INTERNATIONAL FREELANCERS ACADEMY

Training that transforms your solo business

Five Money Mistakes Freelancers Make - Joseph D'Agnese

Joseph D'Agnese: Hey everyone. I'm Joe D'Agnese with The Money Book for Freelancers published by Random House. You know, I've always thought of myself as a pretty smart guy but early on in my freelance career, I practiced what I now described as bone-headed money mistakes. What are these? Well, they're pretty common mistakes, they're easy to fall prey to and a lot of freelancers I know do them everyday without realizing how negatively they impact their bottom line. So let's get into them.

Mistake number one, not having an emergency fund. You know, we interviewed a number of personal financial planners while researching our books. These are experts; these are people who advise folks on how to set aside money for their future. One of the biggest things the planners tell clients is to set up an emergency fund. This is something you need whether you're traditionally employed or you're self-employed. It's a stash of cash that you set aside in case you experience unexpected financial disasters or interrupted income.

The experts tell people to do this and everyone sort of nods and says, "Yeah, that's a good idea." And then we go home and we proceed to do nothing about it. The problem is if you're a freelancer, you can't afford to ignore this advice. In fact, we would argue that freelancers need this fund even more than traditionally employed people do. That's because freelance income is a lot more erratic. Even if you're a Crackerjack freelancer with tons of work coming in and invoices constantly flying the door or whatever.

There are tons of—there's going to still be moments when you have dry spells. And when that happens, it will be nice to have some money set aside that you can dip into. But alas, few of the freelancers that we interviewed make a habit of regularly socking away money in such an account. Don't let that be you. It doesn't have to be a lot of money. We would suggest like something like five percent from every check that comes in the door is a good amount to save. It's a small enough amount that you'll hardly even notice that it's missing. And you know, actually quite adds up quite quickly.

Just make sure the money is deposited into a bank account that is not linked to an A T M card so you can't raid it on a lock. And see to it that the money is kept liquid, that it isn't linked to important other investments or burdened with any ridiculous withdrawal restrictions. A money market account at an online bank is the perfect place for such cash. Just an arm's distance away but close enough to tap into if you need it. Now, how much do you save? I would say start with one month's living expenses and then see if you can push it to three or six months. Something like that.

Mistake number two; not saving for taxes. [Audio gap] You know, one of the blessings and really also a curse, I suppose, of being a self-employed person is that you don't have an employer who withholds your taxes from every paycheck that you receive. So when you bill a client, you bill for the whole angulata and when you get paid, you get the whole angulata too. The trouble is when tax time comes around, that tasty little treat has long been gobbled up. Make sure that you have enough of that angulata to give to the taxman the taste that he needs.

The worst time to start thinking about your taxes is weeks or even days before you have to pay them. Ideally, you want to be socking away money throughout the year. A little out of every single check that comes in the door and that way you can slowly save up a tax nest egg. So how much are you supposed to take out? Well, look at your tax account, tax documents from the last two or three years and I want you to do some math, nothing scary here. What you need to do is to calculate how much you've been paying the taxman on a regular basis for the last, say three years.

And calculate is as if it were a percentage of your total income. Then start saving that percentage out of every paycheck. So you know, this number's going to vary widely from freelancer to freelancer so you're not going to get a good answer if you start randomly asking, you know, your friends or other freelancers saying, "Hey, how much money are you setting aside for taxes?" That's a fine question if you're sitting around at a bar having a beer, kicking one back, whatever.

It's not a good number to start basing on. You really have to do the math and try to figure out what yours is, what number you should be saving based on what you've regularly been paying.

Five Money Mistakes Freelancers Make - Joseph D'Agnese

Mistake number three; not paying estimated taxes. So let me ask you something. What good is saving that tax money if you don't use it to pay the man? In our research, we discovered that accountants meet plenty of well-intentioned yet sad freelancers who do not pay their estimated taxes during the year. And who then feel doubly screwed when they have to settle up at the end of the year. I've never understood this mentality. It happens all the time.

Now let me ask you a question. Would you rather 1,250 dollars four times a year or be forced to come up with 5,000 grand in one lump sum once a year? Think about it. Tick tock, tick tock, tick tock. Well, it's a no-brainer in my book. Paying in small manageable chunks really makes a difference. It's easier on your pocket book and you're less likely to blow that tax money on the spur of the moment vacation to the Bahamas if you happen to pay your taxes on a quarterly basis.

If you develop the good habit of saving for your taxes then you should develop the equality good habit of dispersing those funds in a timely fashion throughout the year. A good accountant or your tax preparer should be able to help you with this.

Mistake number four; not treating yourself like a business. Even if you're a company of one, you are a business. That means organizing your finances as any responsible business would. If you're not already doing this, begin tracking your income and expenses down to the penny. Receipts are your friend; you should never let them slip away. Financial software programs such as Quicken or Mint.com, these can take out some of the pain out of this chore which ... and help make your tax time a real synch.

If you need to send and track invoices, manage clients, do time tracking, look into something like FreshBooks. We've been experimenting with this online software; we really like it. Clients can even click on a link and make an online payment to you. So you end up getting your money faster. That's just for starters.

Things you need to do if you're going to treat yourself as a business. You must cultivate an interest in all things business. You must have business cards. You must have a website. You must develop a system for receiving and returning phone calls in a timely fashion. You must have a logo and you must have stationery. You must have a retirement account. You must develop a process that keeps you connected to the rest of the business world. And you must execute all of this stuff flawlessly in all your dealings with others.

Now I know you're sitting there thinking this guy's nuts, everyone has this stuff. Really folks, you would be amazed. I know people who let months go by before they send out invoices. This is ... they act as if someone else is there to take care of this stuff for them and they're not. This is stuff that is hard for a lot of people to do. "I'm a website designer," they say, or "I write software. I don't want to be bothered learning about business. I don't want to learn about investments or credit card accounts or invoicing. It's boring."

Okay, fine. Just understand that if you don't want to deal with these little details, if you can't get psyched about this geeky stuff, you must hire someone to help take care of it for you. I'll say it again. If you're not willing to do this stuff, you must be willing to pay for it. Your business just won't take care of itself.

Mistake number five that freelancers make is living for the big score. In a way, all self-employed people including myself, you know, tons of people that we know, my co-author Denise, we're all dreamers. We throw ourselves into our work and we're trying to achieve a great vision. And sometimes when you're doing that, you forget about socking away small amounts of money for yourself along the way. Some people, if they do get money stick it back into the business, which is really a nice thing to do, but it's the wrong approach.

They rationalize this stuff by saying things like "Once I land this big project or I sell this book or I launch this, you know, this product that I've been working on for two years. Or I share my great invention with the world," they tell themselves, "Then I have so much money I'll be able to save, finally save for retirement. Guys, this is crazy talk. This is how cat burglars think. They live their lives as if they're waiting for the big score which never freaking materializes.

Five Money Mistakes Freelancers Make - Joseph D'Agnese

So listen. I've thrown a lot at you today, here's your homework. I want you to listen to this again and pick the one mistake you think you need some help on and resolve to do one thing about it this week. Here are two or three that you might try. If you don't have an emergency fund, I want you to open a new separate dedicated account, bank account, within a week of listening to this program and resolve to send a percentage of your income into it. Number two ... option number two; if you don't save for taxes or you don't pay estimated taxes, you have a great opportunity coming up. It's called April 15th.

So set up a bank account for your tax money and start paying yourself something towards your taxes. And I want you to work with your accountant or your tax preparer, whoever you have and ... you have someone, right? You do have someone. If you—number three, if you're thinking like a cat burglar and you're waiting for the big score, I want you to do this this week. Start saving a little from each paycheck for your retirement. It doesn't have to be very much, just let it be something.

If you must trick yourself, do this. Pay a little extra to your emergency fund and then redistribute from that account to a dedicated retirement account later. We all think we're going to live forever but that is simply not true. Time flies and you may not have the time you think you have to build up a substantial nest egg.

You know, a while back we were at a book fair with Ed Gandia, one of our buddies and the ... one of the authors of The Wealthy Freelancer. Guy comes up to us, he says, "I've got a great life and a great career." He says, "I've got tons of clients. I'm never without work. The problem is I'm 55 years old and I don't have anything set aside for retirement. What should I do?" Well, you know, that man's situation is a real problem. The trouble is he was asking the question about 25 years too late. Start saving for retirement today and let today mean today. Okay?

Thanks for listening. I'm Joe D'Agnese with The Money Book for Freelancers published by Random House. See you next time.