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A Freelancer's Money Management Techniques

Kate / March 25, 2014

Guest post by my talented friend [Becky](#), who very bravely started her own business a few years ago. Becky is even more knowledgeable about personal finance than I am (can you believe it?!) and she knows about managing a small business- something I know nothing about. Thanks, Becks!

You can follow Becky at [@thebeckyhamm](#), if you love her advice already!

A Freelancer's Money Management Techniques

I've owned my web design business for 2 years now. Going from a well-paying salaried position to freelance was a huge shift in the way I thought about money, but the basic principles remained the same. Here's my general process.

Note: Since very small businesses is what I know best, this article is geared towards them. If you have a brick-and-mortar type location, your cost structure will be quite different.

Setting Things Up

As a freelancer, there are a few things you need to take care of before you get to the "making millions of dollars" portion of the job.

One warning: starting a business isn't going to be as cheap as you Follow be. I'll try to

outline my costs for you so you can g

1. Register Your Business

If you are doing more than just babysit an LLC or a corporation. This is best if you have very knowledgeable parents/friends/relatives. If something goes wrong down the road, you can officially register. In Florida, you can register in the state.

2. Get Your EIN

Get your [EIN \(employer identification number\)](#) for your business, and sometimes clients

3. Hire an Accountant

Hire an accountant. This can't be said enough. You will not be able to fill out a 1040-EZ anymore as a small business owner, and taxes will turn into a giant headache. Yes, they are more expensive than the DIY approach, but I can tell you from experience that they are DEFINITELY worth it. I saved over \$5000 this year because I used an accountant. Depending on how much money you make, your accountant will help you file either a personal return or as an S-Corp. The difference can mean thousands of dollars for you.

Getting your tax return done by a professional can cost between \$200 and \$1500/year depending on how you file. Yep, \$1500 sounds like a lot, but you'll save more in time and money by going with an accountant.

4. Separate Your Business \$\$ from your Personal \$\$

Open a business checking and savings account. I am a self-professed hater of Big Banks and their ridiculous fees, so make sure you check out your local banks and credit unions for good accounts with no minimum balances or weird rules. At credit unions, opening an account is usually free!

5. Track Your Expenses

For my first couple of years, I tracked expenses in Excel. I kept all of my receipts in one place and matched them up against my business checking account to make sure everything was gravy. However, I just started using Quickbooks Online, and holy crap my life is so much easier now. Since it connects to my business account, all I have to do is enter mileage. Awesome! It's worth the \$11/mo for me.

Income

There's one main rule with your income: deposit all of your hard earned money into your **business** checking account. I highly recommend NOT putting it straight into your personal bank account. It's much easier to keep business expenses separate from personal expenses this way.

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Taxes

You may be scraping the bottom of the barrel your first 6 months (or year...or two years) as a new business owner, so it is very tempting to just “think about taxes later”.

Unfortunately, Uncle Sam doesn't agree.

It sucks, but you need to take out a good chunk of that payment you received and keep it for taxes. Here's what I do:

1. Once you see your deposit show up in your **business** checking account (because you did open a business account, didn't you?), immediately transfer 25-35% of it into your business savings account. That savings account is for Uncle Sam.
2. If you want to keep things more separate, open 2 business savings accounts – one for true business-related “savings”, and one for ol' Sammy.
3. Consider how much “spending money” you want to keep in your business checking account for expenses like software programs, notepads, conferences (airfare, hotels, food, etc.), and any other regular expense. I leave a minimum in my account for that purpose. Depending on a lot of different factors, my business expenses range from \$2000-\$5000/year.
4. After you've transferred away much of your hard earned cash or determined to leave some for expenses, then feel free to move the remaining money over to your personal accounts. You can do this by setting up a transfer between your accounts, or just write yourself a check.

~~Every quarter, I pay the IRS my quarterly estimated taxes.~~ Edit: I used to do that. Now I talk to my accountant to figure out whether I need to submit estimated taxes, “payroll” taxes, or pay at the end of the year. If you do submit quarterly taxes you can send Sam a check via snail mail, or send it online through [EFTPS \(the Electronic Federal Tax Payment System\)](#).

Saving and Investing

As Kate has so thoroughly described on her blog, [saving is massively important](#). What will you do when your transmission fails? Or your dog swallows a rock and needs surgery? Or your computer implodes? Your first line of defense should be your emergency fund, followed by your regular checking account, followed by your credit card (because I sure don't know anyone who enjoys paying interest).

Emergency Fund

As a freelancer, there will be times when you have *just enough* money to pay your rent and you have NOTHING EXTRA for savings. Yep, it happens to everybody. It's ok. There will be other months when you are rollin' in the dough, a la [Scrooge McDuck](#) (though perhaps on a smaller scale), and you can use that extra income to plan for your leaner months. For example, in my business I've learned that my 4th quarter is slow. So this year I'm saving more to compensate.

Accounting for these ups and downs take a little more effort than if you were getting a steady paycheck, but it is still relatively simple in the grand scheme of things. I have a few general rules that I follow when determining when and how to save.

1. Look at your checking account. Does the amount in there add up to at least a month and a half of your expenses? This is the point where I take out 30% of the amount I pay myself and transfer it to my personal savings. Yep, 30%. Yes it hurts, but not so much if you do it right away and just pretend it wasn't in your checking account to begin with. Even better, you can transfer money DIRECTLY from your business checking into your savings. Ta da! You've tricked yourself and helped your future self all the same time.
2. I have some semi-regular contract gigs that I receive checks for each month, and one or two side gigs that are irregular. Sometimes I put the entire side gig check (sans tax) straight into savings. I don't miss it from my "regular" income pool, and I'm preparing for any emergencies.
3. By the way, the bank I use for my personal accounts is [Charles Schwab](#). Guys, they are seriously the best. [I turned Kate on to them](#). If you're going to be putting your hard earned money somewhere, make sure it's somewhere that isn't charging you any dumb "maintenance" fees, minimum balance fees, foreign transaction fees, ATM fees, check fees, etc. Schwab charges nothing, you get all ATM fees refunded to you each month (you can use any ATM in the world), and their customer service is stellar. If they had business checking accounts, I'd be on it like white on rice.

Investing

When I worked at my old company, I had a 401(k) and a Roth IRA. As Kate says, a [401\(k\) is essentially the closest thing you'll ever get to free money](#), so if you still have access to one, TAKE ADVANTAGE OF IT.

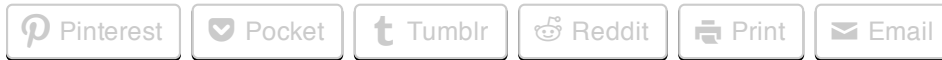
Now that I work for myself, I do not have the option for a regular 401(k) but there are other options like Individual 401(k)s or SEP-IRAs (Self-Employed IRAs). Do your due diligence: if you don't already invest, talk to some of the more reputable (note I said reputable, not famous) investment firms and see what they have to offer. Personally I use [Vanguard](#), but I hear good things about [T Rowe Price](#) and [Fidelity](#).

If you can swing a 401(k) with matching by paying yourself and then matching yourself (another good reason to talk to an accountant), then start there. If you "max out" your pre-tax investing, then add anything else you want to invest to your Roth IRA.

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Now you're ready to manage your money as a freelancer! I told you it was easy. The hard part comes next – you have to make money in order to manage it. Best of luck!





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