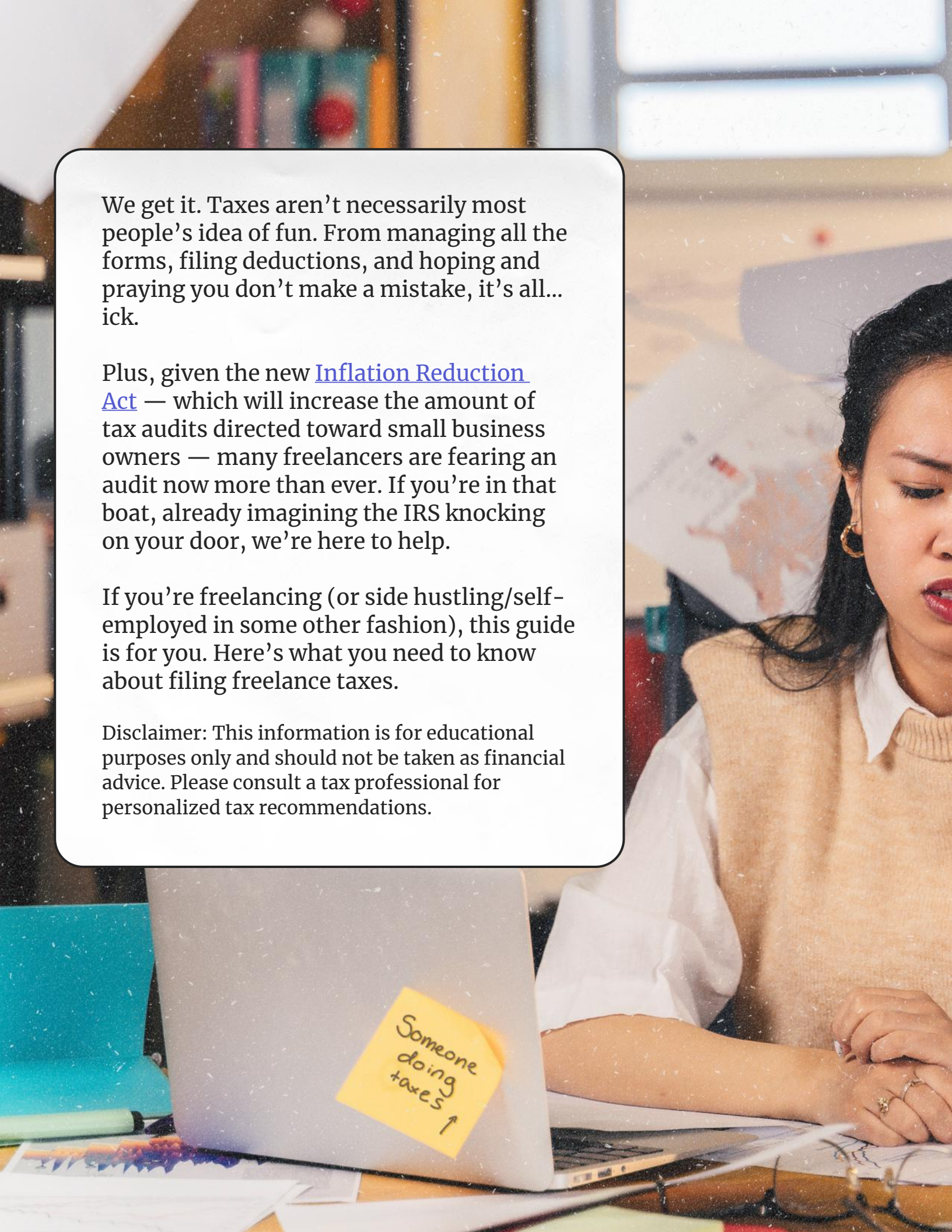


SIDEPIECE

TAX
SEASON

The Complete Guide to Freelance Taxes



We get it. Taxes aren't necessarily most people's idea of fun. From managing all the forms, filing deductions, and hoping and praying you don't make a mistake, it's all... ick.

Plus, given the new [Inflation Reduction Act](#) — which will increase the amount of tax audits directed toward small business owners — many freelancers are fearing an audit now more than ever. If you're in that boat, already imagining the IRS knocking on your door, we're here to help.

If you're freelancing (or side hustling/self-employed in some other fashion), this guide is for you. Here's what you need to know about filing freelance taxes.

Disclaimer: This information is for educational purposes only and should not be taken as financial advice. Please consult a tax professional for personalized tax recommendations.



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How Are Freelancers Taxed?

In a traditional role, taxes are taken out of your paycheck automatically. Then, after filing your yearly tax return, you'll often receive a refund.

As a freelancer, however, you're considered self-employed/a business. So, instead of having taxes automatically withdrawn from your paychecks, you'll need to withhold a portion of your income on your own so you can pay taxes later on.



Self-Employment Tax vs Employee Taxes

If you've ever wondered, "Why is self-employment tax so high?" ... same. The tax process is different for self-employed individuals and so is the amount you're taxed.

As an employee, you and your employer essentially split the bill when it comes to federal income taxes. For example, if your tax rate is 15.3%, your [employer covers](#) 7.65% of it. As a freelancer, you're obligated to pay the entire 15.3% yourself.

In addition, you may be subject to state income tax. While states such as Texas and Florida do not have state income tax, other states have [income tax rates](#) ranging from 1% to 10%. Plus, some cities have high city income tax rates as well.

Again, as an employee, these taxes are automatically withheld from your paycheck, so you don't have to do the math to figure out how much you'll owe the IRS. As a freelancer, however, it's important to be aware of how much you may be responsible for so you're able to prepare.

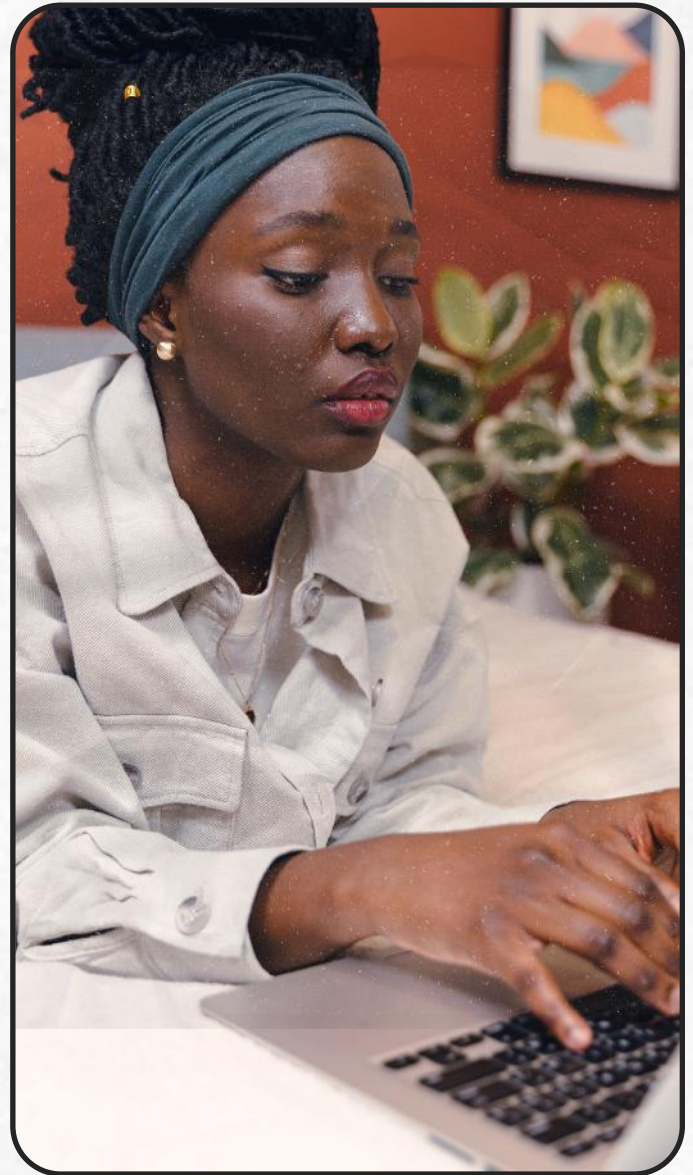
Do Self-Employed People Pay More in Taxes?

Self-employed people are likely to pay more in taxes. But, there is a way to reduce that amount. One major bonus of being self-employed is the ability to write off business expenses. Simply put, if you incur a reasonable expense that directly supports your business, you can deduct that expense from your taxable income. That can save you money come tax time.

After taking deductions, you may wind up paying around the same, or sometimes even less, than you would as a traditional employee.

How Much to Set Aside for Freelance Taxes

Because you have yet to be taxed on your business income, you'll need to be proactive and save for tax payments later on. As a general rule of thumb, many tax experts recommend saving [30 percent](#) of your gross income for taxes. However, you may get hit with a higher tax bill depending on your location. For example, [New York City](#) has its own local income tax ranging between 3.078% and 3.876%.



So, while saving 30 percent of your income is a good place to start, be aware that there may be additional tax you'll have to pay. For the peace of mind that you'll be covered at tax time, it may be worthwhile to save 35%-40% of your income for taxes. If you wind up owing less than you saved, consider what you have left over as a bonus.

How to File Freelancer Taxes

Now, it's time for the nitty gritty. Follow these steps to complete your freelance taxes:

Step 1: Collect All 1099s

If you're brand new to self-employment taxes, you're probably thinking "What the heck is a 1099?" That's understandable, so let's break it down.

In a traditional role, you'd work for one company and get paid on a standard recurring basis. As a freelancer, however, your income likely comes from a variety of clients and you may have been paid sporadically once you completed a contract or a project.

So, for example, if you made \$60,000 per year working for one company, it's easy for the IRS to understand where your income came from. As a freelancer, it'd be quite chaotic to explain how and

where your income came from without some sort of order. I mean, can you imagine? "Yeah, so this client paid me \$1,000 for this thing, and then this client paid me \$650 for this thing...oh and then this client..." Chaos.

A 1099 form essentially summarizes the income you made with each of your clients. When you file taxes, you'll list all those 1099s on a [Schedule C Form](#) so the IRS can understand how your income adds up.

If you earn over \$600 with a client, they will need to issue you a [Form 1099-NEC](#). Make sure to ask clients for these ahead of time so you can collect them all before the tax filing deadline.

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☐ VOID☐ CORRECTED

OMB No. 1545-0097

Form **1099-S**

(Rev. January 2022)

For calendar year

20__

Proceeds From Real Estate Transactions**Copy A****For Internal Revenue Service Center**
File with Form 1096.

For Privacy Act and Paperwork Reduction Act Notice, see the current General Instructions for Certain Information Returns.

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number

1 Date of closing

2 Gross proceeds

\$

3 Address (including city, state, and ZIP code) or legal description

FILER'S TIN

TRANSFEROR'S TIN

TRANSFEROR'S name

Street address (including apt. no.)

City or town, state or province, country, and ZIP or foreign postal code

Account number (see instructions)

4 Check here if the transferor received or will receive property or services as part of the consideration ☐5 Check here if the transferor is a foreign person (nonresident alien, foreign partnership, foreign estate, or foreign trust) ☐

6 Buyer's part of real estate tax

\$

Form **1099-S** (Rev. 1-2022)

Cat. No. 64292E

www.irs.gov/Form1099S

Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page - Do Not Cut or Separate Forms on This Page

Step 2: Get All Your Information Together

For the IRS to identify you, you'll need to supply some of your personal information. This may include things like:

1. Your social security number
2. Your spouse's full name, social security number, and date of birth (if you're married, that is)
3. Records of any dependents you may have
4. Bank routing and account numbers (This is used to pay the balance you owe.)

Collect all of this information prior to starting the tax filing process to make it as painless as possible.

Step 3: Choose a Route to File

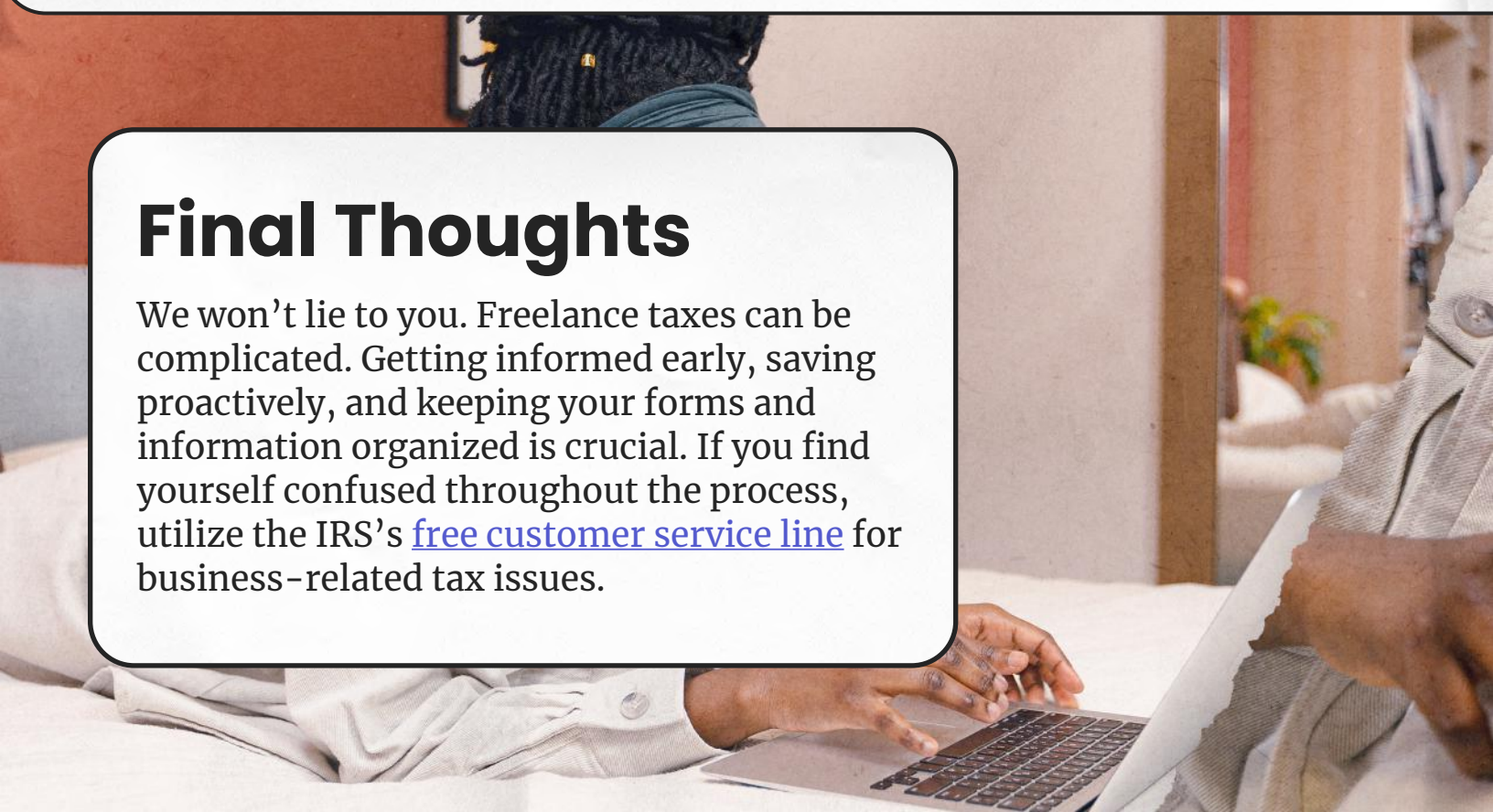
There are two ways you can go about filing your taxes as a freelance business: doing it yourself or handing it over to a professional. The best route for you depends on how much you trust yourself to do the research and file properly. (Hence why I have an accountant.)

For the DIYers: Use a Tax Filing Software

If you only have a few 1099s, and you're confident in your ability to file your taxes yourself, utilize a tax filing software like [TurboTax](#), [H&R Block](#), or [TaxAct](#). Many of these programs will be less expensive than hiring a professional, but you'll

Final Thoughts

We won't lie to you. Freelance taxes can be complicated. Getting informed early, saving proactively, and keeping your forms and information organized is crucial. If you find yourself confused throughout the process, utilize the IRS's [free customer service line](#) for business-related tax issues.



need to be careful about selecting the proper options on each and every form.

For the Folks Afraid of Accidentally Committing Tax Fraud: Hire an Accountant

If you're like me and are simply terrified of making a mistake on your tax return, it's best to consult a professional. If you prefer a more collaborative approach, consider an online subscription program like [Collective](#). If you'd prefer to hand over the responsibility completely, consider working with a Certified Public Accountant (CPA). Before taking tax advice from any accountant, however, it's a good idea to verify their credentials through the [IRS's directory](#).

Step 4: Pay What You Owe

As a traditional employee, you may receive a solid tax refund. As a freelancer, however, you're far more likely to owe money. A bummer, I know.

Don't be shocked if you owe quite a bit. Remember, this is why you save ~30% of your income all year. Now is the time to use what you've saved to pay what you owe.

Note that you may not end up owing the entire 30% you've saved depending on the tax deductions you take. If you have any of that 30% savings left over, feel free to celebrate and take the extra cash as a bonus.

