



# TAXES FOR FREELANCERS

**Oh boy, more paperwork!** But it's worth it to have your own business and call your own shots, after all, and we're here to make it easier with a few handy checklists.

## Step 1: Hobby or business?

If your activity is a business, you may be able to get a tax break for any loss for the year. Hobbies aren't so lucky, so it's important to know if you're running a business or funding a hobby as you go to file your return.

To figure this out, check the statements that apply:

- I treat the activity like a business.**
- I depend on the income for my livelihood.**
- I've made a profit in similar activities in the past.**
- The time and effort I spend implies I'm aiming for a profit.**
- I (or my advisors) have the knowledge needed to run a successful business.**
- My financial losses are normal in the startup phase of a business.**
- I've adjusted my operation methods to improve profitability.**
- I've made a *profit* on the activity in more than one year.**
- I expect to make a future profit from the appreciation of any assets I use.**

If you checked more than half of these, you probably have a business.

## Step 2: Do I have to pay self-employment taxes?

If you had more than \$400 left after your expenses, then you'll owe self-employment taxes on that profit (profit = income - expenses).

<b>Your total self-employment income:</b>		\$
<b>How much you spent to run your business:</b>	-	\$ _____
<b>Profit (or loss):</b>	=	\$

## Step 3: Quarterly Estimated Taxes

You're required to make estimated tax payments (federal, and possibly state) each quarter to cover your tax obligation if you expect to owe \$1,000 or more in taxes on your freelance income.

**I expect to owe \$1,000 or more in taxes on my freelance income.**       YES       NO

Due dates are April 15, June 15 and September 15 of the current year, and January 15 of the following year.

## Step 4: W-9's and 1099's

When a single client pays you more than \$600, your client is required to send you a 1099-MISC detailing your pay information for the tax year. Sometimes clients drop the ball here, though—and when that happens, you'll need to pick up the slack.

**I was paid more than \$600 during the year by one or more clients.**  YES  NO

**The client(s) also requested a W-9.**  YES  NO

If you answered yes to both, you should be getting a Form 1099-MISC at the end of the year that details your exact payment and tax liability from that client.

If you answered no to both or either, you're still responsible to report the payment and tax liability information on your taxes, so be sure you keep good records of your transactions.

**Remember: Any income received from a client, even if less than \$600, is subject to income tax and must be reported on your tax return.**

## Step 5: Allowable Deductions

Remember those expenses we talked about? You can reduce your tax liability with expenses like these, as long as you have documentation to prove that they were for business purposes only. To be deductible, a business expense must be ordinary, necessary, and directly related to your business.

### Here are some expenses you could deduct:

- Advertising and marketing
- Auto expenses or mileage
- Bad debts
- Business association membership dues
- Cell phones and internet (only the percentage used for business)
- Depreciation
- Education expenses
- Employee fringe benefits
- Home office expenses
- Insurance
- Interest
- Inventory creation costs
- Legal, tax preparation and professional fees
- Office supplies and equipment
- Pension plans
- Rent expenses
- Repairs for basic maintenance
- Taxes
- Travel, meals and entertainment
- Website development and hosting

Any self-employment income and related expenses will be reported on a Schedule C, Profit or Loss from Business when you file your taxes. If your total expenses are less than \$5,000, you can usually use the shorter Schedule C-EZ.

## Step 6: File with 1040.com!

When you file with 1040.com, you can get your taxes done in one sitting, *and* do some good for the world while you're at it.

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