



Transcript from the Freelance Friday #EFAChat, January 17, 2014

Topic: Tax Strategies for Freelancers

- [EFA International @efafreelancers](#) Welcome to the first Freelance Friday chat of 2014! Use hashtag [#EFAChat](#) to be included in today's transcript.
- [EFA International @efafreelancers](#) Today's [#EFAChat](#) is being moderated by Lucy Spencer: EFA member, online editor and former tax preparer.
- [EFA International @efafreelancers](#) This [#EFAChat](#) will answer questions about sole proprietorships and Schedule C. Corporate questions? Ask your CPA.
- [EFA International @efafreelancers](#) [#EFAChat](#) is not meant to be a substitute for professional advice. For specific info, please consult your local CPA.
- [EFA International @efafreelancers](#) Let's introduce ourselves. Where are you from, and what do you do?
- [April Michelle Davis @inspirations](#) April Michelle Davis, editor, indexer, proofreader, Richmond, Virginia.
- [Susan M. Walker @smwalk](#) Susan Walker; I'm a freelance copyeditor/writer/proofreader.
- [Susan M. Walker @smwalk](#) Oh, and I'm in the Chicago area.
- [EFA International @efafreelancers](#) Hi, April! Let me know if you have any questions.
- [EFA International @efafreelancers](#) Hi, Susan! Let me know if you have any questions.
- [Susan M. Walker @smwalk](#) Must estimated tax payments be based on actual income (cash basis here), which can fluctuate quarter to quarter, or estimated inc?
- [EFA International @efafreelancers](#) Let's start with what's new in 2013. For freelancers, the big news is a simplified home office deduction.
- [Ruth Thaler-Carter @writerruth](#) Upstate NY. Writing, editing, proofreading, desktop publishing, website work & speaking, incl EFA NL, local chapter, bklt, etc.
- [EFA International @efafreelancers](#) New optional simplified calc of home ofc deduction: Measure area of home ofc, multiply by flat rate.
- [Susan M. Walker @smwalk](#) I'd like to hear about the home office deduction--especially limits.
- [EFA International @efafreelancers](#) Hi Ruth! Thanks for the advance question on Facebook.

[April Michelle Davis @einspirations](#) I've got a client who I quit working for because he owes me money. He claims he will pay, and he periodically sends a little.

[EFA International @efafreelancers](#) [@smwalk](#) Estimated taxes are based on past year's income or estimate of this year's income.

[April Michelle Davis @einspirations](#) Anything I can do on taxes regarding that?

[Susan M. Walker @smwalk](#) Thanks.

[EFA International @efafreelancers](#) [@EInspirations](#) Unfortunately, freelancers can't deduct bad debt...yet.

[EFA International @efafreelancers](#) [@smwalk](#) Home office deductions have two requirements: regular use and exclusive use for business. No kitchen tables!

[EFA International @efafreelancers](#) Home office expenses apply to homeowners and renters alike. Prorate expenses based on square footage.

[Susan M. Walker @smwalk](#) No problem. My second bedroom is the office--tables, computer, printer, filing cabinets, a few plants, etc. Nothing personal.

[EFA International @efafreelancers](#) For home office deductions, include space used to store supplies.

[Susan M. Walker @smwalk](#) It's just mortgage/rental expense, right? Or can we include prorated utilities and insurance?

[Ruth Thaler-Carter @writerruth](#) The percentage of phone, power (gas/electric) used for your home-based business can be deducted.

[EFA International @efafreelancers](#) [@smwalk](#) Definitely include prorated utilities and insurance! Cell phones, ISPs, etc. - multiply by % of business use

[EFA International @efafreelancers](#) Tax tip: If you're not good at paperwork, find someone who is. Dropped balls are expensive.

[Susan M. Walker @smwalk](#) OK, thanks.

[EFA International @efafreelancers](#) See IRS Pub. 587 for more details on home office deductions. ow.ly/sHmC

[EFA International @efafreelancers](#) If you're just joining the [#EFAChat](#), welcome! Jump in at any time!

[EFA International @efafreelancers](#) Tax tip: If you drive: record auto mileage every January 1. Need beginning and ending from odometer each year.

- [April Michelle Davis @inspirations](#) For auto mileage, I keep my receipts from oil changes.
- [EFA International @efafreelancers](#) Business travel exps include transportation, baggage, lodging, meals, laundry, phone, tips, etc. [ow.ly/sHmzi](#)
- [EFA International @efafreelancers](#) Tax tip: Maximize deduction by reviewing logs and cc statements to find gas receipts, forgotten trips - get every mile possible!
- [Susan M. Walker @smwalk](#) Can you talk about gifts to clients--this Dec. I sent fruit to an excellent client. I work with 6 people there. What's the limit?
- [EFA International @efafreelancers](#) For Schedule C, typical expenses for editorial freelancers include ofc supplies, ref books, seminars... [ow.ly/sHngw](#)
- [EFA International @efafreelancers](#) Typical expenses also include webinars, marketing, client meetings, prof memberships... [ow.ly/sHnox](#)
- [Ruth Thaler-Carter @writerruth](#) What category of expense do colleagues use for e-mail service, if you pay for that? Website hosting? I call them promotions.
- [April Michelle Davis @inspirations](#) [@WriterRuth](#) I put that under advertising.
- [EFA International @efafreelancers](#) RT [@WriterRuth](#): I would definitely call that promotional expense. Consider putting in advertising category.
- [EFA International @efafreelancers](#) For those who had to miss the chat today, a full transcript of this [#EFAChat](#) will be available on the EFA website soon.
- [Ruth Thaler-Carter @writerruth](#) I have a folder labeled Ads & Promotions, which is where I file all my website, e-mail and related receipts. Glad to see agreement!
- [EFA International @efafreelancers](#) Does anyone have any questions about depreciation vs. expensing?
- [EFA International @efafreelancers](#) Depreciable assets include computers, printers, copiers, calculators, and office furniture. [ow.ly/sHo7w](#)
- [Lindsey Alexander @luluchadora](#) Has getting a biz credit card been helpful for colleagues as far as streamlining the deduction process?
- [Susan M. Walker @smwalk](#) Years ago it was possible to expense purchases under ?25K or so. Is that still correct?
- [EFA International @efafreelancers](#) [@luluchadora](#) Absolutely! This way, you only have to look at one cc statement to review for possible deductions.

[EFA International @efafreelancers](#) [@smwalk](#) The main litmus test is whether the useful life is more than a year, not necessarily the dollar amount.

[Susan M. Walker @smwalk](#) Or maybe it was expenses up to \$10K?

[April Michelle Davis @inspirations](#) [@luluchadora](#) Definitely! And my business CC also offers rewards!

[Susan M. Walker @smwalk](#) I remember writing tax articles in ... years ago ... about a choice to expense vs. depreciate property w/life longer than 1yr. Expired?

[EFA International @efafreelancers](#) [@smwalk](#) See the instructions for IRS Form 4562 for specific depreciable items. Write off everything else.

[EFA International @efafreelancers](#) [@smwalk](#) I believe the choice involved depreciating or expensing as Section 179 property.

[Susan M. Walker @smwalk](#) Will do.

[EFA International @efafreelancers](#) Income tip: Invoices are considered 2013 income when billed in 2013, not when paid.

[Susan M. Walker @smwalk](#) Yes. Section 179. Probably long expired.

[Susan M. Walker @smwalk](#) Even for those of us on cash basis of accounting?

[EFA International @efafreelancers](#) Freelancers should claim everything because if expenses outweigh income, it decreases taxable income.

[Susan M. Walker @smwalk](#) Is Sec. 179 only for business entities other than sole prop?

[EFA International @efafreelancers](#) [@smwalk](#) What's even for those of us who keep books on cash basis?

[Susan M. Walker @smwalk](#) If I invoice \$500 in December 2013 and client pays in Jan 2014, and I'm on cash basis, why is the \$500 2013 income?

[EFA International @efafreelancers](#) [@smwalk](#) I don't think so. I think if a freelancer has a company car, that can be expensed as Sec 179 if you like.

[Susan M. Walker @smwalk](#) For sole proprietors, are health insurance premiums deductible as a business expense (Sched C) or only as medical exp (Sched A)?

[Susan M. Walker @smwalk](#) RE: expensing a purchase: Hooray. The cost of a new computer or software would be deductible as an expense, then. That's important.

[EFA International @efafreelancers](#) [@smwalk](#) I think health premium rules are changing. Details on the IRS website - "What's New" doc

[EFA International @efafreelancers](#) [@smwalk](#) Sec 179 is only available for certain assets. Double-check, but I think computers must be depreciated.

[April Michelle Davis @inspirations](#) [@luluchadora](#) At least for me, a CC with fees is not worth it.

[Wendy Allen @driftingearth](#) DARN, got my time zones mixed up & just arriving. Hope you'll make a [#storify](#) of it for those of us who missed it!

[EFA International @efafreelancers](#) What topic would you like to discuss on a future [#EFAChat](#)?

[EFA International @efafreelancers](#) [@DriftingEarth](#) No worries - a full transcript of this [#EFAChat](#) will be available on the EFA website soon!

[Susan M. Walker @smwalk](#) Lucy, thanks for moderating the chat. Just to confirm, you're a former tax preparer and not a CPA?

[EFA International @efafreelancers](#) Don't forget to write off your EFA membership fees!

[EFA International @efafreelancers](#) [@smwalk](#) Correct. And that would account for a couple of those fuzzy answers. ;-)

[Susan M. Walker @smwalk](#) No worries. It's good to get the topics out there for discussion.

[EFA International @efafreelancers](#) It's time to end today's [#EFAChat](#). The written transcript will end here. Thanks for a great discussion! See you next time.