

7 Tax Tips for Freelancers

The United State's workforce population is packed with freelancers. To be precise, 35% of the workforce consists of freelancers. That amounts to 55 million freelance workers, according to an analysis by Upwork and Freelancer's Union. All of these freelancers are required to pay taxes by the Internal Revenue Service (IRS). Whether you're a newbie or a long-time freelancer, you may have already known that for a fact.

We understand that paying taxes as a freelancer is different from paying them as a traditional employee. As a matter of fact, traditional employees don't have to do much in paying taxes. Their employers do it for them by taking from their monthly income. However, there are several easy tips to help freelancers deal with taxes effectively. If you want to know about them, stay with us here for a few minutes.

Identify Your Deductible Expenses

Among the perks of paying taxes as a freelancer is that there are certain expenses that you can deduct out of your taxable income. What expenses are considered deductible? Well, as long as an expense is necessary for your freelance business, then it's a deductible expense.

Here are the primary examples of deductible expenses:

- Travel expenses
- Office supplies for creating documents (e.g., [contracts](#), [proposal letter](#), progress report)
- [Tools and resources](#) for your freelance work and [portfolio](#)
- Marketing and promotion costs on social media and [freelance websites](#)
- Internet connection bills
- Computer software or applications subscription
- Insurance expenses

Take note that even though a particular expense is only partially for business purposes, you can divide it and make the other half a deductible expense. For example, you work using your WiFi connection for four hours, and you use it for leisure for ten hours each day, and let's say your monthly WiFi bill is \$65. Because you use your WiFi for four hours for work, you can take 40% of the \$65 as your deductible expense. The remaining 60% will be part of your taxable income.

Take Advantage of Home Office Tax Deduction

For sure, you're doing your freelance work at home and not in cafes, right? Well, if you indeed work at home, we encourage you to take advantage of home office tax deduction. Expenses that you need to cover for your home will be subject to partial tax-deductible. Why partial only? That's because you're also using your home as your personal residence, and that's counted as a personal expense. But even though the deduction is just partial, it's a big help on your finances, nevertheless.

Here are expenses that are qualified for home office tax deduction:

- Rent
- Utilities
- Mortgage
- Loan
- Home insurance

Remember that those expenses are only qualified for a home tax deduction if you're doing your freelance operations at your residence. An auditor from the IRS will likely look for proof that you work at home. So, make sure to show evidence of it.

Get a Health Savings Account

Unfortunately, as a freelancer, you won't have any HMO coverage from a company or organization because of your self-employed status. When you need to get some sort of medical service, you have to pay it from your own pocket, and that adds to your taxable income. For that reason, we advise you to enroll in a health savings account (HSA).

An HSA enables you to cover your medical expenses with tax deduction. That said, you'll no longer have to pay for the full tax rate with an HSA. But before you can get an HSA, you have to enroll in a high-deductible health plan beforehand. If you enrolled already, then don't hesitate to get an HSA as soon as possible. You should also know that your contributions to an HSA are not subject to income tax.

Get an Individual Retirement Arrangement

An Individual Retirement Arrangement (IRA) reduces your income tax through your contributions to it, that's from the perspective of the IRS. In that case, the taxes you'll owe to the IRS will be lessened. Plus, having an IRA will provide you financial stability when you retire from freelancing or any work that you do for a living. The more you contribute to an IRA, the more retirement money you'll get once you settle.

Keep Every Receipt

From now on, practice keeping the receipts of everything you purchase, be it personal expenses or business expenses. Receipts are the most credible documentation of your buying activities, and you'll need them if an auditor from the IRS visits you. Having real copies of your expenses' receipts will serve as your security from being wrongfully accused of tax evasion or fraud. Aside from tax matters, keeping receipts is also one of the essential [tips for freelance workers](#). It helps you monitor whether your spending activities are still within your [budget](#) or otherwise.

Use Software Tools for Budgeting

Remember that the more money you spend, the more you have to pay for taxes. As a freelancer, spending too much and straining your budget won't enable you to [achieve a steady income](#). So, to help you monitor your finances, you should consider using software tools for budgeting. With their help, tracking where your money goes and knowing which falls for tax payments will be easier. Some budgeting apps or software can even double as your tool in creating [quotation](#) statements, bills, and [invoices](#) for your clients.

In general, manually overseeing your finances is more work that can add to your stress. For that reason, you should take advantage of the convenience that software and apps provide.

Consult an Accountant If Things Get Complex

There's no shame in getting confused about how your financial activities affect your income tax and vice versa. It doesn't imply that you're being irresponsible about managing your finances. It's understandable because taxes can really get complicated at times. So, if you're having difficulties, don't hesitate to consult a certified public accountant or CPA. A CPA can help clear things up for you. And if a CPA sees discrepancies with your financial records that could cause tax issues, he or she will fix them before they escalate.

Yes, hiring an accountant will cost you some money, but you'll lose even more money due to mismanaged finances. With that in mind, consulting with an accountant is a precautionary measure you must take.

Paying and managing taxes doesn't have to be complicated and draining. There are easier yet legal routes to fulfill your tax obligations without putting much of your

financial assets on the line. By applying the tax tips we've discussed in this blog, you could start having a stress-free freelance career moving forward.