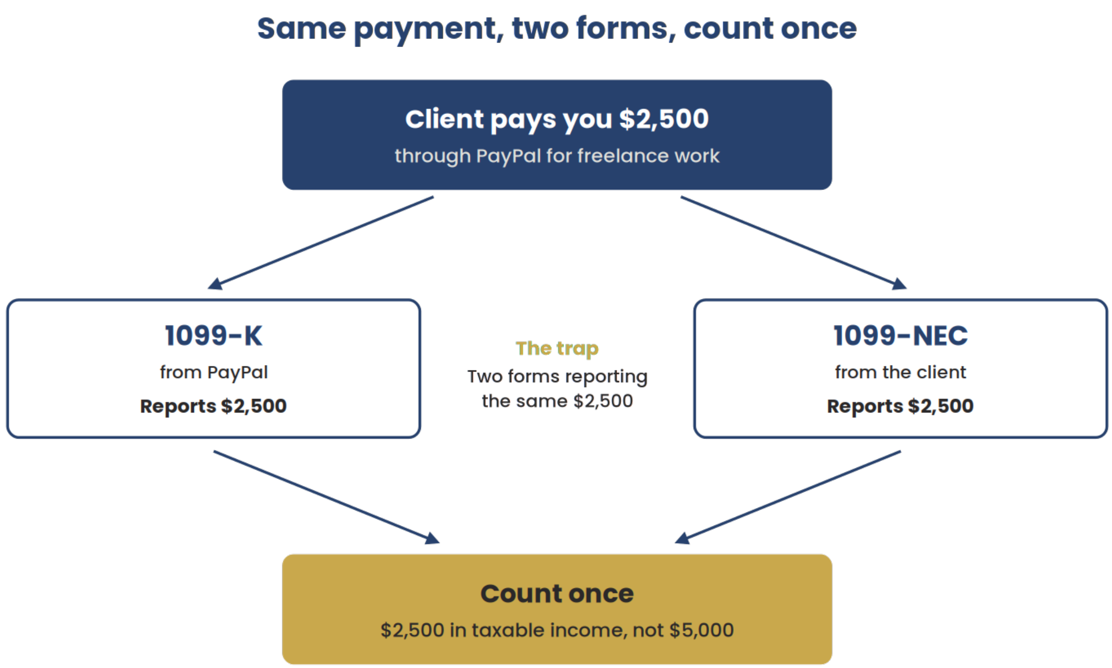
The word for this is nexus. Nexus is the technical term for whether you have enough activity in a state to owe taxes there. Most casual sellers don't have nexus outside their home state. But if you're shipping a lot to one specific state, storing inventory there, or hitting that state's economic activity threshold, you might. It's its own topic and worth a closer look if you suspect it applies to you.

8. The same income showing up twice

TL;DR: If a 1099-K from the payment app AND a 1099-NEC from a client both report the same payment, count it once. Trace each dollar back to its source.

This is a quiet mistake.

Sometimes you get a 1099-K from the payment app AND a 1099-NEC from a client who paid you through that app. Both report the same payment. If you add them both into your income, you've doubled it. You'll pay tax on money that came in once.



Trace each payment to its source. One payment, one amount of real income.

How it happens. A client hires you for $2,500 of work. They pay you through PayPal. PayPal sends you a 1099-K for the payment. The client also sends you a 1099-NEC for the same $2,500. Two pieces of paper. One payment. One amount of real income.

The fix. Trace each payment back to its source. Who paid me? How did the money arrive? Is this dollar amount already on another form? If yes, count it once.

This is one of the best reasons to keep clean payment records. When paperwork piles up, the only way to keep it straight is to know what came in, from whom, and through what channel.

9. Record-keeping for next year

> **TL;DR:** Separate checking account. Log mileage as you go. Save platform reports each year. Sweep 25 to 30 percent of every net dollar into a tax savings account.

This is the section that saves you the most time and money. I'm putting it last so it sticks.

Good records are your only armor if a question ever comes up. The goal isn't a perfect binder. It's being able to find any single piece of paper in less than ten minutes.

If you're going to keep doing the side activity, set yourself up so next year is easy.

Get a separate checking account. Not a fancy business account. Not necessarily a business account at all. Just another personal checking account that you use only for this. Side income goes in. Side expenses come out. That one move makes everything else easier. When the year wraps up, the statements are basically your books.

Track expenses by category. A simple spreadsheet works. Categories to keep separate so they total cleanly when you file:

- Income by platform
- Refunds and returns
- Platform fees
- Payment processor fees
- Shipping and postage
- Packaging supplies
- Mileage (date, miles, where, business purpose)
- Inventory purchases (separate from operating expenses)
- Software and subscriptions
- Home office (if you qualify)
- Personal payments that shouldn't be counted as income
- Other (with a note about what it was)

Keep receipts. Digital is fine. A folder in your email, a folder on your phone, a folder in the cloud. Anywhere you can find a receipt three years from now if a question comes up. For paper receipts, snap a picture before they fade.

Log mileage as you go. Reconstructing mileage months later is the worst job in the world, and it usually leaves money on the table because you forget trips. Log it the day you take the trip.

Save the platform reports. When the year wraps up, each platform lets you download an annual sales and fee report. Save it. Don't rely on being able to pull it years later if the platform is gone or your account is gone.

Set up the tax savings habit. A separate savings account where you sweep 25 to 30 percent of every net dollar that comes in. Treat it like it isn't yours. When estimated payments are due, the cash is already there.

Do those six things and next April is a much shorter conversation.

A note on accounting software. You don't need fancy software to keep good books. A spreadsheet works fine when your activity is small. But if you'd rather use a program, plenty of affordable options exist. Look for one that fits your activity, not the other way around. The real benefit shows up at filing time: if your records arrive at your preparer in something close to a Profit and Loss statement, there's less cleanup work, which usually means a lower preparer fee.

Before you file

A lot of what's in here gets complicated fast once you sit down with your actual numbers. The form from the payment app is straightforward until it isn't. The line between personal items and inventory is clean in theory and messy in practice. The decision about quarterly payments depends on your full picture, not just the side income.

You've done the hard part. You made the money. Now we just want to make sure you keep as much of it as you should.

One conversation could save you real money

If any of this raised more questions than it answered, book a free call with me. We'll look at your situation together. No pressure to do anything beyond that call if it isn't what you need.

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I'd rather you talk to someone before you file than guess and end up paying more than you should, or pay too little and get a letter about it later.

Either way, good luck this year.

Chris Anderson is the owner of AE Financial Services, a virtual tax, accounting, and advisory practice based in Orlando, Florida, serving clients nationwide. This guide is general information about tax year 2026, not personalized tax advice for your situation.