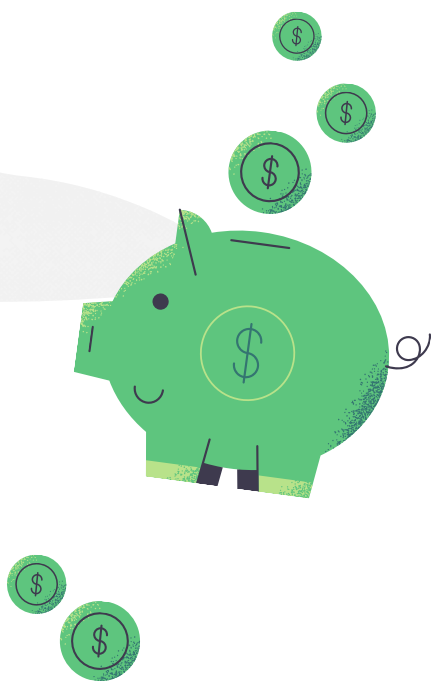


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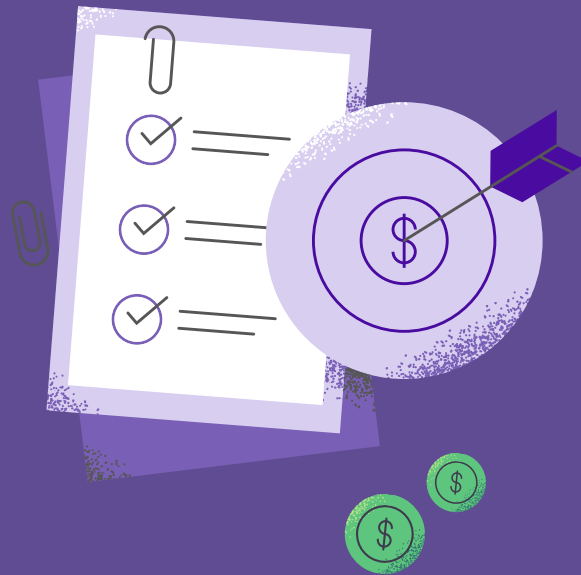


THE FREELANCERS GUIDE TO

FINANCIAL FREEDOM



I. Getting Started



Introduction

**First of all, we've got to say: congratulations!
You've taken a huge step toward financial freedom
simply by downloading this ebook. No joke.**

Do you know why?

Because so many people who decide to break out on their own and give freelancing a shot don't take the bookkeeping into account.

They sign on for new projects and start billing clients without taking the time to balance the books and track their spending. The problem is, you can't gauge how much money you're making (or losing) if you don't carefully track your finances.

Now, this ebook is not a comprehensive manual. It's more like a financial quick-start guide for freelancers seeking to level up their businesses. As such, it is chock full of tips to help you set yourself up for success in this new chapter of your career.

Even if you're not a "numbers person," even if hearing the words "tax season" makes you shudder, we promise that this ebook will equip you with the basics you need to make bookkeeping a breeze.

So you can focus on the work you're passionate about.
Now, let's get started!



What type of business should you file as?

Once you decide to turn your “side hustle” into a full-fledged business, you’ll have to decide what business entity your work falls under. There are three main entities for freelancers to consider.

1. Sole Proprietorship

A sole proprietorship is the default, meaning that if you haven't filled out any special paperwork, you're probably already operating under this title. You don't have to get permission from the government or pay any fees, though you may need a local business license. Check your city or county guidelines.

Sole props are cheap and easy to form, so it's the best choice if you're just starting out. Plus, under a sole prop, you and your business are considered one entity so you don't have to file taxes separately.

On the downside, that also means that you can be held personally accountable for all debts and liabilities your business incurs.

2. Limited Liability Company (LLC)

An LLC offers the best of both worlds: you get the flexibility and informality of a sole prop, along with the limited liability of a corporation. And like a corporation, an LLC is its own legal entity.

Your LLC can open bank accounts, own property, borrow money just like an individual would. You won't personally own any of these assets, but if a creditor comes after you or someone files a lawsuit against your business, they cannot seize your personal assets.

If you are a Single Member LLC (SMLLC) you can report profits, losses, and deductions on your Schedule C exactly as you would with a sole prop. Alternatively, you can choose to be taxed like a corporation. This might save you a little bit of money, but it does require some legwork.

3. S-Corporation

When you hear “corporation” you might think of stern-faced men in fancy suits sitting around a board room table. But corporations don’t have to be monoliths.

S-Corp is the most common for one-person businesses, and they are slightly easier (not to mention cheaper) to form than LLCs. In an S-Corp, income and losses are passed directly to the “shareholders” – in the case of a freelance business, you. Shareholders then report the income/losses on their own tax records, though the corporation still has to file an information return with the IRS.

While S-Corps can reduce the medicare and social security tax you pay, they can come with a lot of red tape. Be sure to research your state’s requirements.

Business Entities

	Sole Proprietorship	LLC	S-Corp
Pass-through Taxation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax Benefits	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Annual Fees	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Limited Liability Protection	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Talk to a certified public accountant (CPA) to determine the best solution for your business.

4 simple tips to set your freelance business up for financial success:

1. **Open a separate bank account for your business**

It may seem like a small thing but trust us: separating your personal and business finances will make life a lot easier. Not only is it easier to visualize how much money you're earning and spending on your business – it also makes filing taxes more straightforward.

2. **Create a business budget**

Once you have an idea of your monthly cash flow, set yourself a budget. Track your monthly and annual business expenses so you can set money aside to cover them. This will also help you estimate what you owe in quarterly taxes. More on taxes later...

3. **Open a retirement account and watch it grow!**

You'll want to research what kind of retirement account makes the most sense for your business, since it may vary from industry to industry. Whichever one you choose, we recommend you start saving as soon as possible! Since the funds you contribute now will appreciate over time, this can save you money in the long run.

4. **Set up a simple invoicing system**

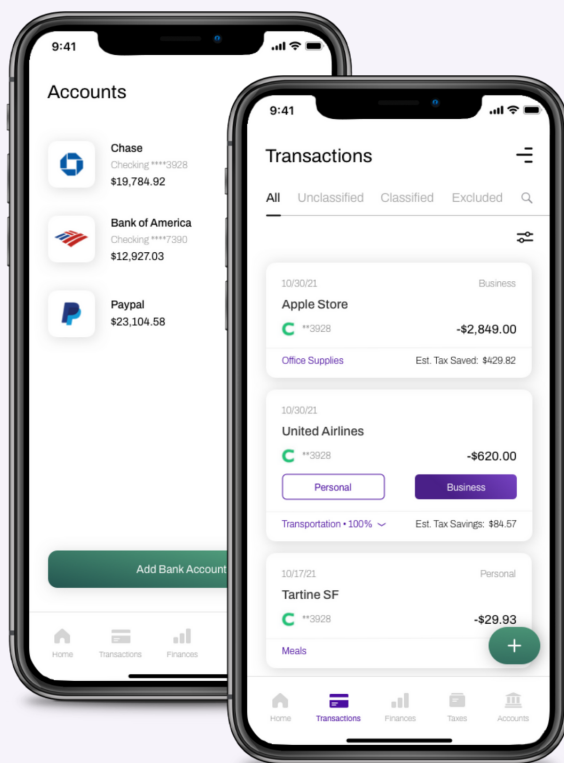
Before you even begin the hunt for new clients, be sure to have a solid invoicing system in place. It doesn't have to be elaborate, but you should clearly define the terms of payment in your contracts and set up a protocol to invoice clients (and send them occasional reminders!).

Check out our [free invoicing template](#) to get started!

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Lunafi Tip

No matter what kind of bank account you have, Lunafi allows you to classify business & personal transactions so you can view your earnings and expenses at a glance.



II. Bookkeeping Basics



Once you've established what kind of business entity you're going to be, the real challenge begins. You see, the hardest part about bookkeeping isn't invoicing clients or even filing taxes: it's consistency.

Tracking who owes you what and when your bills are due can be tricky. But finding a system that actually works for you (one that you'll stick with) is even trickier. Because let's be real: you're not going to follow a strict regimen of accounting tasks if you find them too tedious, confusing, or intimidating.

Here are a few pointers to help you find your stride and design your own system, so you can stay on top of your bookkeeping without disrupting your day-to-day work

Track everything.

Seriously.

Every nickel and dime adds up, so the sooner you start tracking your subscription fees, shipping costs, gas money, educational expenses, etc. the sooner you can project where your business is headed and what you need to do to financially prepare for the next quarter.

If spreadsheets make your eyes glaze over, Lunafi makes it easy to visualize these metrics with graphs that track your earnings by client, or charts that break down your expenses by category. Which brings us to our next item of business...

Itemize expenses & identify tax write-offs

It's not enough to know how much you're spending on your business: you need to know where that money is going so you can spot potential savings and tax write-offs.

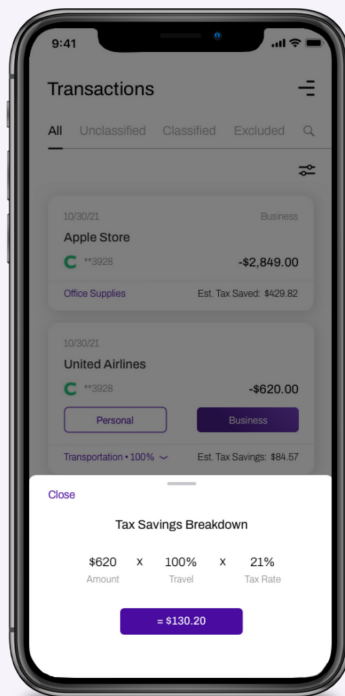
Try to categorize every business transaction.

Lunafi allows you to choose from standard tax categories – like office supplies, bank fees, and employee benefits – but we've also included career-specific categories like yoga gear, camera equipment, and cooking supplies.

You can also create “rules” in the app, so whenever you spend money at your favorite camera store, the app will automatically apply the correct tax category. Rules help you save time and money because they allow you to effectively train the app to act as your personal CPA.

Lunafi Tip

When you itemize an expense using Lunafi’s preset categories, the app will automatically calculate the estimated tax savings you’ll receive. For example, if you pay \$620 in airline costs (category “Travel”), Lunafi will automatically apply the 21% tax rate to show that you could save as much as \$130.20 by classifying this expense as a write off come tax season.



Keep quarterly reports

You can't see where you're going if you don't know where you've been. Creating quarterly reports allows you to identify financial trends and make projections for your business in the months, or even years, to come.

For example, you might notice that business slows around the holidays – but your bills keep coming. Leveraging these insights can help you set money aside earlier in the year so you know you'll have the funds to cover your lulls.

The end of the quarter is also a good time to review your earnings and expenses to see if you need to prospect new clients, or if there's anywhere you can tighten your belt. Ask yourself questions like:

Do you have enough projects in the pipeline to meet your revenue targets? Are you still using all the subscriptions you're signed up for? Or might there be a cheaper alternative to some of the tools you use?

These reviews will help you keep your business strategy focused on the bigger picture.

Finding the perfect bookkeeping system for you will take some trial and error, but it helps to start with a framework. If old-fashioned pen and paper isn't your style, you can sync [Lunafi's Accounting Checklist](#) with your Google calendar. All tasks will appear as daily, weekly, monthly, or quarterly events. Plus you'll get reminders for important dates, like when your estimated tax payments are due!

Checklist

Daily

- Track Hours spent on clients/projects
- Track cost per hour by client/project

Weekly

- Classify business & personal expenses
- Create rules for business expenses to automate classification

Monthly

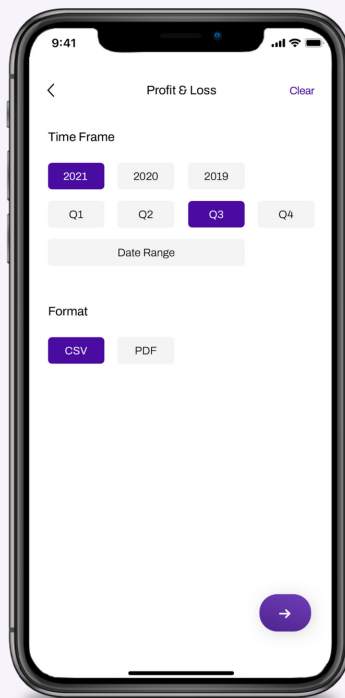
- Itemize business expenses & identify potential tax writeoffs
- Keep tabs on your monthly software subscriptions
- Send invoices/payment reminders
- Track estimated tax liability and compared to estimated quarterly payments

Quarterly

- Create and review quarterly reports: profit/loss + expense details
- Pay estimated taxes
- Aggregate tax writeoffs

Lunafi Tip

Our app makes it easy to export pdf and csv reports of profit and loss or expense details. Simply select your date range (or choose a year/quarter) and hit send. Within minutes you'll have a custom report delivered to your inbox.



III. Planning Ahead



How to pay yourself

As a sole prop or an SMLLC, you do not pay yourself a salary. Your business profit represents your earnings so you can “pay” yourself at anytime. If you’ve created a separate business bank account, this might mean scheduling a monthly transfer to your personal account.

Paying your salary as an S Corp gets a little more tricky.

As a shareholder/employee of an S Corp, you are required to pay yourself a salary. And just like any other employer, an S Corp must also withhold your income and employment taxes (social security, medicare & unemployment). At the end of the year, the S Corp will be required to issue you a W2.

Things get even trickier when it comes to managing “distributions” (or profits that shareholders receive), so we strongly recommend that you consult a tax professional or dig into the research before pursuing this path.

Create an emergency fund

No matter how good your reporting and predicting, life can throw you a curveball every once in a while so it's good to be prepared for the unexpected.

Keep at least 3-6 months of operating expenses in your business bank account in case of emergency. This emergency fund should cover all the essential costs of running your business – things like payroll, office rent, internet, etc.

Many freelancers, especially those starting out, may encounter periods of feast and famine – times when business is rocking and others when business grinds to a halt. Pay close attention to the ebb and flow of your business to see how you can prepare yourself financially for the year ahead.

Set aside some retirement savings

General best practices recommend putting 10-15% of your annual income into a retirement savings account though depending on the account you choose, there may be a cap on contributions.

As mentioned before, the best retirement account for you will depend on a number of factors including the industry you're in. We recommend doing your research to find the right fit, but here are a few of the best options for freelancers and solo-preneurs:

1. **Roth Individual Retirement Account (IRA)**

If your business is still young, your tax rate later is likely to be higher later than it is now. With a Roth IRA, post-retirement distributions down the road won't be taxed, saving you hard-earned money.

The downsides to a Roth are that the contribution cap is fairly low, and you can't deduct your contributions from your taxes now.

2. Self-Employed Person (SEP) IRA

With a SEP IRA, you get the benefit of deducting your contributions on your tax return today, but you will pay taxes on distributions later in life.

Another perk is the high contribution cap, though that can be tricky to calculate. It's also worth noting that if you plan to expand your business and employ people, you must include them in your SEP plan. What's more, each employee must receive the same contribution percentage that you give yourself.

3. Solo 401K

The Solo 401K is designed for the solo-preneur: a business owner with no employees. The perks are that the annual contribution limits are much higher than for most retirement savings accounts, and the plan can be set up for Roth deferrals.

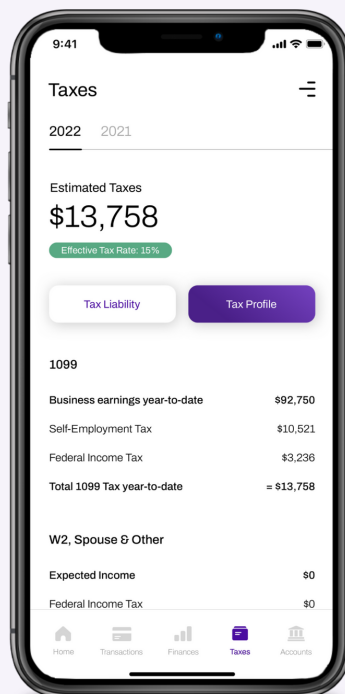
The downsides are that solo 401Ks involve a lot of red tape and you can't contribute to one if you have employees.

Retirement Plans

	Pros	Cons	Contribution Cap
Roth IRA	<ul style="list-style-type: none"> Easy to set up No special filing requirements Withdrawals aren't taxed later 	<ul style="list-style-type: none"> No tax deduction now Income limits for eligibility 	\$6000/year
SEP IRA	<ul style="list-style-type: none"> Easier to maintain than a solo 401K 	<ul style="list-style-type: none"> Distributions in retirement are taxed as income You have to match employee contributions Calculating contributions can be tricky No catch up contributions 	<ul style="list-style-type: none"> Lesser of \$61,000 in 2022 (\$58,000 in 2021) or up to 25% of compensation or net self-employment earnings, with a \$305,000 (\$290,000 in 2021) limit on compensation that can be used to factor the contribution
Solo 401K	<ul style="list-style-type: none"> Contribute pre-tax 	<ul style="list-style-type: none"> Distributions in retirement are taxed as income Cannot have employees 	<ul style="list-style-type: none"> \$61,000, plus a \$6,500 catch-up contribution or 100% of earned income, whichever is less

Lunafi Tip

Lunafi takes your contributions to retirement plans and traditional IRAs into account when estimating your tax liability.



IV. Taxes

Both the pros and cons of being a freelancer become glaringly apparent when tax season rolls around.

How you'll pay your taxes depends on what type of business entity you've chosen. But there are some general rules that apply to all self-employed people.



Self-Employment Tax vs. Income tax

As a self-employed person, you have to pay two kinds of taxes.

The first is self-employment tax. This covers social security and medicare, which would normally be withheld from your paycheck if you were an employee of a company. As of 2022, the self-employment tax is 15.3%

The second is income tax. This is the amount you owe based on your “tax bracket.” If you don’t know what that means, fret not. A lot of people are thrown off by this admittedly confusing system.

In short, tax brackets show the percentage you pay on each portion of your income. For example, if you’re single, the lowest tax rate (10%) will be applied to the first \$9,950 you earn in a given year. The next portion of income is charged at a slightly higher rate, and on it goes.

It’s worth noting that if you are a W2 employee but freelance on the side, your employer is responsible for paying social security tax on your behalf. This means you may not have to pay a full 15.3% for all your 1099 income.

Lucky for you, Lunafi take all of this into consideration when estimating your tax liability!

W2 vs. 1099

Depending on the kind of business entity you choose (sole prop, LLC, or S corp), you will file either a W2 or 1099(s) when it's time to prepare your tax return.

W2s are the tax forms you receive as a payroll employee of a company. If you have an S Corp, you will send yourself a W2 since you are technically an employee/shareholder of the company.

If you are self-employed or operate as an independent contractor, you'll receive 1099s from all clients who paid you more than \$600 in the past tax year. Good clients and established businesses will send you these 1099s well in advance of Tax Day. However, it can't hurt to send a gentle reminder.

We recommend sending out an email request for 1099s to all your clients sometime in mid to late January. That gives them a couple of months lead time to prepare their document, plus it puts your request on record in case you have trouble tracking them down later.

Estimated Quarterly Taxes

No matter what kind of business you run you'll likely have to pay estimated quarterly taxes.

Put simply, this means that at the beginning of the year, you predict how much you'll owe taxes. Then you break that amount into four quarterly payments. Of course, making that estimate is not so simple. This is where keeping detailed profit, loss, and expense reports can come in handy.

By looking at the past year (or years), you can better gauge how much you expect to earn in the new year. You'll also have a baseline to predict what your business expenses might be. Subtract these expenses from your projected earnings and you'll have your net income (profit - costs).

Next, you apply the relevant tax rates (self-employment and/or income tax) to your net income. This should give you a rough idea of what you'll owe in taxes for the coming year.

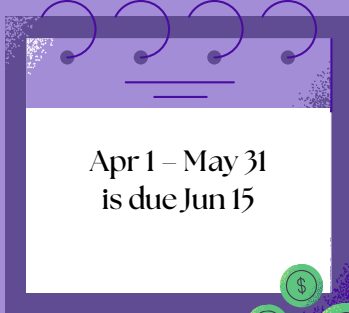
The IRS provides a [1040-ES form](#) to help you calculate your payments and print vouchers. Ideally, you should pay these taxes from your business account.

Also, be sure to pay your quarterly taxes on time! Submitting them late can result in penalty fees.

Estimated taxes for income earned



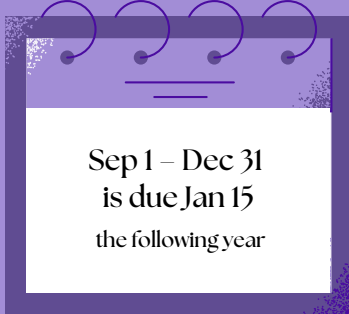
Jan 1 – Mar 31
is due Apr 15



Apr 1 – May 31
is due Jun 15



Jun 1 – Aug 31
is due Sep 15

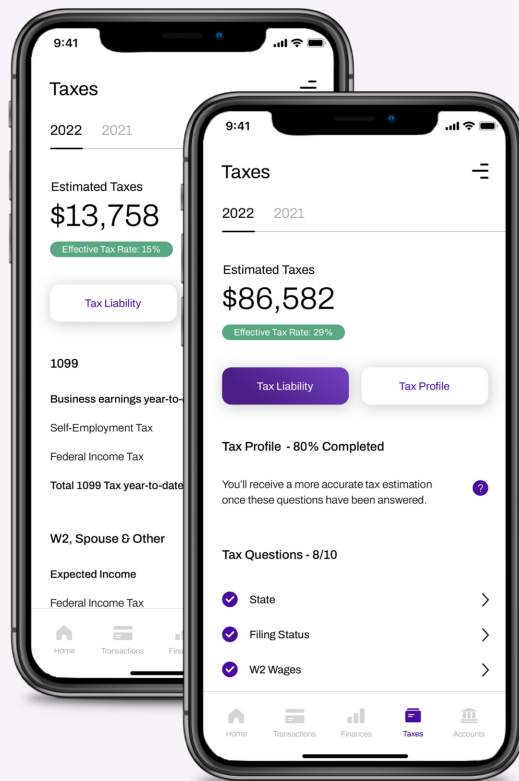


Sep 1 – Dec 31
is due Jan 15
the following year



Lunafi Tip

Our app shows you your estimated tax liability in real-time based on your earnings throughout the year. It even breaks down your estimate to show what you'll be expected to pay in social security, medicare, income tax, etc. Keep an eye on this total as the year progresses so you can adjust your estimated quarterly payments as needed.



V. Conclusion



Congrats! You made it through your crash course in freelance finance management! Now, you might be thinking: what next? Well...

If you haven't downloaded the app yet, we encourage you to give it a shot. Lunafi can simplify so many of these bookkeeping basics, freeing you up to focus on the work you really love.

If you have any questions or want to learn more about how Lunafi can help streamline your finance management, shoot us a message at apollo@lunafi.co.

We hope to see you around the app soon!

The Lunafi team

[Download Lunafi](#)



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