

Freelancers and Small Business Need a Budget

By Rachel Goldstein

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For people with a salaried job, budgeting their income and expenses is an easy task. A regular paycheck comes in for them every two weeks with taxes and benefits already taken out. For them it is easy to predict how much income will come in and what expenses will go out. But when you leave your full-time job for a freelance career, you also leave behind your stable paycheck. So how do you make sure that you have enough money to pay your rent? You need to learn how to create a budget. This article will explain to you the basics of budgeting for your freelance business.

ADD UP YOUR EXPENSES

The first step in creating a budget is to add up your monthly expenses. If you are new at freelancing, then calculating your expenses the first few months is going to be tough for you, but stick with it. Below, I have provided you a chart to fill out. For the personal expenses listed, take a look back on last year's checks, bills, and credit card statements to see what you paid out last year. Figure out what the average month was for each expense by writing down all twelve month's expenses and then dividing this number by 12.

For example:

January ----- 112

February ----- 84

March ----- 96

April ----- 130

May ----- 65

June ----- 98

July ----- 101

August ----- 59

September ----- 75

October ----- 84

November ----- 96

December ----- 115

+++++

TOTAL ----- 1115

+++++

Divide Total by 12

92.92

\$92.92 = Average Monthly Phone Bill

In the above example, you would use \$92.92 as your monthly phone expense on your budget.

MONTHLY EXPENSES

=====

Utilities (Telephone, Electric, Gas, etc.)

=====

Mortgage / Rent

=====

Cable

=====

Food

=====

Loans

=====

Transportation

=====

Entertainment

=====

Health Insurance

=====

Life Insurance

=====

Home Owner's Insurance

=====

Advertising / Marketing

=====

Licenses

=====

Office Supplies

=====

Memberships

=====

Taxes

=====

Miscellaneous

=====

TOTAL EXPENSESE

=====

You are going to need to guess or estimate for business expenses unless you have a full year of freelancing under your belt. Don't worry if your estimate is off, you can always readjust your budget next month. If you have been in business for more than a year, then use previous year's records to estimate this year's expenses.

In order to figure out taxes, first you need to come up with your target monthly income. Lets assume that your monthly target income is \$2,500. The government wants about 45% of this money. But, this will depend on what tax bracket that you fall into and what state that you live in. Your taxes each month would be about \$1,125. (When you are self-employed, you will need to pay quarterly taxes on April 15, June 15, Sep 15, and Jan 15.)

REQUIRED INCOME

After you have estimated what all of your monthly expenses will be, you need to figure out how much income you need to bring in. It is quite simple to figure this out. All that you need to do is add your target monthly income and your monthly expenses together. The number that you get is your required income. For example: If your target income is \$2,500, and your monthly expense is \$3,200, then your required income is \$5,700.

Once you figure out how much income you are required to make to keep budget, figure out if your target income was too high or too low. Are you going to be able to make this amount of money each month? Review your numbers to assure that they match your goals.

Now you have an idea of what your cash flow should be like this year. As the year goes on, you will probably readjust your budget a few times to meet new goals, increase your profit line, and anticipate problems.

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