

KELSEY WRITES *Magic* WORDS

Taxes 4 Freelancers

HOW TO DO
TAXES AS AN
ENTREPRENEUR



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Okay, you guys. Full disclosure: I HATE this stuff. But that's EXACTLY why I put this together... **I have a sneaky feeling doing your taxes makes you feel intimidated / anxious, too.**

Calculating and filing your taxes is the ultimate worst "adulting" task out there, IMO. It's hard enough being an entrepreneur without the added stress of taking a big hit in taxes, or even knowing if you're doing everything right!

Please keep in mind that if you are *at all* worried, it's best to hire a professional. But if you want some guidance about where to start, what questions you should be asking, and practical tips to make tax season easier on yourself and your business, keep reading.

Since starting **MAGIC WORDS**, my copywriting & entrepreneur coaching business, I've learned a TON about things like 1099 forms, W2's, how to track your income, deductible expenses, the "Self-Employment Tax" (surprise!), etc.

I'm sharing everything I found simply because I want to save you as much grief as possible this tax season. My biggest goal is to empower entrepreneurs and freelancers in every way I can, so I hope this helps you when it comes time to do your taxes for 2018!

The Legal Stuff: Freelance Taxes 101

As a freelancer, the IRS considers you both the employee *and* the employer. Because of this, **freelancers are responsible for paying a Self-Employment Tax of 15.3% in addition to their income tax.**

This self-employment tax is to cover your Medicare and Social Security taxes. People who are NOT self-employed have those taxes taken out of their paychecks automatically. That's why freelancers get hit with it while those employed by a company don't.

So, how do you figure out what you owe and how to pay that extra self-employment tax?

You calculate and report your total earned income as a freelancer using the **Schedule SE** form, the **Schedule C** form, and **Form 1040**.

The **Schedule SE** form *calculates* your self-employment tax by adding your income up. The **Schedule C** form takes your profits *and* your deductions and gives you a tidy single number to *report* that income to the IRS using **Form 1040**.

PHEW!

You *might* be able to deduct the employer portion (50%) from your self-employment tax total on your 1040 form.

Income Taxes: Keeping track of your freelance income

This sounds like it should be a really simple task, but for many freelancers keeping track of your income from a bunch of different clients can be really challenging. You may get paid not only from many different *clients*, but using many different *methods* such as PayPal, Venmo, direct deposit from a freelancing site like Upwork, Square, personal check, or credit card service.

Magic Lesson: Tax software like Quickbooks doesn't always have a place for all the information I like to keep track of when it comes to my business/income. Because of that, I like to keep track of every payment I get on a Google spreadsheet (excel works too!). I label the columns with any info I might need to know such as:

- Date I booked the job/client
- Client/company name
- Type of work/project I'm doing for them (copywriting, consulting, marketing)
- Platform they hired me on (My Website, UpWork, Social Media/word of mouth...)
- Amount of \$ I quoted them
- Deadlines for delivery

- Date work was delivered
- Date I was paid
- Commissions or service fees, if any (this is for sites like UpWork and PayPal who take a small percentage from your total paycheck)
- How I was paid (Venmo, Paypal, check, etc)
- Total Net \$
- Any additional notes I have about the job/client

If you didn't keep track last year, don't worry, you're not completely up Schitt's Creek. It's time consuming, but you can go back through your bank statements and create a spreadsheet to easily see everything you need before filing.

Track your deductible expenses

Not only do you need to keep track of your income, but also your deductible expenses. It's always better to be safe than sorry when it comes to knowing what things you can deduct, but usually you can legally deduct anything that is a direct expense of your business. **According to the IRS, you can claim any expense that is "ordinary and necessary" to operate your business.**

When it's time to file, you use the "Schedule C" form to calculate/report how your deductions affected your total income for the year. The IRS says: "Use Schedule C to report income or loss from a business you operated or a profession you practiced as a sole proprietor. An activity qualifies as a business if:

- your primary purpose for engaging in the activity is for income or profit, and
- you are involved in the activity with continuity and regularity. "

From my personal research/experience, here are a few things for freelancers and entrepreneurs to check and see if they qualify for deductions:

- In-home internet service if you work from home
- Computer/laptop
- Car mileage driving to/from client meetings (I keep track of this with the helpful app "MileIQ")
- Meals bought during business or client meetings
- Apps or software you use for your business
- Memberships to professional organizations
- Education/Classes you took for your business
- Physical supplies you purchased (this is especially important if you sell physical goods)

Magic Lesson: If you're making (or spending) more than a few hundred bucks each year with your freelance hustle, it might be a good idea to get a separate (business) credit or debit card for your business expenses. It keeps everything organized *automatically* and makes it way easier to immediately deduce what was a business versus personal expense over the course of the year.

1099 Forms; what are they and do you need one?

If a client pays you more than \$600 over the course of the year for freelance services, they are supposed to provide you with a 1099 form for your taxes. **BUT WAIT, POLT TWIST!** Did you know there are TWO types of 1099 forms?? (I didn't until this year). There are 2 types of 1099's: 1099-K and 1099-MISC.

Both 1099-K's and 1099-MISC's report the total income you earned during the year from an employer. The difference lies in HOW you got paid.

1099-MISC is for *miscellaneous* income. Meaning, if your client paid you more than \$600 over the course of the year for services, they can send you a 1099-MISC. A 1099-MISC is typically for money paid to you in cash, check, or direct deposit.

A 1099-K is for payment card and third party network transactions such as Paypal, credit cards, or third party sites like UpWork.

Because these forms BOTH report income, it can be easier than you'd think for income to get accidentally reported twice. For example, say you write marketing emails for a company and charged them \$1000 last year. That income can get reported on a 1099-MISC. But say they *paid* your \$1000 invoice with a credit card. *That* can get reported on an additional 1099-K. (You're only responsible for paying taxes on ONE 1099 form). This is why it's good to keep records as you go so you can compare totals and make sure you don't get hit twice.

How to report your income/deductions safely

Now that you have all your ducks in a row, gather everything and get ready to file:

- Your 1099-MISC's
- Your 1099-K's
- Any W-2's from other outside income sources/companies
- A Schedule C form to calculate how your business-related expenses/deductions impacted your total yearly income
- A Schedule SE form to calculate you self-employment tax

- Form 1040 to report your self-employment income

There are a couple options at this point:

- File yourself by downloading the forms off the the IRS website and mailing them in
- Use a secure filing service like TurboTax or H&R Block
- Take your stuff to a pro

Again, if you have any doubts I highly recommend going to a pro. It costs \$ to use their services, but they can actually end up saving you a lot of money (and a lot of grief if you get audited for any reason later).

If you're feeling confident that all your info is accurate, it's great to use a filing service like TurboTax or H&R block. (Then you don't have to worry about things like Schedule SE, Schedule C or Form 1040- they calculate it for you.) They have modules/ programs that can guide you through declaring your income, figuring out deductions, and filing your taxes in a thorough, safe, seamless way. This is what I normally do now that I've filed a few times and have it (mostly) figured out.

If you're feeling SUPER DUPER confident, you can download the forms you need directly from the IRS's website and mail them in yourself. This is the most cost-effective solution, but again, keep in mind that you are entirely responsible for making sure everything is Kosher and on the up-and-up.

P.S. for 2018 Taxes: The Tax Reform Bill and how/if it affects you

The government passed a bill last year called the "Tax Reform Bill" that may affect how much you have to pay in yearly taxes. Read more on my MAGIC WORDS blog post!