



# FIRST-TIME FREELANCER'S GUIDE TO TAXES

---

## **ORGANIZING & PREPARING**

The first rule of managing your taxes as a freelancer is to get organized. Meticulous records and deep knowledge of your business finances can make a big difference on your tax bill. Today, we have access to a variety of book and record keeping softwares. We recommend a tool like Freshbooks, a cloud-based accounting solution designed with the freelance lifestyle in mind. Freelancers Union members can access an exclusive discount [here](#).

Ideally, your organization methods should lay the groundwork for smooth tax preparation - it doesn't help if you try to get organized a few days before filing!

Most importantly, be sure to keep track of the following:

### **1. Your business income**

It sounds obvious, but when you're juggling multiple gigs and receiving invoices from a number of clients, it can be difficult to keep track of how much has actually gone into your bank account. You will only receive 1099's from clients from whom you made upwards of \$600, so if you're doing many small jobs, you'll need to be able to report that income yourself.

### **2. Your business expenses**

Again, it sounds like a no-brainer, but when you're in the zone and have to rush out for more printer paper, you may forget to notate the expense. But, deductions can alleviate some of the hefty tax payments freelancers make, so it behooves you to keep receipts from all of your business expenses for at least 6 years. Be sure to include deductibles like:

- Advertising expenses like business cards, online ads, website subscriptions and other tools used to promote yourself and your business
- Business insurance
- Interest paid on your business credit card or business loans
- Lawyer fees and other professional services
- Rent or dues on a workspace - if you work from home, be sure to keep up-to-date pictures or a floor plan of your home office space
- Repairs for your computer, camera and other business-related equipment
- Routine office supplies like pens, paper, staples, etc.
- Travel costs like plane and train tickets related to business purposes
- Business meals with clients and other entertainment reasonable for your business

---

See our [Deductions Guide](#) to determine what business expenses you'll be able to use to offset your tax bill.

### ***Find your tax professional***

Now that you've developed a system for keeping track of business income and expenses, it's time to start looking for the right tax professional.

While some freelancers may prefer to do their own taxes, we do recommend engaging the help of an expert.

- A CPA with experience helping freelancers with taxes can:
- Help you save on tax fees
- Reduce the amount of time you spend on taxes
- Make you less susceptible to an audit

Like all freelance relationships, it's important that you find a CPA with whom you have good rapport and feel comfortable allowing into your financials. Trust is imperative in this relationship - and you need to be able to be honest with your tax professional.

## **FILING & PAYING YOUR TAXES**

By the time you reach tax-paying time, you should have an itemized and organized record of your earnings and expenses. It's easy to go cross-eyed just looking at a tax form, but if you're prepared the process can be relatively painless.

### ***Pay quarterly estimated taxes***

If you've ever worked full-time, your taxes are automatically withheld from each paycheck. As a freelancer, you're responsible for doing this on your own by paying quarterly estimated taxes.

Use [IRS form 1040-ES](#) to file your estimated taxes. As you'll pay approximately 15.3% of your income every quarter, it's helpful to open a savings account wherein you reserve at least 25% of your income specifically for tax purposes. The [Electronic Federal Tax Payment System](#) makes this process a little bit easier.

---

The schedule for estimated taxes is:

- For income received Jan. 1 through March 31, estimated tax is due April 18.
- For income received April 1 through May 31, estimated tax is due June 15.
- For income received June 1 through Aug. 31, estimated tax is due Sept. 15.
- And for income received Sept. 1 through Dec. 31, estimated tax is due Jan. 17.

Do not assume that you will be able to pay all your taxes at the end of the year in one lump sum – failing to pay your quarterly earnings will result in fines and penalties. Furthermore, if you miss a quarterly tax deadline, file as soon as possible and speak with an IRS representative about appealing the penalty. Do not wait until the next period to pay.

## **IS INCORPORATION RIGHT FOR ME?**

Incorporating into an LLC or an S-Corp may make tax season a little bit easier, but there are still benefits to remaining a sole proprietor. See our guide on incorporation to determine whether or not this is the next step for your business.

## **FORMS TO KNOW**

### **FORM W-9**

Your client may ask you to fill out a W-9 when you take a job. Usually, this just means inputting your name, address, Social Security Number and possibly a tax identification number.

### **FORM 1099**

If you make more than \$600 on a given project, your client should send you a 1099 before the tax filing deadline. It's simply a summary of the money they've paid you, which is the amount on which you will pay taxes. If you were paid less than \$600, or if you did not receive a form from your client, you must still report that income on Form 1040.

See our guide on [Reading Form 1099](#).

---

## **FORM 1040**

Because you are reporting self-employment income, you will use the original 1040 form to report your annual income.

If you have a fairly simple freelance business, use [\*\*Schedule C-EZ\*\*](#) to report your income. This form is appropriate if:

- Your business expenses are less than \$5000
- You have no employees
- You have no physical inventory
- You are not using depreciation or deducting the cost of your home

If your business is more complex, you should use the [\*\*Schedule C form\*\*](#). Schedule C has 5 parts in which you'll be required to calculate your gross profit, your net profit (your earnings minus your expenses).

Additionally, you will have to complete [\*\*Schedule SE Form\*\*](#) – or the self-employment tax form. This also applies if you have an LLC. This form will determine how much you pay in Social Security and Medicare taxes. This is a tax you must pay on top of your income tax.

Finally, if you made any capital gains from a sale or trade the previous year, you will need to complete a [\*\*Schedule D Form\*\*](#) and the additional [\*\*Form 8949\*\*](#).

Capital assets include personal property such as your home, car, artwork and collectibles. It also includes investment assets such as stocks and bonds. If you sell a capital asset for gain, you need to report it on Schedule D. Form 8949 should be filled out first and will require a more detailed report of the trade or sale.

***Disclaimer: This is meant as a guide, not professional advice. If you have any questions about your taxes or your deductions, hire an accountant or ask a tax professional.***