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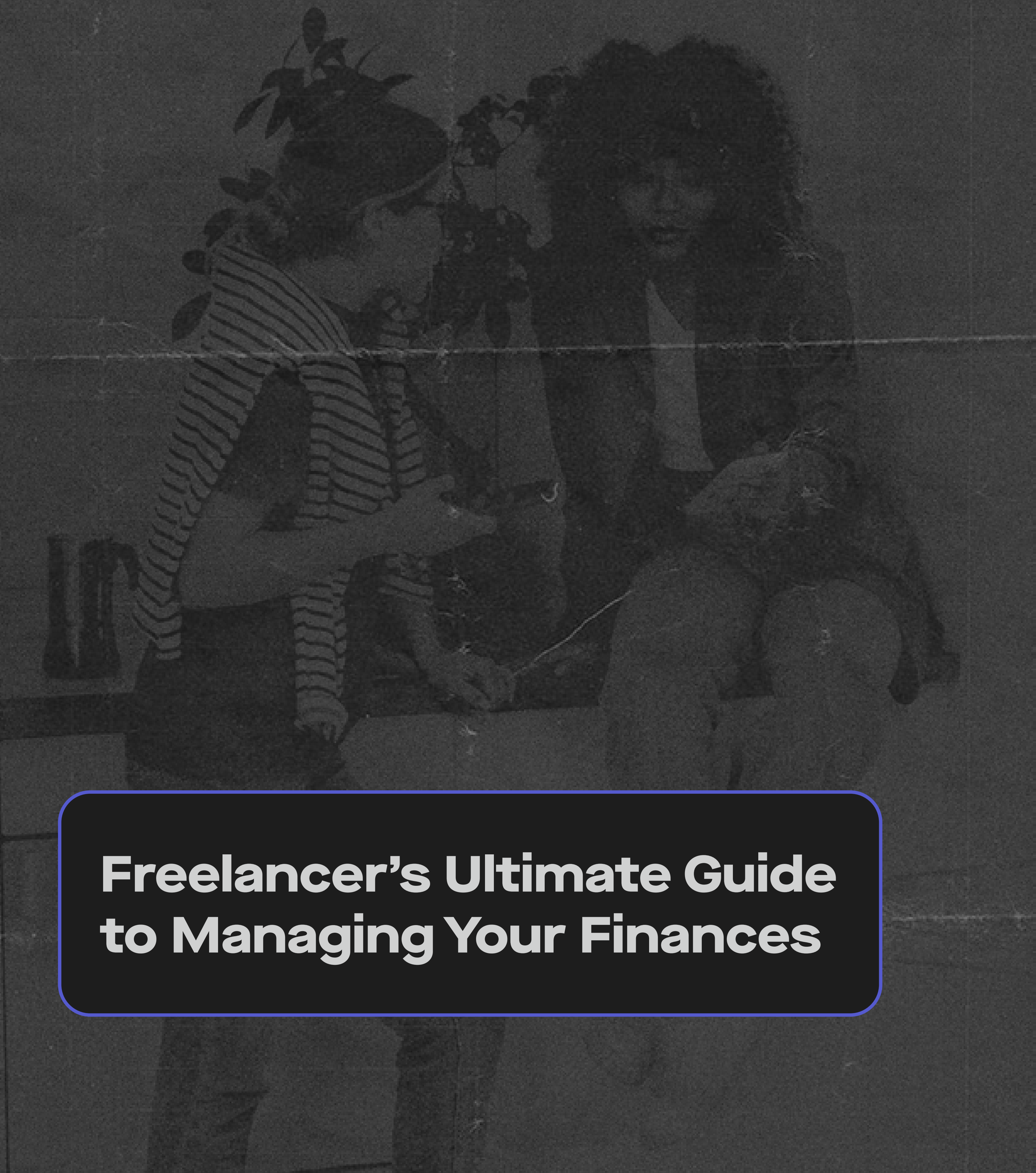
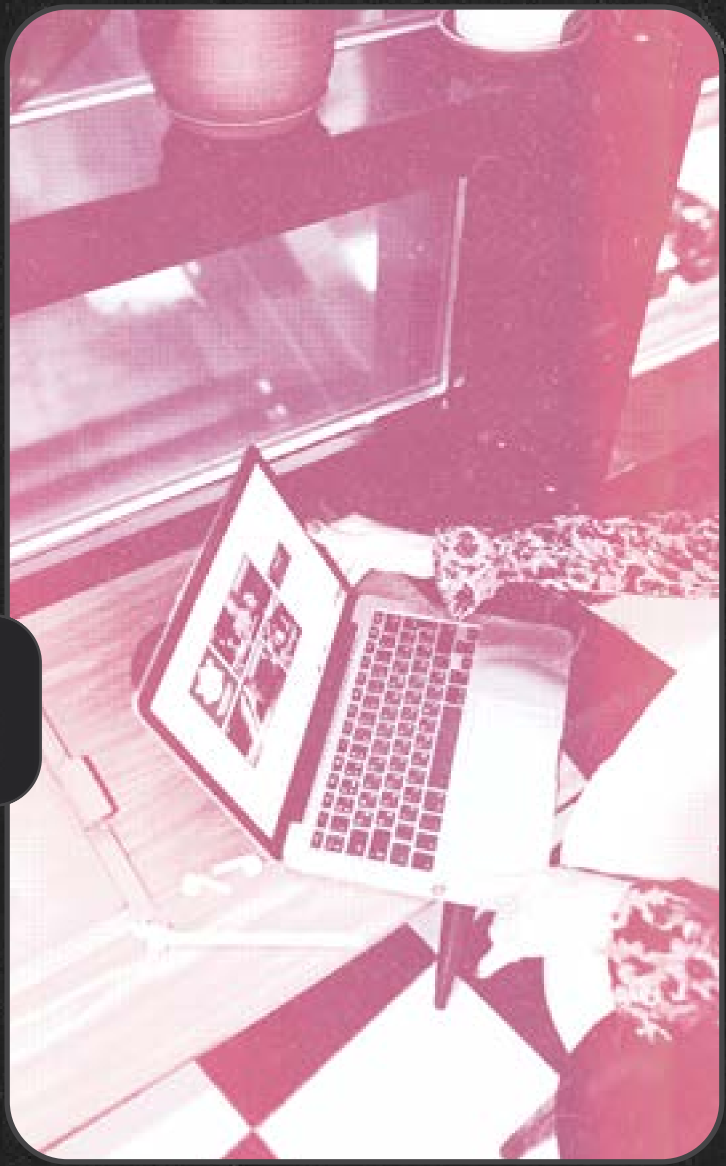


Freelancer's Ultimate Guide to Managing Your Finances

If you're worried about the financial side of freelancing, you aren't alone. In fact, 70% of freelancers say they're concerned about being able to fund their savings, and 68% are concerned about their ability to financially plan for retirement.

Reality is, setting your freelance business up for financial success takes some grit and organization. However, it doesn't have to be overwhelming.

If you're confused about where to start, here's a complete guide to getting your finances in check as a freelancer.



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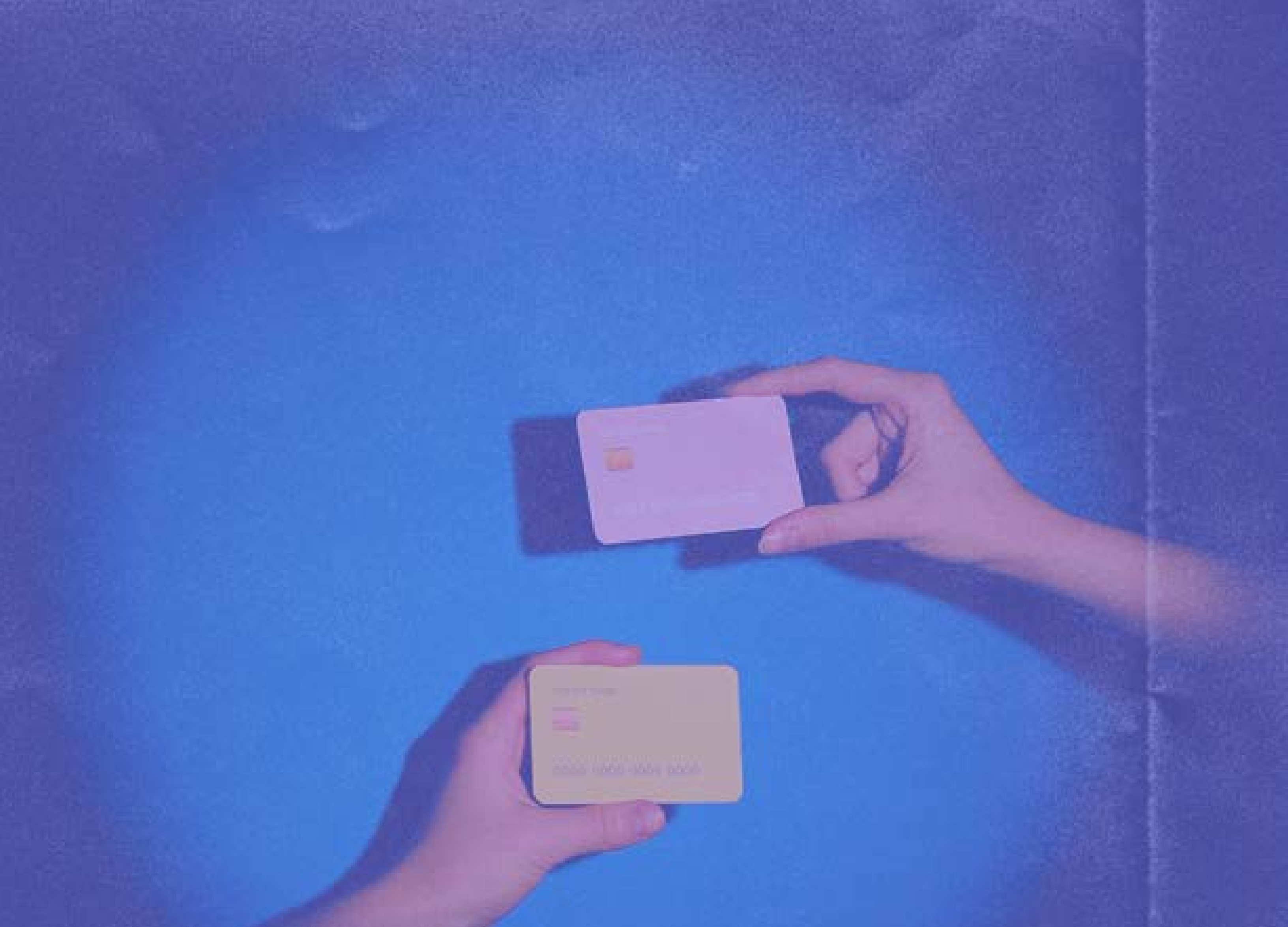

Separate Business and Personal

First step: separate business and personal. I know. If you’re just one person running the business, why separate business from personal? Isn’t business income…personal income?

While you aren’t required to have a separate business bank account, there are a variety of benefits to opening one:

01. **You can track income growth more easily.** It's far easier to see how your business income is growing when it isn't mixed with personal pay.

02. **It helps you keep track of expenses more easily.** A bank account muddled with your business expenses and personal expenses will be like a bowl of alphabet soup. When it comes time to file your taxes, it'll be challenging to differentiate which is which.

03. **It can make saving for taxes easier.** As a freelancer, it's your responsibility to save a portion of your income for taxes. With just a personal bank account, you'll need to be diligent about saving a bit each time you get paid. Then, you'll need to be careful that you don't accidentally spend it.

    Having a separate business bank account will allow you to keep tax savings separate so there's less room for error.

04. **It can make tax season a breeze** (or as close to a breeze as humanly possible...). When tax season rolls around, you'll need to be able to prove both your income and expenses. With a business checking account, you can simply download your bank statements and boom — you have a record of everything. If things are intertwined, it'll be a bit more complicated.

05. **It limits your liability if someone were to sue you.** I know. Not the most dreamy or comfortable thing to think about. But it can happen, and it's better to be prepared.

If your personal and business assets are intertwined, both are up for grabs if someone sues you (And it goes both ways — if someone sues you as an individual, your business assets can be part of the lawsuit. Likewise, if someone sues you as a freelancer/business, your personal assets are at risk.) Separating the two means you can only be sued for one category of assets, leaving the other fully protected.

In sum: Tax season as a freelancer can be confusing. Separating business and personal from the get-go can save you a whole lot of strife down the road.

Set Financial Goals

Step two: Figure out where the heck you're headed. Scaling your freelance income takes some intentionality. I mean, if you aren't sure where you're headed, how can you take steps to get there?

Setting money goals will allow you to visualize the future and create small checkpoints to track your progress. Consider setting goals in three ways:

< 12 Months

Short-Term Financial Goals

Short-term financial goals are those you'd like to achieve in the near future. Typically, this is within the next few months or years.

For example, you may set a short-term financial goal to:

- Raise your rates by $5 per hour
- Replace your lowest-paying client with a higher-paying client
- Make an extra $500 per month
- Save for a new $5,000 camera

3-5 Years | **> 10 Years**

Mid-Term Financial Goals

Mid-term financial goals are somewhere in between. Typically, they're around three to five years away, although the timeframe can vary.

For example, you may set a mid-term financial goal to:

- Scale profit by 150% so you can hire your first employee
- Develop and scale a passive offer that generates $3,000 per month

Long-Term Financial Goals

Long-term goals are ones that require a decent chunk of money or effort and are typically more than ten years away. Think big-picture expenses like saving for retirement, your future child's college education, or paying off a large loan.

For your freelance business, long-term financial goals may look like:

- Scale to $500k per year in sales
- Sell the business for $50k+

Once you've got your goals in mind, write them down. It's psychologically proven that getting your financial goals written down makes you more likely to achieve them (and we're not takin' any risks out here).

Make the Goals Achievable

Before setting just any goal, make sure you're setting it intentionally.

Do an audit of where you're at. Think about goal-setting like Google Maps. If you don't pick a starting place, it's hard to calculate how long it'll take to get to your destination. Do an audit of where you're at now, taking into account the factors relevant to your goal. For example, if you want to make $100,000 next year, think about where your income is at now, so you can figure out what smaller steps will be necessary to get there.

Pick the right timeframe. We're all for dreaming big. But, it's important to be realistic about the timeline of achieving your goal. Is it something you can achieve in the short-term? Or does it need to be a long-term or mid-term goal?

Determine your checkpoints. It's easy to feel like you aren't making any progress toward your goals, especially when they're far into the future. However, this feeling of defeat is a one-way ticket to ditching your goals.

So, break your financial goals into smaller pieces that you can use as checkpoints to measure your progress. For example, if you want to save for a new $5,000 camera in one year, set a goal to save $416 per month.

Create a method to track your progress. Whether you find an accountability partner in a freelancing Facebook group, a Google Sheet template, or an app like Boost, find a way to track your progress. Seeing your progress can be motivating, especially when the goals feel intimidating or far away.

Reward yourself along the way. Not to get all Bill Nye the Science Guy on you, but rewarding your progress is actually scientifically proven to be crucial in maintaining a habit. In fact, by associating a positive reward with a certain behavior, your brain is more apt to crave the behavior. Give yourself meaningful rewards when you hit those "checkpoints," and doing the necessary things to hit your goals will become habitual.

Track Income vs Expenses

Step 3: Track your income and expenses. This isn't the juiciest of topics, but stick with us.

Why You Need to Track Your Freelance Income

If you've been in the freelance game for even a hot second, you know it's easy to lose track of which invoices have been paid and which haven't. But, knowing how much you've made is crucial for a couple reasons:

1. You'll need to save a portion of your income for taxes. If you aren't sure how much you've made, it'll be hard to estimate your taxes accurately.
2. You'll need accurate records of your income to make sure your 1099s are accurate.
(More on that later.)

Developing a system to track your income is crucial, and it's easier to set it up before things get busy.

Why You Need to Track Expenses

As small business owners, we've got to be savvy. If an expense is both ordinary and necessary to your business, you can claim it as a business expense. By doing so, you'll reduce your overall taxable income (a.k.a. You'll pay less in taxes).

For example, if you're a freelance social media manager, a monthly analytics tracking software would be a reasonable expense to write off. Having an accurate record of all expenses will come in handy when it's time to report it to the IRS.

How to Track Your Income and Expenses

While a Google Sheet may suffice in the beginning, it's easier to pick a method you can grow into as your business grows. So, your best bet is a robust accounting software.

By connecting your bank account to an accounting software, like Boost, you can automate your income and expense tracking. While you may need to make a few updates or adjustments later, the vast majority of it will be taken care of for you.

Then, come tax time, all of the information will be in one place, making it far easier to find the information you need to file.

Navigating Freelancer Taxes

Step 4: Prepare yourself for tax season. If the sight of the word “tax” is already sending you into a spiral, we got you.

Here’s the scoop (in a digestible, not-so-overwhelming way):

1. As an employee, your employer withholds a portion of your income for taxes. However, as a business, it’s on **you** to save a portion of your income to pay taxes later on.

2. Tax experts recommend saving around 30 percent of your gross income for taxes. Be aware, however, that depending on where you live and how much you make, you may be subject to higher taxes.

How to File Freelancer Taxes

To complete your freelancer taxes, you’ll need to:

Collect Your 1099s

As an employee, you’d likely file a W-2 tax form. You report your wages from one source and the taxes that have been withheld so far.

As a freelancer, however, it isn’t as simple. Your income likely comes from a variety of sources and could be for a variety of projects. To help the IRS understand where your income came from, they developed the 1099. A 1099 is a tax form that summarizes the income you’ve made with a client.

For example, let's say you worked with two clients throughout the year. With one client, you earned $5,000, and with the other, you earned $10,000. Regardless of how many projects you worked on with each client, you still made $5,000 with one and $10,000 with another.

So, you would file two 1099s, one that says you made $5,000 with the first client and one that says you made $10,000 with the second client. Then, when the IRS sees that you made $15,000 of self-employment income, they can say "Ah, right. $5,000 from here and $10,000 from there. Makes sense."

For any client you've earned over $600 from, you'll need to acquire a 1099. Simply reach out to the client and ask for a Form 1099-NEC. Make sure to be proactive in reaching out so you can get all the necessary forms in time.

Gather All Your Information

To file taxes, the IRS will need to know who you are. So, you'll need information like:

1. Your social security number
2. Your spouse's full name, social security number, and date of birth (if applicable)
3. Records of any dependents you may have
4. Bank routing and account numbers

Choose How You Want to File

If you only have a few 1099s, consider filing with an online software like TurboTax, H&R Block, or TaxAct. If you're more of a "but what if I commit tax fraud by mistake?" kind of person, it may be best to work with a tax professional. You can hand over the entire process to a Certified Public Accountant (CPA) or work with a collaborative service like Collective — whichever you feel more comfortable with.

Pay What You Owe

Because you haven't paid taxes on your income just yet, there's a good chance you'll owe money to the IRS. (This is where you whip out that 30 percent you've saved all year.) Note that you may not wind up owing the entire 30 percent you've saved depending on the tax deductions you take.

If you have questions, don't be afraid to hit up the IRS' free customer service line.

Saving for Retirement

While retirement might feel far away, starting to save for it early is key, especially when you're self-employed.

With an employer, you may receive a company-sponsored 401(k) with a match. For every dollar you contribute, your employer will match (up to a certain percentage of your gross income). As a freelancer, however, it's on you to contribute the whole amount.

While there are a variety of ways you can save for retirement, the four most common investment vehicles for self-employed individuals are:

1. Roth IRA
2. Solo 401(k)
3. SEP IRA
4. SIMPLE IRA

Each has their own pros and cons depending on what you're looking for and the stage of your business. Regardless of the account you choose, the key is starting to invest early and intentionally.

Final Thoughts

Getting your finances in order as a freelancer isn't necessarily fun. However, getting your 'ish together from the get-go will save you a lot of strife later on. Be intentional about how you build the financial foundation of your business, and don't be afraid to lean on other freelancers if you have questions along the way.

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

Have multiple clients and want help getting your finances in order?

Go to tryboost.com and sign up for the Waitlist!