



TAX DEDUCTIONS OVERVIEW

As a freelancer, your taxes can get pretty complicated. Welcome to the labyrinthine world of deductions!

Even if you have an accountant prepare your taxes, it's still a good idea to know what's possible so you can make sure you're keeping track of the right expenses. Below is a very basic overview of some of the business deductions freelancers typically take.

FORM 1040, SCHEDULE C

Most deductions are filed using [Schedule C](#). Let's go through it step by step, skipping to Part II.

Line 8: Advertising. This includes any advertising and promotional costs like print or online ads, business cards, brochures, and give-away items with your or the company's name. Include here also any sponsorships like an ad at your local walkathon.

Line 9: Car and truck expenses. You have two options here.

Option 1: Multiply the number of business miles you drove this year by 57.5 cents. (Do not add up the money spent on gas this year.) Then add this amount to your parking fees and tolls. Enter this on Line 9.

Option 2: Fill out [form 4562, Section B](#). This allows you to itemize gas, repairs, insurance, depreciation, etc.

For a more thorough guide on auto and mileage deductions, please see our [Auto and Mileage Deductions Guide](#).

Line 10: Fees and commissions. These vary by locality and state, but if you're a creative freelancer (artist, photographer, writer, designer, etc.), you probably will leave this blank. It covers medical licenses, business, and inspection fees.

Line 11: Contract labor. Include on this line the total you spent on other independent contractors or freelancers for your business. This includes the college student you paid to help organize your office, the computer guy who helped set up your laptop, or the designer you paid to make your business cards. Contract labor includes any labor you did not treat as an employee. If you include this on Line 11, do not include it in any other place on Schedule C. Accountants and lawyers go on Line 17, and if the contractor repaired your existing business equipment, include that on Line 21.

Line 12: Depletion. Unless you work in a mine or quarry or pine grove, leave this blank.

Line 13: Depreciation. This one can be important for freelancers who use expensive equipment for

their business, like cameras and lighting gear, but also for any freelancer with a laptop. Most freelancers get to depreciate their equipment over five years (computers, camera equipment, fax machines, etc.) or seven years, depending on the life of the item. Some qualifying businesses can also take an exception that allows them to write off the entire cost of the product in the first year the equipment was used.

Line 14: Employee benefit programs. For businesses with employees. Doesn't apply to most freelancers.

Line 15: Insurance (other than health). Premiums you paid for various types of business insurance are deductible here. This includes liability insurance, malpractice insurance, workers' compensation insurance, and fire, storm, accident, flood, theft, and other insurance covering your home office.

Line 16: Interest. If you took loans this year for your business, this is an important section. Put the interest you paid on your loans this year in Line 16. Also include interest you paid on credit card debt. This will be easier if you have a separate credit card for business expenses. Line 16a allows you to itemize mortgage interest -- but only on the percentage of your home that qualifies as a home office -- see line 30 for more details.

Line 17: Legal and professional services. The cost of lawyers to set up your business or for litigation and the cost of any accountants. Include tax preparers, but only for the portion of your taxes related to your business (yes, this can be hard to determine -- ask your accountant).

Line 18: Office expenses. This includes things like office supplies and postage. Materials, books, pens, printer paper, and "professional instruments" all apply here. Just total up your receipts and put it on Line 18.

Line 19: Pension and profit-sharing plans. Only applicable if you have employees, and they have pension plans, etc. Most freelancers should leave this blank.

Line 20a: Vehicles, machinery, or equipment. Only applicable if you leased a car or professional equipment. Again, might be applicable to freelance photographers who lease instead of buy. May also include software that you lease (like some versions of Adobe Creative Suite).

Line 20b: Other business property. If you rent an office or other space, include that here.

Line 21: Repairs and maintenance. If any of your equipment broke and you had it repaired, include that here. For freelancers, this would most commonly be if your computer broke and you had to repair it.

Line 22: Supplies. Only applicable if you produce a physical product. If you sell journals on Etsy, the cost of paper and leather may go here. Do not include your inventory. (Leather for a journal seller = supplies, leather for a leather store = inventory.)

Line 23: Taxes and licenses. You can deduct the following taxes, according to the IRS:

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- Real estate taxes on your business property. If you have a home office, you can deduct a percentage of your real estate taxes on your home. To calculate that percentage, see Line 30.
 - Federal unemployment tax
 - State and local taxes “imposed on you as the seller of goods or services” -- but only if you didn’t already collect them from the buyer, which you should put on Line 1.

Line 24a: Travel. If you travel for business -- like staying overnight or being away from home significantly beyond a normal workday -- you can deduct a few of your expenses. This line should include transportation and accommodation. Remember, these expenses should only be included here and not also on Line 9. The IRS does not smile on double counting transportation costs. If you’re traveling for pleasure and for business, you may only deduct the portion of your travel expenses corresponding to the portion of your trip relating to business. For instance, if you stay an extra day just to sightsee, that day’s expenses -- including meals and lodging -- would not be deductible.

Line 24b: Deductible meals and expenses. There are very complicated rules for this, listed [here](#). Here’s a short version of how to determine what qualifies:

- It has to be an “ordinary expense” that’s “common and accepted” in your profession.
- It has to be a “necessary expense” that’s “helpful and appropriate” to your business.
- It was “directly related,” so it happened in a business space, or the primary goal was to do business or for a particular business outcome. Note: this does NOT mean that you have to prove that income resulted from every business meal.
- “Lavish or extravagant” expenses don’t qualify. It has to be “reasonable” in the course of business. I.e., taking your clients with you on a cruise to Tahiti may not qualify.

Line 25: Utilities. If you have a separate office away from your home, deduct 100% here. If you have a home office, you can deduct the percentage of your utilities equal to the percentage your home office takes up in your home overall. To calculate this percentage, see Line 30.

- **Phone:** If you only have one phone line installed at home, you can’t deduct the cost of that line, but you can deduct long-distance business calls you make on that line. If you add a second line for your business, that line is fully deductible. If you only use your cell for business, you need to calculate the percent you use it for business vs. personal use, and then deduct only the business percentage.
- **Heating/Electricity/Gas/Water:** Again, only the percent corresponding to your home office.
- **Internet:** The cost of building, maintaining, and hosting your website or portfolio can be included here, as well as purchasing the domain name. If you also use your Internet for personal use, deduct a percent of your monthly Internet bill.

Line 26: Wages. Only applicable if you have employees.

Line 27a: Other expenses. All the stuff that didn’t fit anywhere else. These need to be itemized

in Section V of the same form. If you sell products on services like Etsy or Paypal, you can deduct transaction fees in this section.

Line 30: Home office. This one can be a doozy, but it's often worth it. In order to deduct home office expenses, your office has to be your primary business space "exclusively and regularly." Whether a full room or a designated area of one, the office space shouldn't be used for any other purpose and there should be no other office where you can work (such as a rented space you're already deducting). In short, you need to answer "yes" to one of the following:

- You do most or all of your work there
- You meet clients there frequently
- There's a separate structure on your property that you use only for business
- You're using your home to store product samples or inventory
- You operate an at-home day care center for children, the elderly, or people who can't take care of themselves.

The deduction is calculated in one of three ways. It might be worthwhile to test all three to see which gives you the greatest deduction.

#1: By square footage. First, measure the size of your office and then calculate what percentage your office takes out of your whole home/apartment. For example, if your office area is 200 square feet and your house is 2,500, then you can deduct 8% of your indirect household expenses. So let's say that all together, indirect expenses in your home are \$15,000 a year. Because your office takes up 8% of your home, you'll be able to deduct 8% of \$15,000, or \$1,200.

#2: By rooms. You can also try to calculate this percentage based on rooms. If your office is one room out of 8 in your home, or 12.5%, this would give you a higher deduction.

#3: \$5 per square foot. According to the IRS, many people who could take a home-office deduction haven't because the rules are too complex. Starting this year, there's a new, simplified home-office deduction allows you to deduct \$5 for each square foot of home office space, up to a maximum of 300 square feet (for an annual max of \$1,500). When filling out Schedule C, just put this amount (\$5 x your square footage) on Line 30.

Important tips for home office deductions:

- Do not double count office expenses on lines 16, 25 and 27 AND also include those expenses on Line 30. Put them on Line 30.
- If you worked from a client's office for a period of time, you may not be able to deduct home office expenses for that period.
- Once your office is set up, shoot some photos. This can help support your claim, if questioned.

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- Keep any receipts and bills for household expenses you'll be claiming as deductions.
 - The IRS can be quite serious about the "exclusive" use function. This doesn't prevent you from taking personal calls at your desk, like you would at a regular office, but it does mean that if your spouse/children use the same space after-hours, the IRS can reject your claim.

OTHER DEDUCTIONS:

Health insurance premiums: You qualify to deduct your total health care insurance premium costs only if you were not eligible to enroll in an employee plan or a plan through your spouse. You can claim this deduction on Line 1 of Schedule A form 1040.

Educational expenses: If you took classes to improve or maintain necessary skills for your business, you can deduct education costs. You can't deduct education costs for learning a new trade unrelated to your business. You'd deduct this on Line 21 of Schedule A form 1040.

Self-employment tax: You can deduct half the cost of Medicare and Social Security tax (the portion your employer normally pays for) on form 1040 Line 58.

Unpaid invoices: You can write off the total amount of unpaid invoices as bad debt on Line 6 of Schedule C form 1040 -- but only if you already recorded it as income. This would only be the case if you record any outgoing work as a sale, called "accrual" accounting. Most freelancers operate on a cash basis, reporting only the income that they received from clients, in which case you would not be able to take unpaid invoices as a deduction.

Disclaimer: This is meant as a guide, not professional advice. If you have any questions about your taxes or your deductions, hire an accountant or ask a tax professional.