

Money Matters — The Freelancer Finance Report

FreshBooks partnered with ResearchNow to conduct an in-depth analysis of the business and financial challenges freelancers face. Here's what we found.



A note from the report author, Carly Moulton:

If you talk to freelancers, the first thing they'll tell you is that uncertainty is a big part of working for yourself. Going out on your own means replacing regular paychecks with inconsistent income, and losing the safety net of employer benefits and workplace retirement plans.

Freelancing is typically high-risk, but those who pursue it feel a greater sense of reward for the work they do. The majority of freelancers also say they're happier, healthier, and have better work-life balance compared to their time as employees. Working for yourself can be lucrative — consider that 1 in 3 freelancers earn **\$100,000** or more a year.

It's no surprise that our survey found that 27 million Americans plan to work for themselves by 2020. They'll join the nearly 15 million Americans whose primary earnings come from freelance work or small business ownership today.

To help freelancers find success in self-employment, FreshBooks has parsed the survey data to reveal new insights and answer common questions. Money Matters — The Freelancer Finance Report explores everything from, “What challenges will I face in the first two years of business?” to “What are the habits of top-earning freelancers?” and “Can freelancers actually retire?” Great questions, and we've got the answers.

So, what can freelancers expect when it comes to their finances?



Carly Moulton,
Data Insights and Communications Manager, FreshBooks

Table of Contents

'The Big 9' Challenges Freelancers Face Page 4

How Much Money Do Freelancers Earn? Page 5

Freelancers and Financial Management Page 6

Financial Leaders and Financial Laggards Page 7

Business Challenge Deep Dive: Taxes Page 8-9

Best Practice Deep Dive: Financial Institutions Page 10

Freelancers and Retirement Page 10

About the Study Page 11

'The Big 9' Challenges Freelancers Face

As workers transition from employment to freelance, they face a multitude of new challenges. And while these challenges never really go away, the good news is that freelancers tend to overcome many of them as they gain experience. The chart below looks at how the toughest challenges for businesses change (and sometimes get easier!) over time.

Which of the following challenges do you regularly face?	Businesses under 2 years old	Businesses over 5 years old
1. Finding new customers	37%	19%
2. Finding cash to reinvest	26%	22%
3. Cash flow	25%	14%
4. Finding talented staff or contractors	22%	30%
5. Setting prices or rates "just right"	16%	12%
6. Managing time effectively	17%	14%
7. Balancing selling vs. delivering work	12%	9%
8. Managing costs	7%	13%
9. Knowing when to outsource functions vs. doing them in house	6%	7%

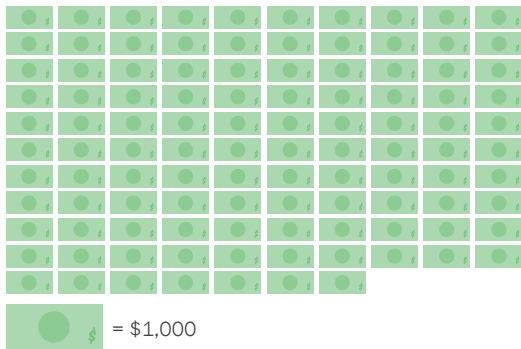
Regardless of how tenured or successful they become, **35%** of freelancers say they struggle significantly with managing their money. The good news is there are ways to manage better and stress less. We've found that following a few sound financial practices strongly correlates with small business success. In fact, those who adopt financial best practices could double their annual earnings. Yes, that's right, double!

Consider this: the majority of freelancers who earn more than **\$100,000** from freelancing are putting a number of practices to use, such as: separating business and personal finances, maximizing tax write-offs and deductions, and maintaining a business relationship with a bank.

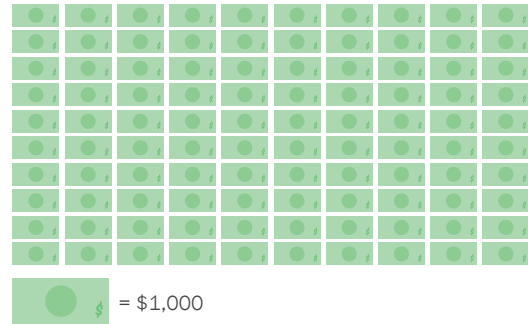
On the other hand, the 1 in 10 freelancers earning less than **\$50,000** don't follow any financial best practices.

HOW MUCH MONEY DO FREELANCERS EARN?

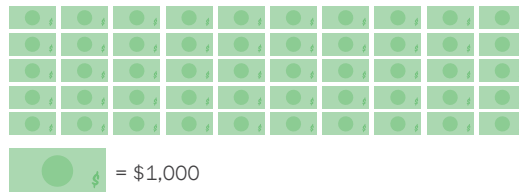
32% earn more than **\$100k+/year**



28% earn between **\$50-100k/year**



40% earn less than **\$50,000/year**








\$61,372 American Median Household Income*

*<https://www.census.gov/newsroom/press-releases/2018/income-poverty.html>

Freelancers and Financial Management

If you're a freelancer, ask yourself this: what healthy financial habits could I develop to reach my maximum earning potential?

Which of the following best practices do you apply to your business finances?	Self-Employed Professionals Earning Over \$100k	Self-Employed Professionals Earning \$50-\$99k	Self-Employed Professionals Earning Under \$50k
 Keep personal and business finances separate	74%	69%	59%
 Maximize tax write-offs and deductions	73%	63%	58%
 Pay yourself a regular salary from business earnings	50%	37%	27%
 Establish a business structure that protects you from liabilities/taxes	54%	35%	31%
 Maintain a budget	45%	45%	44%
 Manage and track expenses	72%	72%	63%
 Use accounting/financial software	61%	61%	44%
 Proactively reduce debt	48%	36%	26%
 Set aside money to pay taxes	52%	54%	38%
 Maintain a business relationship with a financial institution	63%	51%	35%
 None of these	4%	6%	10%

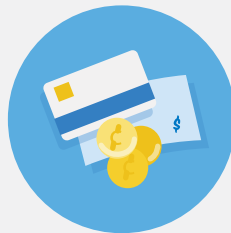


Financial Leaders and Financial Laggards

When it comes to managing finances, there are two categories of freelancers: **financial leaders** who adopt 7 or more best practices, and **financial laggards** who adopt 4 or fewer best practices. The average financial leader has been in business for **6 years**, and the financial laggard has been in business for **5 years**.



Leaders are more likely to be male



56% of leaders earn **\$100,000** or more annually, compared to **30%** of laggards.



Leaders are more likely to have a college degree



Leaders are more than twice as likely than laggards to say they're very satisfied with self-employment



Leaders are more likely than laggards to employ multiple staff

Business Challenge Deep Dive: Taxes

Employers automatically deduct taxes from employees' paychecks, but when you work for yourself, you're responsible for setting aside money for taxes. Yet, even among financial leaders, only half of self-employed professionals are setting aside money to pay their taxes. This allergy to setting aside money could stem from the belief of many self-employed people that the current tax code is stacked against them.

So, why do freelancers not set aside money for taxes?

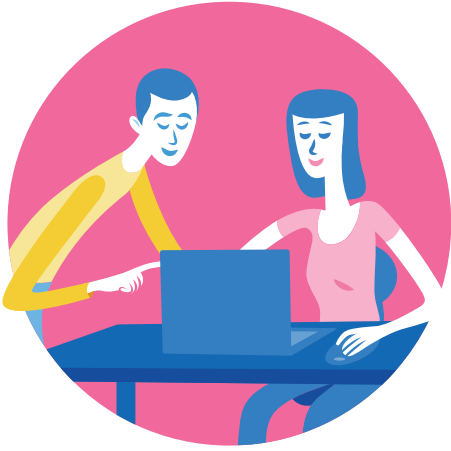
It's time-consuming:

- The majority of self-employed professionals spend up to 10 hours a year filing their taxes.
- 20% say they spend more than 10 hours. Freelancers take 3x as long to file taxes as traditional employees.

It's a financial burden:

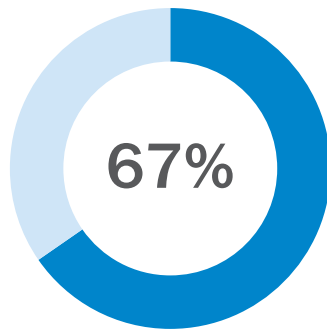
- Figuring out taxes can be complicated on your own. The majority of freelancers outsource their taxes.
- Freelancers are 50% more likely than traditional employees to pay someone to do their taxes.



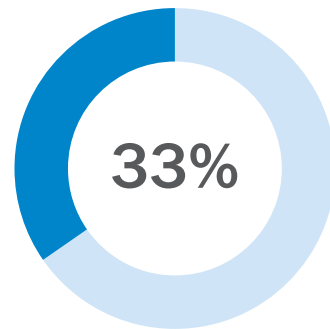


Freelancers are hungry for an improved and simplified tax code, but they aren't holding their breath when it comes to the possibility of change — less than 10% feel the government understands or represents their needs well.

What do freelancers want from the government?

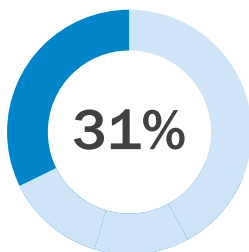


say the government should have more policies and structures in places to help entrepreneurs succeed

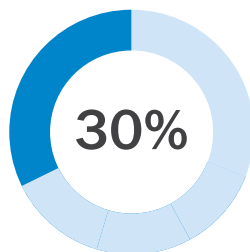


want a simplified tax code

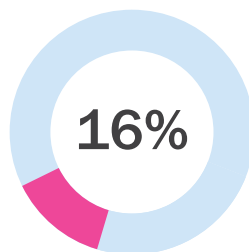
Instead of filing taxes, freelancers would rather...



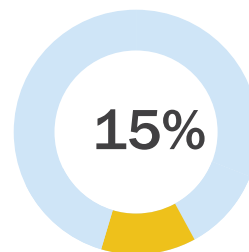
Get stuck in line at the DMV



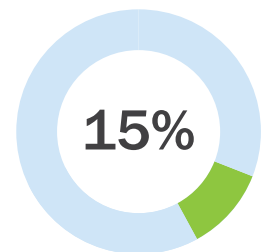
Sit in the middle seat on a long plane ride



Shave their heads



Have major dental work



Get the flu

Best Practices Deep Dive: Financial Institutions

Freelancers tend to feel that big banks don't understand their needs, which could be why less than half of all freelancers have a business relationship with a financial institution. For people who plan to freelance, an appealing alternative to big banks is fin-tech.

In fact, more than half of people who plan to become self-employed in the next 2-5 years say they would consider alternative banking solutions.

In 2017, only 1 in 10 freelancers had worked with an alternative to big banks, and 75% were uncomfortable working with a fin-tech. But this uneasy disposition toward fin-tech solutions is changing.

Freelancers and Retirement

So, freelancers can be certain of the business challenges they'll face and best practices they should put in place...but how prepared will they be for retirement?

The days of retiring at 65 may be over, but not for the reasons one may think.

There are currently 15 million freelancers working for themselves full-time in America – 33% say they'll have to work past age 65 to make ends meet.

But there is a bright side: 6 million freelancers say they'll choose to bypass retirement and continue to work past 65, simply because they love what they do.



About This Report

Money Matters – The Freelancer Finance Report reveals new insights and trends from FreshBooks 2018 Self-Employment Report – an annual survey of more than 2,700 Americans who freelance full-time. As the third part of the study, Money Matters – The Freelancer Finance Report aims to help new freelancers reach their goals, anticipate challenges and find financial success in the self-employed economy.

Survey Methodology

FreshBooks conducted this study in collaboration with Research Now. More than 2,700 people who work full-time – either as traditional employees, independent professionals, or small business owners – were surveyed online in November 2017. Samples have been weighted (as required) to reflect various characteristics of their target populations (e.g., age, gender and industry) leveraging data from the U.S. Census, U.S. Small Business Administration, the NAICS Association and other sources. The study's margin of error is +/- 2.3% at 95% confidence.

About FreshBooks

FreshBooks is the #1 accounting software in the cloud designed exclusively for service-based small business owners and independent professionals. The company has helped more than 10 million people worldwide process billions of dollars with its ridiculously easy-to-use invoicing, time-tracking, expense management, and online payments features. Recognized with eight Stevie awards for best customer service in the world, the company's mantra is to "execute extraordinary experiences every day." Based in Toronto, Canada, FreshBooks serves paying customers in 160 countries. www.FreshBooks.com.

Authors Carly Moulton, Data Insights and Communications Manager and Dave Cosgrave Director, Market Strategy and Insights

To read more research from FreshBooks, please visit <https://www.freshbooks.com/press/data-research>