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Money + Markets

A Freelancer's Guide to Filing Your Taxes



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Whether they're driving an Uber or designing websites, earning six figures via contract work or just some extra cash on the side, today's freelancers have become an integral part of the American workforce. One in three workers — more than 53 million people — now earn freelance income, [according to the Bureau of Labor Statistics](#).

The rise of the sharing economy and the ease with which technology platforms now match freelance workers with potential clients has helped fuel the increase in independent contracting. The ability to earn a living wage doesn't hurt, either. Last year, 18 percent of full-time freelancers, about 3 million workers, earned more than \$100,000, according to a report by MBO Partners.

[Related: The Best and Worst States for Taxes in 2017](http://www.thefiscaltimes.com/Media/Slideshow/2017/01/10/Best-and-Worst-States-Taxes-2017) (<http://www.thefiscaltimes.com/Media/Slideshow/2017/01/10/Best-and-Worst-States-Taxes-2017>)

While freelance work comes with lots of benefits, like a flexible schedule and the ability to choose clients, it also means far more complicated taxes on potentially significant income. "The rules for independent workers are as complex as any in the tax code," says Mark Steber, chief tax officer at Jackson Hewitt. "But they are also arguably the most beneficial."

While the audit risk is low (the IRS audited [less than 1 percent of small businesses](#) last year), if you don't know those complicated rules, you could be missing out on valuable deductions and the opportunity

to keep more of your earnings. If you're a member of freelance nation, read on for some tips on how to get through tax time with the least amount of pain possible.

1. Start early. The key to making sure that you've gotten all of the deductions to which you're entitled is to keep careful records throughout the year. As any freelancer knows, that's easier said than done, so get started now compiling receipts and updating your books. "The hard part isn't doing your taxes, it's getting together all your receipts and other documents," says Lisa Greene-Lewis, a certified public accountant at TurboTax.

[Related: 6 Red Flags That Might Get You Audited by the IRS](http://www.thefiscaltimes.com/2017/01/19/6-Red-Flags-That-Might-Get-You-Audited-by-the-IRS) (<http://www.thefiscaltimes.com/2017/01/19/6-Red-Flags-That-Might-Get-You-Audited-by-the-IRS>)

That will give you time to track down documentation for credit card and bank statements). Filing early also means you'll get your refund faster. Plus, you'll have less time to get booked up during crunch time in the last weeks before tax season.

2. Get professional help. Given their inherent complexities, hiring a professional for help at tax time. That will ensure that they can help you understand the rules and provide a resource if the IRS does ever come back for more information. More efficient than you'd be filing on your own, a key benefit is that you'll be able to deduct the cost of the hourly wage.

While good tax help can be expensive (at least \$100 per hour), a professional who uncovers one big deduction for you will easily cover her fee. Look for someone with experience working with freelancers and business taxes. "If you're doing any kind of significant business volume, you should have a tax adviser who can ask and answer questions about things that you haven't thought of yet," says Gil Charney, a director at the Tax Institute at H&R Block.

[Related: 4 Ways to Get Your Tax Refund Faster](http://www.thefiscaltimes.com/2017/01/24/4-Ways-Get-Your-Tax-Refund-Faster) (<http://www.thefiscaltimes.com/2017/01/24/4-Ways-Get-Your-Tax-Refund-Faster>)

3. Declare all your income. All companies for whom you worked during the year are required to send you a 1099 if they paid you more than \$600. This year, the deadlines for sending out 1099s has been moved up to January 31, so you'll likely start to see them in your mailbox in the next week or so. Remember that you're still liable for taxes on any income that fell below that threshold, and for any above it, regardless of whether you get a 1099 or not.

4. Consider your home office carefully. The home office deduction is one of the most valuable benefits of being a freelancer, since it allows you to write off not only a portion of your home, but also of maintenance costs such as utilities and depreciation. There's also a streamlined deduction available, which is based simply on the square footage of your office, but for taxpayers in places where home prices are high, that could mean leaving money on the table.

The rules for taking this deduction are fairly strict, however, so make sure that you're using a space that's dedicated exclusively for work. Because of the stringency of the rules, the home office deduction has earned a reputation as a red flag for auditors, but experts say there's no reason to avoid it. "If you're eligible, you're foolish not to take a home office deduction as a freelancer. It's very valuable, and it opens a lot of other deductions for you," says John Vento, a CPA and author of *Financial Independence (Getting to Point X)*.

[Related: 7 Easy Ways to Save \\$5,000 in 2017](http://www.thefiscaltimes.com/2016/12/28/7-Easy-Ways-Save-5000-2017) (<http://www.thefiscaltimes.com/2016/12/28/7-Easy-Ways-Save-5000-2017>)

5. Take advantage of retirement saving opportunities. Since freelancers don't have access to a 401(k) program provided by their employer, the IRS provides several fairly **generous options** (<http://www.thefiscaltimes.com/2016/04/15/Self-employed-Here-s-How-Save-Retirement>) for

tax-advantaged retirement saving. But studies have shown that freelancers are often less diligent about setting up and regularly contributing to retirement accounts than those who work for companies. Even if you didn't put any money away for retirement last year, you can still set aside money until April 18 and have it count toward your 2016 taxes.

6. Get organized for next year. Filing your taxes is a great opportunity to look for ways to improve your business and the record-keeping procedures you have in place. If you struggled to find appropriate receipts or didn't pay your quarterly taxes in 2016, start making changes to simplify the process next time, such as setting up a separate business bank account and credit card. "One of the best ways to establish and maintain a business as a freelancer is to keep your business stuff in one account and your personal stuff in another," Vento says.

Take some time to talk to your tax provider about what business as a different entity (an LLC versus an S Corp. advantage of the available options to save for retiremer

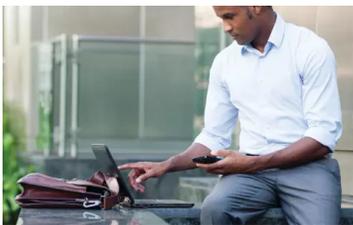


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