

## Tax Time Looms. Be Prepared!

**“CASH FLOW”** SAID Susan Lee, “you go to check, ‘sounds like herpes...you shouldn’t have to pay attention to it, but you have to.’ How many keep track of their cash flow? Not enough.”

Lee, EA, CPA and a tax and financial specialist for freelancers, spoke at EFA’s teleconference December 7. For those who missed this special meeting, here is a brief recap.

You must know exactly how much money is going in and out. Identifying what money you have during a block of time (one to two days) have to play catch-up at a later date.

Susan suggested writing down every expense literally, however small. She referred to one of her handouts (linked at EFA Web site), “Tax Expenses for Artists,” for further examples.

After a few weeks, you will know what you spend during a typical month. Then, you will begin to see your low and better periods over time and realize where your overhead can be trimmed. Most important, you’ll find yourself planning more productively for the future.

For example, if you notice that no money comes in during August, perhaps you will opt to take a vacation then. Or, you might want to drive into more intensive marketing for the opening fall. The key is to know exactly where you are financially at any point in time.

Susan suggested QuickBooks or Quicken bookkeeping systems. You can download check amounts or credit card charges directly from your bank(s) online. She also referred to her handouts, “Useful Tax and Financial Books” and “Tax and Financial Web Sites,” and recommended these books: *Personal Finance for Dummies* by Eric Tyson and *The Random Walk Guide to Investing* by Barton Malow.

She urged freelancers to create an adequate emergency fund for six months to one year. Initially, try to put away enough cash for one week. Then expand this into one

month; then three months, and so on. If you keep growing your cushion, you will accomplish your financial goals.

You must analyze how you are invested and how it’s done. For example, are you adequately protected against risk in terms of insurance, disability, medical bills? Are you funding a retirement plan, and to the max? Do you have a financial planner? Do you have a will and a health plan proxy?

Disability insurance, covering 60 percent of your net income, is very hard to get if you work out of your home. For sole proprietors,

shareholders, partners can’t be deducted, but it is a tax free if paid (this is the upside if you’re a corporation). Most freelancers don’t have disability, but should have. If you

can’t qualify for long term disability, look at short term plans, and investigate whether you need them.

Business Owner Policies insure you against accidents if clients come to your house. Some homeowners policies only cover this for an owner. Business equipment also has a cap. Check your homeowner’s policies.

And, as for taxes, you must know every single penny you’re earned. Don’t hide behind “number phobia” (“I’m so good with numbers”). It’s not as scary as you can allow.

You should copy every check and 1099 you receive. And save all your records, receipts, income tax forms, even home improvement costs and closing costs, for six to seven years.

**WHAT IS THE** role of constructive receipt? If you are paid with a check written in 2006 but don’t receive it until 2007, you declare it when you actually receive it. The difficulty is that the client will report it to IRS for the year it was written (2006). With bigger checks this could be a problem, because your fiscal accounting will not agree with the client’s 1099.

Readers who missed the teleconference may have to wait to implement Susan’s ingenious solutions. Postpone your billing next!

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### Tax Teleconference

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December until after January 1, 2008, if you want to report the income in 2008.

Estimated taxes? You must pay your quarterly. If you pay them in four payments based on the previous year, there are no penalties.

Schedule C? This accompanies all sole proprietorship tax returns and represents your basic profit and loss. Those who qualify for the EZ form must make \$5,000 or less, own no inventory, only have one business, incur no loss, have no employees, no home office, among other things. Consult IRS or a financial advisor for your particular situation.

Deductions? Can you deduct for time spent on work for yourself (marketing, etc.)? No. Tax advisors’ fees are deductible up to 75 percent. You can’t take business clothes as a deduction—only uniforms. A home office is a deduction, but only if you qualify through its exclusive use.

Dealing with IRS? “DON’T TELL!” Susan advised. IRS personnel are people too. Susan told us she has won many disputes by being nice and persistent on the phone.

You must keep track of your expenses and cash flow, because most cannot afford expensive financial advisors unless they are wealthy or in a comfortable position.

For that very reason, tune into Susan’s financial adviser radio show, “Your Money

### Glossary

- **Business Owner Policy:** Designed to assist in the development of businesses (BOP). Combines property coverage (loss, damage) and general liability insurance (claims of bodily injury or property damage) in a single business policy.
- **Cash Flow:** Money representing income and expenses, and the resulting availability of cash.
- **CPA:** Institute for Chartered Financial Analysts. A CPA has passed tests administered by the Institute of Chartered Financial Analysts of the Association for Investment Management and Research, and also has at least three years of investment-related experience.
- **Deductions:** An amount subtracted from an individual’s adjusted gross income to reduce the amount of taxable income.
- **Disability Insurance:** Insurance policy that pays benefits in the event the policyholder becomes incapable of working.
- **ET:** Employment taxes are the only tax professionals assessed by the Internal Revenue Service to represent taxpayers before the IRS.
- **Estimated Taxes:** Amount of estimated tax for the coming year. Generally, a taxpayer must pay at least 90% of his or her total tax liability for the year in withholding and/or quarterly estimated tax payments.
- **Fiscal Year:** A 12-month period for which an organization/business plans the use of its funds; not necessarily the calendar year.

- **Home Office:** A business office/retailer/production set up in one’s own home.
  - **Homeowner’s Insurance:** that combines liability insurance and fire insurance on a home. Required by most mortgage lenders.
  - **Overhead:** The operating expenses of a business, including the costs of rent, utilities, labor for production, and taxes, exclusive of labor and materials.
  - **Schedule C:** The tax form schedule an individual uses for each business or self-employed activity. A taxpayer lists income less expenses on this schedule.
  - **Sole Proprietor:** An unincorporated business owned and controlled by one person.
- Sources:  
[www.irs.gov](http://www.irs.gov)  
[www.revisorwords.com](http://www.revisorwords.com)  
[www.electsource.com](http://www.electsource.com)

### Useful Links

Here is a list of useful links that Susan provided in her handout, “Useful Tax and Financial Web Sites.”

[www.irs.gov](http://www.irs.gov)  
[www.aaabooks.org](http://www.aaabooks.org)  
[www.digibooks.org](http://www.digibooks.org)  
[www.dominicmoney.com](http://www.dominicmoney.com)  
[www.fpa.org](http://www.fpa.org)  
[www.fundstrat.com](http://www.fundstrat.com)  
[www.gutenberg.org](http://www.gutenberg.org)  
[www.investing.com](http://www.investing.com)  
[www.morningstar.com](http://www.morningstar.com)  
[www.quickwin.com](http://www.quickwin.com)

And Your Life,” heard every Friday, 10:30 A.M., 90.5 FM, WBAL, or on WBAL.org. She is available for questions at [susan-lee@earthlink.net](mailto:susan-lee@earthlink.net) or (212) 633-1516. EFA appreciates Lee’s giving us the benefit of her expertise each year on tax issues.

—Nina M. Sherwood

Sherwood is a writer/editor with 29 years’ experience in Web sites, PR, business documentation, résumés, fiction/nonfiction, educational materials, and more: [www.gildedwriting.com](http://www.gildedwriting.com).