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Do you know the numbers?



If you're like many, you started freelancing for the freedom, the disappearance of bad bosses and the elimination of days full of meetings. Or, you did it out of love – love of what you do and how you feel when you help those around you.

However, what do you know about the financial stability of your business?

How are you doing financially compared with others in your field? What do you clear each month after expenses? Do you understand your cash flow? How many clients do you need to see each month to cover expenses? To make a profit? How much do you need to make monthly, yearly, to retire before you're 80?

Any of those questions make you sweat? All too often, freelancers ignore their financial statements and focus instead on providing killer customer service. That may be what gets you customers, but it's often not enough to keep you financially sound.

According to a study by Freelancers Union and Elance-oDesk, you're not alone. In 2014, 43 percent of freelancers expected to make more the next year, but 50 percent cited the ups and downs of income as a challenge. To decrease that flux (and the associated stress), there are some numbers you should be hyper aware of and plan around:

1. Income – What do you bring in each month? After a few months of tracking what you're paid, by whom, when and for what, you'll have enough data to start calculating your

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- average monthly income, the first step toward knowing if you're bringing in enough to meet your expenses and your savings goals.
2. Expenses –Do you track your average monthly expenses? You cover all kinds of expenses on your own, so you need to just know what you're paying and make your average monthly expenses a number that is top of mind.
 3. Cash flow – what is your cash flow? It's simply what's left after deducting your collected income from your paid expenses. Once you've tracked your ins and outs for a while, you'll see patterns and can make adjustments. What if, for example, your past three Januarys have been slow? Would you go after new clients months earlier, instead of waiting for the phone to ring?
 4. Breakeven point – how many clients must you see each month/how many hours do you need to bill each month, to bring in more than you give out? QuickBooks [has](#) a “breakeven tutorial” (and links to a few breakeven calculators.)
 5. Tax rate–It's on you to make estimated income tax payments—no more automatic paycheck deductions. Only once you know #1, #2 and #3, will you have an idea of what you'll clear in a year. That “potential taxable income” number is critical. Paying your own taxes, you need to know your tax rate to set aside money for your state, federal and local taxes and for the self employment tax and social security taxes you're now paying. (Consult with a tax advisor to be sure.)

That's a lot to keep an eye on. Fortunately, there are a range of financial software programs to help freelancers track and plan, including [Artichoke](#) and [Harpoon](#). Or, you could go an even simpler route, like Geoff Pritchard, a freelance massage therapist who's been in business for eight years. One Geoff's toughest challenges was honestly estimating his tax rate.

In the beginning, he explains, “I would usually want to underestimate, because I would have other upcoming expenses to spend the money on and didn't always plan far enough in advance to pay as much of my quarterly taxes as I probably should have.” Now, he stays on top of his numbers. “I just use the printed bank statements to review my income and expenses,” he explains. “I close out my books at the end of the month and review the numbers.”

Numbers are a necessary evil that come with owning your own business. Make a regular date to check in with your finances, and think about what you're working for in 2016. Do you want to start a retirement plan, take a class, save a little more or buy new software? Knowing your numbers will help you develop the financial plan to get there.

What programs do you use to track these numbers? Are there other numbers you review regularly to help with your financial planning?