SELF-EMPLOYMENT

READINESS ASSESSMENT
LONGING TO LOSE THE 9-TO-5 LIFESTYLE?
Learn If You Are Ready to Make the Leap

Calculate Your Self-Employment Readiness Score

CPAforFreelancers.com
Are You Ready for Self Employment?

Know Your Self-Employment Readiness Score.
This assessment will help you make sure that you have a solid financial foundation in place so you can make a successful transition to being a full-time freelance professional.

Give yourself one point each time you said "yes" to calculate your Self-Employment Readiness Score.

**0-4 points**...Not ready yet to be your own boss! Consider getting professional financial advice first.

**For 4-8 points**...Proceed with caution! You may still need some help to keep you on track.

**For 8-13 points**...You are ready to go. If you feel comfortable with your current financial state and ability to keep on earning enough money to let you reach your goals.

1. Do you have a business plan?
2. Have you done your research about business structure?
3. Do you have all of your business licenses in place?
4. Do you have your payment policy locked down, including the part where you get deposits up front?
5. Do you have at least two bank accounts? - one for your business transactions and one for your personal finances.
6. Do you have money set aside in a savings account for a financial cushion in the event you aren't seeing a profit?
7. Do you have at least one line of credit set up?
8. Do you have access to working capital?
9. Are you familiar with what taxes you are obligated to pay?
10. Do you have the estimated tax deadlines are marked on your calendar?
11. Have you thought about how to track your business finances?
12. Do you have advisors you can trust?
13. Do you have networking and marketing your business as part of your business plan?
14. Are you ready to have fun?
The business plan is written. As Ben Franklin said, “If you fail to plan, you are planning to fail.” It’s likely Franklin was talking about one of his inspiring experiments when he uttered these words and starting your own freelance business is also a bit of an experiment. This is why you absolutely need a plan that encompasses all aspects of your business, especially the financial parts such as sales projections, start-up costs and your operating budget. If you haven’t written down (in detail) the who, what, when and why of how you’ll operate your freelance business, then you need to do that before you start freelancing full time.

You’ve done your research about business structure. Selecting the right business entity will protect your personal assets from any liability you may incur as a business owner and it may also offer you some significant tax advantages, so it’s essential to do your homework before you set up your freelance business. It can be somewhat confusing given that each type of entity has its own legal and tax benefits. Three of the most common business structures for freelancers are the sole proprietorship, the limited liability corporation (LLC), and the S corporation (S corp). You can do your own research, but when in doubt check with a CPA who can give you detailed advice on which option is the best given your individual situation.
Any required business licenses are lined up. In some states, you can set up a freelance business quite easily, simply by establishing a business entity, filing any required paperwork and paying the related fees. In other states or cities you may also have to obtain a license to do business or even to practice your area of expertise, depending on what it is. For example, CPAs, doctors, lawyers, general contractors and other professionals may require a state or a local license depending on where they are located. Make sure you check out any licenses required in the location that you plan to do business.

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It's time to choose your health insurance plan.
If 2020 has taught us anything, it's that you can't take a chance on your health.

Your payment policy is locked down, including the part where you get deposits up front. The best time to discuss payment terms with a client is before they engage you. That's why you need to have your payment policy prepared in advance. Your proposals and contracts should clearly delineate your payment policy and request any down payments you desire. Not only will this allow you to collect money in a timely fashion, it will also give you something to refer back to if a client is late paying and it will also allow you to secure working capital, which we’ll talk more about below.
You have at least two bank accounts—one for your business transactions and one for your personal finances. The key point here is that you need to keep the money related to your business separate from that you use for your personal expenses. Not only does it make it easier to track things correctly, it's also important in case you ever get audited. When you mix business and pleasure in any form, it makes the IRS very suspicious—so start your business the right way: by treating it as a separate entity.

Money is in your savings account. Aside from having an account for your business transactions, you'll also want to make sure that you have an account with a financial cushion in it in case your business doesn't turn a profit quite as quickly as you thought it would or if you have some unanticipated expenses. As a rule of thumb, having at least six months of living expenses squirreled away before you begin your freelance business is ideal.

You have at least one line of credit. While having cash on hand is great, having access to a line of credit is also important in case you need additional emergency funds or you want to take advantage of growth opportunities. Applying for lines of credit before you quit your job is important because banks and other creditors are more likely to extend credit to you if they see that you have a steady income.
You have access to working capital. It’s important to have money in the bank you can use to finance expenses related to the work you do for clients (especially if they pay slowly) or to cover costs associated with operating and expanding your business—otherwise known as working capital. While you could use a line of credit for working capital, it’s better (and cheaper) to use cash for this purpose. Another way to ease the need for a large amount of working capital is to try to sync billing from your vendors (such as other freelancers you contract for projects) with your clients’ payment schedules, if possible.

You know what taxes you are obligated to pay. In addition to preparing a budget for your start-up costs and the ongoing operations of your freelance business, you should also take into consideration how your income and your recordkeeping will be impacted by the taxes you have to pay. Confirm whether you must collect and pay sales tax for any state that you do business in; determine what your rates for local, state and federal taxes are; and don’t forget to factor in the expense of siphoning off 15.3% of your earnings for self-employment taxes (i.e. Social Security and Medicare).

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The estimated tax deadlines are marked on your calendar. Once your business turns a profit, you will need to pay quarterly state and federal estimated taxes in January, April, June, and September each year. You may also have to pay local estimated taxes as well, depending on where you do business. It is important not to miss these deadlines and to pay what you owe to avoid penalties and interest on unpaid taxes.

You’ve thought about how to track your business finances. No matter how small your freelance business is, you still need to track your income and expenses and all other things related to your business finances. There are many good small business accounting programs on the market that you can use when you are just getting started that allow you to capture the data you need for your day-to-day accounting and year-end and tax reporting. As your business grows larger and more complex you may also wish to use a CPA or accountant who can save you time and help you with tax planning to reduce your tax obligations.

You have advisors you can trust. From friends and family members who you can discuss your ideas and issues with to professionals such as lawyers and CPAs that you pay for advice. It is really important to have a support system comprised of people you trust for advice, especially when you first go out on your own.
Networking and marketing your business are part of your business plan. If you’ve read this far, it means that you’re serious about striking out on your own. Which also means you have the chutzpah necessary to attend networking event and give your elevator speech to anyone who will listen—and pay, hopefully! Promoting your business is an ongoing job, so make sure you have a concrete plan and budget for marketing and set aside time to reach out to potential new clients as well.

Having fun is on your to-do list. There’s no doubt that taking the plunge to become a full time freelancer can be nerve-wracking, but it should be exciting, too. If you’re so fraught with anxiety about going solo that you can’t sleep, eat or otherwise enjoy life, consider delaying your break with full time employment until you feel more secure about your plans. If you decide to jump in, don’t fall into the trap of working yourself to death—you’ll burnout. Pace yourself and schedule breaks to do something fun on a regular basis.

Looking over this list should give you a good sense of how prepared you are to go rogue and make the leap to full time employment. If you’re not feeling completely confident, that’s okay, you can still use this list as a guide to get things in order for a little later down the road. If you do have all of your proverbial ducks in a row and a comfortable cash cushion for expenses and working capital, 2017 might just be the year you should say good-bye to “working for the man” and hello to the freedom of freelancing full time.
Hello,
I’m Jonathan Medows, founder of CPA for Freelancers®. I’m also a licensed, New York City-based CPA working with freelancers like you to help them build thriving, profitable businesses.

If you’re self-employed, you need specific advice on the tax and accounting issues that impact your business. This is what you’ll find on our site and our blog. We also offer a monthly email full of useful tidbits, so don’t forget to sign up for it!

Stick with us and you’ll learn how to maximize your profits, minimize your tax liabilities and run an efficient, profitable business. There’s no catch here—just sound advice and (we hope) some entertainment value...after all, some of this financial stuff can be a real snoozefest.

Of course, when it comes to doing what’s best for your freelance business, may want to seek out more information or some one-on-one help from the CPA for Freelancers® team.

Wishing you financial freedom,
Jonathan