From an accountant

1. Organizing data to prepare taxes is not something done between February and April; it needs to be done all year round. Marking down the business purposes for receipts such as travel and entertainment should be done contemporaneously throughout the year, when the details as to whom someone met and what was discussed are fresh in your mind.

2. Since a freelancer is usually a cash-basis taxpayer, deposit any large payments received in December in January; this will give you an additional year to pay the tax due on the income (tax on December 2014 income will be paid 4/15/15 of the next year; a January 2015 deposit will have tax due 4/15/16).

3. Accelerate expenses; pay January bills, if possible in December so they are deductible currently and not next year.

4. Make all estimated tax payments on time and pay all tax balances by 4/15 to avoid costly penalties.

5. Contribute to a SEP and IRA every year; it is never too early to start saving for retirement; even with low rates of return, with compounding

I’ve filed taxes as a freelancer for 16 years now, and I’ve yet to be audited.

However, I have been surprised sometimes by what I owe at the April reckoning. Sometimes, it’s been a pleasant surprise, sometimes unpleasant.

But eventually, I got tired of surprises, and slowly changed my ways—mainly by taking advice.

—Dana

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Practices that have saved me time and aggravation

1. **Do not try this at home.** It has been essential for me to have an accountant to prepare my taxes. He keeps up with ever changing regulations. He knows what I can and can’t deduct. He checks my addition. This is just too difficult to do properly on your own.

2. **Create a system for payables and expenses** (ie, income and deductions) and stay with it. My system is 2 folders: one for invoices/invoices paid and one for all my deductible receipts. When I file a receipt, I mark it with the category of deduction, eg, travel, postage, equipment, etc. (See “3” below).

3. **Know your categories of deduction.** You accountant can explain to you what deductions you can take on IRS Schedule C (business deductions) and IRS Schedule A (personal itemized deductions).

   Samples of deductions I take on Schedule C are office expense, books/research, professional services, business gifts, and non-medical insurance costs (eg, disability for me as the proprietor of my business). Samples of deductions I take on Schedule A are unreimbursed medical costs and charitable donations. My accountant does not deduct health insurance costs on Schedule C, since I am not offering this as an employee benefit (no employees); but he does deduct them on page 1 of the 1040 form.

   Everyone’s deductions are different—knowing your categories allows you to tally your expenses within those categories.

4. **Enlist help with expense tallying.** One kind of help is Quicken, which I have used but don’t care for. Another kind of help is human—I pay my kids $10 an hour each to tally the receipts in my expense folder. They simply make a Word document listing the expenses in each category and add them up (I check their math). My own opinion is that you can get bogged down worrying about software systems—simple is fine.

5. **Don’t obsess.** So you missed an expense? It really will have very little effect on your overall tax bill. Should I incorporate?

   “When you pay a lot of taxes, it means you made a lot of money.” —a friend and stockbroker