

How to Budget for the  
(Irregular)

# FREELANCING

Income

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## How to Budget for the (Irregular) Freelancer Income

Freelancing can be tough. Depending on your starting point, you may struggle to get work, especially if you begin using content mills or similar platforms, like Upwork, Fivrr, or something similar. To get the best chance at winning against a growing stream of competition, rely on guidance, such as in the form of a seasoned veteran (not a flash-in-the-pan playa who only did a few months, won a job or two, and passes themselves off as an 'expert').



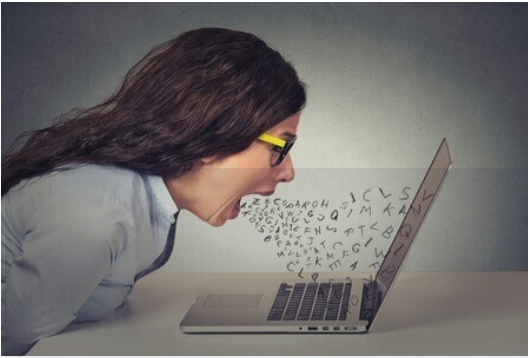
Once you start generating income through your freelancing gig, though, it's necessary to plan ahead. If you're doing this full-time (or even part-time with another part-time job to hold things together for a while), **budgeting** becomes *critical*.

I mean ***C.R.I.T.I.C.A.L.***

Fail to budget and you *will* likely scramble to pay your bills. That'll ratchet up your stress levels to previously unknown levels (most likely). When stress ramps up, the risk of health problems sprints on ahead of you, too. Plus, when you're worried about covering your next mortgage or rent payment, you'll be far too willing to accept whatever job might come along.

Even if it's ***waaaaaay*** below you're normal rate.

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When you start doing that ... guess what? The stress will only crank up higher. Why?

Because you'll be spending *more* time for less earnings, which means the financial pain will only continue to escalate. The you'll be caught in a maelstrom, running the risk of getting sucked down into oblivion, a place where most freelancing dreams go to die.

Don't let that happen. Learn to budget for an irregular income.

### The Years in the Trenches

I've been freelancing **full-time** for over 15 years now. And I was doing it part-time for three years *before* that, so all-in-all I've been a freelancer for almost 20 years.

Two decades.

I'm old, I know, and I've been around the block a few times. Some of those blocks were rat-infested hellholes I don't want you to get caught in.

They were the kinds of places so dark you can barely see any light, where night drags on for years, and where you wished someone had taught you the unspoken rules of freelancing ... like *how* to budget for the feast and the famine.

### Calculate Your TARGET Earnings

When you're just starting out, don't even *think* you're going to get it right. You won't. You'll have your dream figure in mind (the mega bucks you want to earn), but let's get realistic here. This is the beginning and it's a marathon, not a sprint (oh, cliché how I've missed you ...).

If you're only just starting your freelancing life, you don't have any basis to figure out *potential* earnings. Your chosen industry, niche, and experience (portfolio) will all factor in. So, too, can your location (where you live).

What I want you to do is be honest with yourself and *underestimate* just how much you could make. If you're thinking \$1,000 a month working another full or part-time job until your freelancing business gains traction, then estimate \$500.

Since you'd still be working enough to cover your living expenses (I'd hope), then budgeting isn't necessary... just yet. But you can begin practicing.

Here's what I mean:

If you estimate you'll put in 10 hours each week to freelancing (bidding, answering invites or inquiries, doing jobs you earned, etc.), and \$500 is the value (pretty good starting point, my friend). Then multiply that by four (10 hours times four equals 40 hours per week). That would get you \$2,000. Next, multiply that by 4.3 (the number of weeks in an **average** month throughout the year). That would be \$8,600 (before fees and other expenses, which I won't get into now, but go into more detail in my course, **The Master Freelancer**, available here).

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Whoa! Great job!

Now, that's our *average target* in our example. Or, more likely, that's the **high end** of our target (right now).

If that's the case, trust me... you *won't* earn that every month. Not even close. Not at first, anyway.

Some freelancers feel like they won the lottery one month, but then go one, two, or even three months hitting *way below* their target. Get used to it.

That's where budgeting is so vital. You could earn \$12,500 one month, then barely break over \$2,000 the next three. If you go crazy and spend everything you earned in that first month on things you *just need to have*, you'll be scrambling for the next three months to survive.

If you have an idea (or you're confident) you will earn **at least** a certain amount every month, then set that as your budget target. For example, if you **know** you'll earn *at least* \$4,000 each month, use that for your budgeting figure. The rest of what you bring in can be set aside for a rainy day. A time when -for whatever reason- you just can't hit that target.



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Why might you miss the mark?

1. Slow seasons (yeah, they happen in freelancing).
2. You get sick (no paid sick days anymore!).
3. Someone in your family is sick (and you have to take care of them).
4. You're dealing with tragedy.
5. Competition is flat-out kicking your butt for a bit.
6. You got a really nasty, unfair negative review and it crushed your rating, leaving you stuck taking the bottom-feeder projects to build your reputation back up.

These things happen. You can't plan for them, but you can sure **budget** for them.

### Next, Figure Out Your Bills

This includes *everything* you will have to pay for each month. Some months you might have an annual bill to budget for. Figure that in as you work on this.

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Most people have:

1. Mortgage or rent.
2. Food expenses.
3. Utilities (electric, gas or oil, water, trash, cable/Internet, etc.)
4. Phone
5. Entertainment
6. Education
7. Credit card bills
8. Student loans or other debts
9. Auto loan
10. Auto insurance
11. Health insurance
12. Business expenses
13. Gas (for your car)
14. Etc.

When you've got your total of *average* monthly expenses calculated, you can then determine what the **minimum** amount you'll need to earn as a freelancer each month.

I recommend using a 12-month calculation. In other words, calculate your average earnings target over a 12-month period and your bills against the same 12-month backdrop.

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If your current bills are way more than what you anticipate earning on average freelancing, you need to make a choice:

Either find ways to trim your expenses (you don't really need the latest iPhone or all those streaming services on top of the full cable lineup, do you?) or consider a part-time job to make up the different, or add more time to your workweek (for now).

### Don't Forget About the Freelancing Costs

Freelancing is a phenomenal way for the entrepreneur-minded person to break out on their own. It's a low-cost means of entering the industry. However, it's **not** free.

You'll have expenses. They might come in the form of:

- Membership fees
- Per project fees
- Withdrawal or banking fees
- Taxes
- Etc.

Whatever you do, *don't* forget about your taxes. In the U.S. as a freelancer, you are considered self-employed and that means you're supposed to file quarterly *estimates* for your taxes. That means you need to pay your *estimated* tax every quarter.

If you don't, you will be subject to fines, penalties, and interest (even if you would have gotten money back when you file).



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For every job you complete and receive payment for, it's best to hold out 35% for taxes. This probably sounds like a lot, but the more you earn, the more you'll be responsible to pay in taxes.

If you hold out 35% for taxes, that *should* provide you some money left over every quarter, which you could then rely on for bills or expenses during the next quarter, invest or save, or go nuts with a nice shopping excursion. Whatever floats your banana pickles (don't ask ... it's something that popped into my head many moons ago and, like an annoying leech, refuses to let go).

If you feel better with 25% withheld, then fine. Just remember that *if* you need to pay *more* one quarter, you'll have to find that money **somewhere**.

### Building Your Budget

Once you figure out a budget, the next to do is figure out (or follow) a system to manage your money. The best way that this works is if you keep your personal finances separate from your business money. In other words, have:

A Personal Account. This bank account is where you will draw to pay all of your monthly expenses (personal expense, mind you). Most people already have a personal checking and connected savings account, but if you don't, not a problem. Choose a local bank, one that has minimal monthly fees and that offers you the best flexibility, ATM network (without fees), and highest interest rate on their savings account.

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A Business Account. If you don't own a business (yet), you probably won't have one set up (yet). Now is the time to consider it. Focus on one that offers a high interest rate savings account for your business.

From here on out, keep everything separate: your personal from business expenses.

**However**, put *all* of the money you earn from freelancing into that business account.

While it sits there, it will be earning interest. Every day, until it's time to pay yourself your monthly salary (which is your monthly budget).

See how that works?

Once you calculate your budget, you know what you need to earn every month. *Then*, even though you might have earned more for a few months, you're only taking out just enough for your budget.

"But what about when prices are rising?" you may be asking.

You'll have to adjust, but **first** seek to trim your expenses before giving yourself a 'raise.' That's what's going to help you as you move forward as a freelancer.

**IMPORTANT NOTE:** Make sure this business account is a high-yield savings account, otherwise you won't see much value keeping the money there.

### The Focus Is On Creating an Illusion

An illusion of having a consistent and regular paycheck. Just because you won't know how much you'll earn from one month to the next doesn't mean you have to live in constant stress and financial strain.

Once each month, write a paycheck to yourself and deposit it into your personal savings account, then you can draw on that to pay your bills for the month. From there, don't touch any of the other money in your business account.

### What About When You Start Earning More?

I recommend following your budget for one year at a time. Yes, I understand inflation and out-of-control fuel prices. You can trim some expenses if you must, but hold to your budget.

Think of it this way: you wouldn't be able to simply hit your boss up for a raise every time prices increase, would you? No. So...? It stands to reason that holding to your budget for one year makes sense.

Then, after the year is over, reassess your earnings and your budget. First, though, are a couple of items to take care of.

1. Pay the taxes. Whatever is left in your account should be used to cover your taxes. Then,
2. If you have money left over from that, you can draw that out and deposit it in your personal account. Consider it a bonus!

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You earned it!

Now, recalculate everything and get set to start anew. Keep in mind, though, that you don't have to take whatever may remain in the business account after paying taxes. You can keep it there to give yourself a stronger cushion with more interest earning money to start the new work year.

Up to you.

And don't worry if things seem a bit complex. They're not. It's straightforward and once you get a handle on things, you'll gain confidence and be done with the days when you don't know if you'll be able to pay your bills next month.

Just keep in mind that the first year will be the toughest. Without any clue just how much you *could* make, you may easily over or underestimate earnings. If you overestimate them, you could find yourself straining each month.

Breathe. You can always find ways to trim expenses and get within your earnings.

Just ... breathe.

### Some Helpful Tips

When it comes to finances and making this freelancing life work out, I reject the notion of 'tricks' someone can learn. You don't need slick tricks. What may help, though, are some useful tips.

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1. **Seek alternative cost-saving options everywhere.** If you enjoy a cafe double latte at Starbucks every day, that's what ... \$5? Or more? Why? That's \$35 a week, *at least*. Know what that costs a year? Probably not. About \$2,000 annually.

Or maybe you love getting the latest new release from your favorite author or rapper or movie star. Go to the library and borrow the book or the CD or the DVD. Be thrifty in every aspect of your life.

2. **Build up your savings.** This takes discipline, but as a freelancer, the entire process requires discipline. Save however much you can whenever you can. And let that savings account grow. If you're not yet launching out on your own, you can do this *before* you make the full-time commitment to an irregular income.

3. **Prioritize your spending. Figure out which expenses are** *most* important and when you get paid, start there, then work your way down the list. If you can't cover some of the lower priority bills one month, hold them off.

But if that happens, figure out where you missed the mark. Maybe you didn't get enough jobs, underbid some of them, or spent more than you budget in certain areas of your life (life entertainment or dining out).

4. **Stay away from your business account.** Yes, you'll be tempted to simply draw some of that money out for a special purchase. After all, it's yours, right? Why can't you?

You certainly can. The question is ... why *would* you?

Why would you put yourself in a tough spot down the road for some short-term 'pleasure' or purchase now? If you want to be serious as a businessperson, this is one of those choices.

5. Avoid trying to 'Keep Up with the Jones's'. Don't worry about what your high school friends are doing. Don't think twice about the amazing house someone just bought or the new car or wicked cool vaca they took their family on.



# You're fine. You're doing great.

Too often, as people earn more, they spend more. Why? Because they think the grass is greener on the other side of some purchase. But in reality, most of those 'friends' you haven't even seen or hung out with in years aren't doing as awesome or amazing as they want everyone to think.

We're all dealing with 'stuff.'

Some people simply try and cover it by letting the world *think* they've got the perfect life. Don't fall for that trap. Stay true to you.

If you have other helpful tips or words of advice that you've learned from an irregular income, I'd love to hear them (or share them directly to our Facebook group). Alright, now, get out there and start earning ... ***big time!***