

Freelance Taxes Basics — Workbook

This workbook turns the course into a working tax system for your freelance business. Complete each section as you finish the matching module, and by the end you will have an estimate of your three-layer tax bill, a categorized deduction tracker, a calculated quarterly payment schedule, and an automatic savings rule that funds it. Use the templates to log income and expenses, find missed write-offs, and never miss a quarterly date again. This is educational material, not personalized tax advice; confirm specifics with a qualified professional for your situation.

How Freelancers Are Actually Taxed

Map your own three layers of tax, confirm what income you must report, and price for contractor status.

Worksheet: Estimate Your Three-Layer Tax Bill

Using your best guess of this year's net profit, work through the three layers to see roughly what you will owe. This is a planning estimate, not your filed return. Use the Income and Tax-Savings Tracker template to keep the running numbers.

Expected net profit this year (income minus business expenses)

Estimated self-employment tax (net profit times 0.9235 times 0.153)

Your top income tax bracket (10, 12, 22, 24 percent)

Rough income tax estimate on taxable income

State or provincial tax rate (enter 0 if none)

Combined set-aside percentage you will use (start at 25-30%)

Total dollars to reserve for taxes this year

Exercise: Audit Your Income Sources

List every way money comes into your freelance business this year and confirm each is captured in your records, whether or not a form will arrive.

- Which clients will likely send you a 1099-NEC, and which will not?

- Do any payments arrive by cash, e-transfer, or foreign client that have no paper trail?

- Which platforms (Stripe, PayPal, Upwork) might issue a 1099-K, and do their totals match your books?

- Where do you currently record income so nothing slips through unreported?

Exercise: Price for Contractor Status

Compare a freelance rate to an equivalent salary so you account for the extra payroll tax and missing benefits.

- What salary would this work pay as an employee, and what is that per hour?
 - How much does the full 15.3 percent self-employment tax add versus an employee's 7.65 percent?
 - What benefits (health, retirement match, paid time off) are you now self-funding?
 - What contractor rate, roughly 25-40 percent above the salaried equivalent, makes you whole?
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Checklist: Tax Foundations Checklist

- I understand that all income is reportable, with or without a 1099
- I have a single place where every payment is recorded
- I know I pay both halves of payroll tax as a contractor
- I have set a combined tax set-aside percentage for the year
- I have priced my work to absorb self-employment tax and lost benefits

Self-Employment Tax and Income Tax in Detail

Run the SE tax formula on your own numbers, locate your marginal rate, and list the adjustments that lower your bill.

Worksheet: Self-Employment Tax Calculator

Follow the Schedule SE chain on your projected profit. Then note the half-of-SE-tax deduction you get back as an adjustment.

Net profit from Schedule C

Net self-employment earnings (profit times 0.9235)

Total self-employment tax (above times 0.153)

Social Security portion (of that, 12.4 percent share)

Medicare portion (of that, 2.9 percent share)

Deductible one-half of SE tax (total SE tax divided by 2)

Exercise: Find Your Marginal and Effective Rate

Use the current-year bracket table for your filing status to locate where your taxable income lands, then reason about the value of a deduction.

- Which bracket does your last dollar of taxable income fall in (your marginal rate)?
 - Roughly what is your effective rate (total income tax divided by total income)?
 - What would a 1,000 dollar business deduction save you across income tax and SE tax?
 - Does the marginal-versus-effective distinction change how you feel about taking on more work?
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Worksheet: Above-the-Line Adjustments Inventory

List the adjustments and deductions you may qualify for so none are forgotten at filing time. Mark which ones reduce SE tax versus income tax only.

One-half of self-employment tax (automatic)

Self-employed health insurance premiums (annual total)

SEP-IRA or Solo 401(k) contribution you plan to make

Qualified business income (QBI) deduction estimate (up to 20% of profit)

Standard deduction for your filing status

Notes on which item cuts which tax

Checklist: Tax Math Checklist

- I can recite the SE tax chain: profit times 0.9235 times 0.153
- I know my marginal income tax bracket for the year
- I understand business deductions cut both SE tax and income tax
- I have checked whether I qualify for the QBI deduction
- I have considered opening a SEP-IRA or Solo 401(k)

Deductions That Actually Survive Scrutiny

Apply the ordinary-and-necessary test, capture every legitimate write-off, and build records that hold up.

Exercise: Run the Ordinary and Necessary Test

Take five expenses you are unsure about and decide whether each is deductible, and at what business percentage.

- For each expense, is it common and accepted in your line of work (ordinary)?

- Is it helpful and appropriate for earning income (necessary)?

- If mixed-use, what defensible business percentage applies, and how did you derive it?

- Which of the five, if any, fail the test and should not be claimed?

Worksheet: Missed-Deduction Sweep

Go category by category and capture deductions new freelancers commonly overlook. Use the Deduction Tracker template to log the running totals.

Home office: method (simplified 5/sq ft up to 1,500, or actual %) and amount

Mileage: business miles year-to-date and rate used

Software and subscriptions (design tools, hosting, accounting, stock)

Phone and internet business percentage

Self-employed health insurance premiums

Bank and payment-processor fees (Stripe, PayPal)

Subcontractors and professional development

Checklist: Substantiation Checklist

- I keep digital copies of all receipts and invoices
- I run business money through a separate account or card
- I maintain a mileage log with date, destination, purpose, and miles
- I have square footage, photos, and costs for my home office
- I will keep records at least three years after filing, longer for depreciated assets

Quarterly Taxes and a System That Runs Itself

Lock in your four payment dates, hit a safe harbor, choose your tools, and automate the savings that funds it all.

Worksheet: Quarterly Payment Calculator

Choose a method and compute what to pay each quarter. The safe-harbor method is safest for beginners. Use the Quarterly Payment Calendar template to schedule the dates. Last year's total tax (from your prior return)

Was prior-year AGI over 150,000 dollars (yes/no)

Safe-harbor target (100% of prior tax, or 110% if over 150k)

Safe-harbor quarterly amount (target divided by 4)

Current-year estimate alternative (projected total tax divided by 4)

Amount you will actually pay each quarter

Payment method (IRS Direct Pay, EFTPS, or mailed 1040-ES)

Exercise: Design Your Automatic Savings Rule

Define the percentage and mechanics that move tax money out of reach the moment you are paid.

- What percentage of each client payment will you move to savings (start at 25-30%)?
 - Which separate account will hold tax money, and is it opened yet?
 - Will the transfer be manual on payment day or an automated rule?
 - How will you confirm the balance covers each quarter before the due date?
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Worksheet: Year-End Filing Package Builder

List each document a clean filing needs so the year closes in an afternoon instead of a scramble.
Profit-and-loss summary (income and categorized expenses)

All 1099s received and reconciled to your books

Home office and mileage totals

Records of all four quarterly payments with confirmations

Retirement contribution statements (SEP-IRA, Solo 401k)

Chosen filing route (pro, TurboTax Self-Employed, FreeTaxUSA)

Checklist: Quarterly System Checklist

- I have the four due dates (Apr 15, Jun 15, Sep 15, Jan 15) on my calendar
- I have chosen a safe-harbor target so I cannot be penalized
- I move a fixed percentage to a separate tax account on every payment
- I use a bookkeeping tool connected to my business account
- I keep confirmations of each quarterly payment for my records

Your Action Plan

1. Open a separate business checking account and card, and route all freelance income and expenses through it
2. Pick one bookkeeping tool (Wave, QuickBooks Self-Employed, FreshBooks, or Keeper) and connect your business account
3. Estimate your full-year net profit and reserve 25-30 percent of every payment in a dedicated tax-savings account
4. Run the SE tax chain (profit times 0.9235 times 0.153) to know your self-employment tax floor
5. Do a missed-deduction sweep: home office, mileage, software, health insurance, and processing fees
6. Start a mileage log and a receipts folder so every deduction is substantiated as it happens
7. Calculate your safe-harbor quarterly amount (100 or 110 percent of last year's tax, divided by four)
8. Put the four quarterly due dates on your calendar with reminders a week ahead
9. Make your first quarterly payment via IRS Direct Pay or EFTPS and save the confirmation
10. Each January, assemble the year-end package and reconcile all 1099s to your books before filing

