

*A Guide to*  
Starting and Running  
a Freelance Business

Often, but not always, a specialized home-based business, freelancing introduces special ethical situations, especially when you still keep your day job. Staying nimble gives an advantage over more formal companies, but you must work harder to gain freelance business. And if successful, you may need to move out and go full-time, if you're prepared. These are just some of the special considerations of freelance businesses that will be outlined in this *Guide to Starting and Running a Freelance Business*, brought to you by BizFilings and Business Owner's Toolkit®.

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# Freelancing Overview

Are you thinking of starting a freelancing business? It could be due to involuntary unemployment, economic necessity, or desire for the independence associated with freelancing. For career and/or personal reasons, freelancing can be a viable business that grows to suit various needs and circumstances in your life.

For most people, owning a freelancing business means working as a self-employed person doing specific pieces of work for various employers. It presents an attractive alternative to being an employee, allowing for independence and a sense of control. Heck, the word itself implies a sense of freedom.

Keep in mind, however, that freelancing combines the best and worst of the world of being a business owner and an employee. How so? If you're freelancing, you own your business, and you're an independent contractor, controlling your hours and the kind of work you choose to take on. On the other hand, you are in effect employed by the person who hired you and must comply with their demands and

time schedules. You also pay a price for the freedom of freelancing because you are responsible for your own health and disability insurance, other benefits, employment taxes, and new projects—instead of having these things handed to you like an employee.

Despite the challenges unique to the freelancing business, it's a field that holds endless opportunities to do something you enjoy in the manner that you enjoy doing it. These tradeoffs are worth the risks to many people. But despite the casualness of the word, freelancing is like any other business in that certain steps should be followed in order to find the path to success.

- [Starting a Freelancing Business](#)
- [Running a Freelancing Business](#)
- [Growing a Freelancing Business](#)

# Special Considerations for Starting a Freelance Business

When starting any type of business, there are myriad things to consider. These are the special considerations you should focus on when starting a freelancing business:

- Personal traits and personality types and why they matter.
- What types of business are good for freelancing?
- Freelancing full or part-time—Should you quit your day job?
- Professional licensing, certificates, accreditation, and training requirements
- Space for your business—home-based, rent or buy?
- Equipping your business
- Insuring yourself, your business and your business space
- Retirement and time-off benefits
- Tax and liability considerations

## Are you ready to be a freelancer?

Your life circumstances may make starting a freelancing business the perfect path for you. If you find yourself in the position of being laid off from an employer, reentering the work force, or the needing to work more flexible hours, freelancing can be a perfect choice.

Many of the traits that freelancers need to succeed are fairly obvious — self-starters, organized, motivated, creative and flexible. You should ask yourself if you're able to avoid distractions and procrastination, and meet deadlines without a boss standing over you.

Being good at budgeting is a very important asset as well, because the nature of freelancing is such that often you don't have a steady stream of income coming in. Much of freelancing is done on a project- or as-needed basis, and work may only be available intermittently, especially when you're starting your business. Some work is seasonal, further making it likely that there will be times when little to no money is coming in.

So if you're the type of person that needs a steady stream of funds, are bad at budgeting, or have a family depending on your income alone, freelancing may not be the best fit for you. However, if you're good at budgeting, have built up a nest egg, have solid leads or even signed contracts for steady work, freelancing could work for you just fine.

Being a motivated self-starter is crucial for success in a freelancing business. You will need to "knock on doors"—whether literally or online — to seek out and bid on jobs. Unlike many traditional businesses, you'll need to really get out there, even if your services are specialized and you already have contacts.

In addition, you need the ability to get along with people and work under them. Now, you may be thinking, that's exactly why I want to start a freelancing business—so that I don't have a boss. As a freelancer, you are the boss in one sense: You decide what jobs to take and who to deal with. However, in practice, every client or customer is, in effect, your boss. When you're doing freelance work for someone, you must adapt to their style and needs.

For example, some clients may want constant updates, staggered deadlines, and a specific method implemented for their project. Others may simply convey the end-result desired, give you a flexible due date, and give you free rein. You must be adaptable and give the clients what they want. When you are an employee, you usually get your work from a select few individuals or businesses, and most likely develop a rapport over time. Most freelancers deal directly with different clients and different expectations.

In an ideal world, you would only work with the clients or customers that best fit your style and needs. Most new freelancers are likely to be stuck with less than ideal work. Once you get your freelancing business up and running, it will be easier to be choosy with the work you take on. But at least until then, you will likely have to be a bit of a chameleon, to satisfy your freelancing clients.

## Choosing the right freelancing business

When starting a freelance business, the list of possibilities is practically endless. Do you have a specialized skill you have performed for an employer, such being a seamstress or tailor, paralegal, human resources professional, builder, or technical writer? If you don't want to be an employee and have always wanted to own your own business, working as a freelancer in a field where you have a proven track record might be an option.

As when starting any new business, you should consider whether there is a demand for freelancers in your chosen expertise or whether the field is already crowded. Having already worked in the field, you should be able to find this out. Also, make sure to obtain the proper credentials and/or licensing requirements.

For example, say you have worked in a law firm under the formal title of administrative assistant, but in reality have standard legal forms or client intake sheets on a regular basis. If you would like to run a freelance paralegal business, you should seriously consider taking a paralegal course so that you can combine your experience with the proper credentials. (Just be sure to check out the provider of the course to make sure it is properly credentialed.)

Freelancers without special credentials or experience can have very successful businesses if they fill a niche that hasn't been filled. One great example of this type of freelance work is running errands for people. This may sound simple, but with some people skills and very little equipment, this type of business can be a successful freelancing one. The point is that freelance businesses are a great fit for many types of work — some not readily apparent.

Freelance businesses are typically those that can be done on a project or contract basis. Whether the project been doing paralegal-like tasks such as preparing is picking up the items needed for a dinner party or an architectural

design of a new home, it's still work that has a beginning and end. Whether you get paid by the hour or by the project, it's still freelancing if you decide what service or item you are going to provide, you control how you will provide this service or item, what price you're going to get paid, and how you're going to get paid.

**Tip:** Beware of freelance, get-rich-quick scams or freelance businesses that require you to make large purchases of instructional materials or inventory to get started. Just use common sense and investigate any potential work opportunities before you part with any money. Every business opportunity, freelancing or not, requires careful investigation.

## Freelancing full or part-time — Should you quit your day job?

Even in times of economic boom when jobs are plentiful, you need to think carefully about the implications of leaving your full-time day job to pursue full-time freelancing. Unless you're in a position of independent wealth, it can be risky.

One of the advantages of freelancing is that you get the chance to get your feet wet rather than just jumping in all the way. So starting your freelance business part-time allows you to keep the perks of your current job, such as health insurance benefits, until you're ready to go at it full-time.

Let's say your current full-time job is just fine and you enjoy the security of a steady paycheck and benefits. But maybe you need some extra income for a child's college tuition, or your salary is not keeping pace with your expenses. Maybe you love what you do, but it just doesn't pay very well. This is a perfect situation for a freelance business, because you can take on just the work you need to solve the problem.

For example, consider a brand-new high school teacher who loves his full-time job teaching science to ninth-graders. However, he has student loans to pay off, not to mention all his other living expenses. A great part-time freelancing business in this case would be tutoring. This teacher's school system requires all public school children in various grades to take and pass a state-wide science exam, and he would be able to tutor after school or on weekends.

Sometimes starting a part-time freelance business is borne out of a passion that isn't being fulfilled by a day job. In this case, a part-time freelancing business can fill that void. A classic example of this is a sax player who works as an engineer full-time, but misses making music. He decides to start a part-time freelancing business playing saxophone at various dinner spots in his area. His prices are reasonable and he finds himself booked almost every Friday and Saturday night at various restaurants. Besides the extra income, he feels much more personally fulfilled.

On the other hand, it is not always possible to start a freelance business part-time while continuing to work a day job. Maybe your current job takes up too much of your time when coupled with the rest of your responsibilities. If you're working in an accounting office and you average ten-hour days, and then coach your daughter's swim team three evenings a week, it's going to be tough for you to start a freelancing business and give the proper attention to these other duties. Also, if your potential freelance business has work that needs to be done at the same time as your full-time job, then it's pretty certain a try-out period won't be possible.

For example, let's say you want to leave your day job and to turn your love of animals into a full-time freelance pet walking service. You live in a big city with prospective clients that work long hours and are concentrated in many of the large high rise buildings in your neighborhood. It would be pretty impossible for you to start your freelance business if you couldn't walk any pets during the day. So, you would have to either quit your day job or adjust your business plan. As one option, you could start a pet walking business for neighbors traveling out of town on weekends, so you wouldn't have to give up your regular job.

In some cases, you may not be able to work part-time at freelancing if work rules or a contract forbid you from working at any other job while you are an employee for someone else. These types of prohibitions usually apply to doing the same type of work, but can apply to unrelated fields as well. If you are employed as an accountant, resist the urge to start your freelance tax return business on company time (even if it's your lunch or other break). You risk breaking workplace rules or a contract, as well as covenants not to compete. In addition, anything you produce during work hours technically belongs to your employer, and that could cause legal problems. And most importantly, your employer will not be very happy with you.

What ever option you choose, be sure to plan well. Make a personal and work budget for the year, to make sure you can afford to give it your best shot. Be prepared with savings and contingency plans. Because once you do leave that day job, you won't be able to go back to it. And that could be a very good thing or a very bad thing.

## Obtaining professional licensing, accreditation and training

Freelancing businesses encompass so many different types of fields, and some are certain to require professional licensing, certificates or special training. Just because you are “only” freelancing, don’t make the mistake of thinking you don’t need the proper credentials, especially if required by law.

For example, some states require paralegals to be licensed if they are working on their own and not under an attorney’s supervision. Or if you want to cut hair out of your home, you may not be able to do so unless you are properly licensed. More and more, state and local governments are requiring the licensing of certain activities. And most localities require a business license of some kind. And don’t forget zoning issues — if you work out of your home there may be restrictions on what you can do.

Just like when you are starting any new business, check with trade industry groups and associations to find out what you need to do to be in compliance. Also, speak with local authorities and ask about their requirements. If there are restrictions, you’ll want to know about them before you decide to go full-time with your freelancing business idea and quit your day job.

## Locating and equipping your freelancing business

When starting a freelancing business, just like any other business, you have to determine your space, facility and equipment needs. Do you need to rent or buy space to run your business, or perhaps can you run it out of your home? And what kinds of equipment will you need to invest in?

**Rent, Buy or Home?** For many freelance businesses, a laptop computer and some desk space is more than enough at first. Meanwhile, others may do their work

mostly at clients’ homes or premises. In addition, many freelancers are soloists without employees, particularly at first, so this makes a home-based business more likely. If running your business out of your home is an option, you will want to check out our discussion of Home-Based Businesses.

The decision to move your business to a separate facility, whether leased or purchased, is a big one. This is a big upfront expense. And most new small businesses are not very profitable in the first year or so. So you will need to budget carefully for this expense. If you have the clients and customers already lined up, then it might be a wise move. Otherwise, you may want to start more slowly, and freelancing certainly allows that.

If you are considering whether to lease or buy space for running your business, the monthly rent or mortgage is only one consideration. You also have location, location, location, as they say in the real estate business. Do you need to be in a certain area to successfully conduct business, or will any old place do? Then there are insurance, taxes, accessibility, maintenance, employees, safety and security, and a host of other issues in play. Judge the importance of each of these issues for your unique freelancing business when making a decision on choosing an outside facility.

**Equipping the Business.** These needs will mostly be determined by the type of freelance work you’re doing. But generally speaking, a good rule of thumb for starting any business is not to go all out when equipping it so you don’t get into a financial bind.

Still, you should invest what it takes to present a professional image. And you need to produce a quality product or provide a quality service. As a freelancer, you want all current clients and potential customers to recognize you as serious business person, and not someone who’s just dabbling in a hobby.

## Securing the right insurance for your freelancing business

Insurance for a freelance business is not much different than for any other business. What you do and where you do it will shape your insurance needs. However, some insurance needs are universal to all new small businesses.

Even though cost is often a huge obstacle when starting a business, don't skip buying insurance because money is tight. Money will be even tighter if you have a claim to pay and no insurance to cover it.

Where you plan to run your business has a great impact on the insurance you need as does the type of business you are running. A large majority of freelance businesses are run out of the business owner's home. If this is the case, please see our discussion of insurance for home-based businesses. At a minimum, you will need to get a rider on your homeowner's coverage in order to cover business activities. If you need to lease or buy space to run your freelance business, you must be sure that you obtain adequate insurance to cover your business, any equipment or products, as well as liability for clients, customers or suppliers, if applicable to your business.

Business interruption insurance is also a necessity, particularly if you don't have disability insurance and/or your income is the sole means of support for you and others.

If you're a freelancer offering professional services (for example, an attorney), you should have malpractice insurance. If your freelance business involves handling clients' finances, or if you're working in people's homes, then you should be bonded to cover accusations of embezzlement or theft. Also, it's very likely that many clients would be uncomfortable with hiring a freelancer for this type of work who isn't bonded. It speaks to your credibility. If your freelance business sells a product you created or invented, product liability insurance is something you should seriously consider. One product with a problem could result in claims or even litigation against you.

If your personal vehicle is used for business purposes, or if you have a business vehicle, be sure to obtain insurance that covers business or commercial use, as well as any liability your business incurs for transporting clients or their possessions. You don't want to run into problems when you file an insurance claim for the valuable, large outdoor marble statue repaired for a customer that later fell out of the back of your pick-up and smashed to pieces. If you don't specifically have business coverage for the vehicle, your claim will be denied.

Good sources for insurance information are your trade, industry, or professional organizations and associations, as well as your current insurance agent. Information to fit your insurance needs can also be found at the nonprofit website for freelancers [www.freelancersunion.org](http://www.freelancersunion.org).



## Finding employment benefits for freelancers

When you decide to start freelancing you may be surprised at the different types of benefits you might have taken for granted in the past, particularly if you go directly from being a full-time employee to owning a freelancing business.

First and foremost on your list is likely to be health insurance. If you are a full-time freelancer, you likely will not have health insurance through an employer. If you aren't lucky enough to be covered through a spouse or significant other, then you'll have to get health insurance on your own. Contacting your insurance agent is a good idea, but so is getting information from a trade or industry association in your field. If the industry includes many freelancers, the association will have helpful information and can assist in connecting you with insurers. The same is true for dental insurance, life insurance and disability insurance that employees often obtain from their employer.

As you start your business, you should include a plan for your retirement savings. While this can be tough when funds are tight, you must have the self-discipline to be proactive when it comes to retirement planning. And business owners have a number of available vehicles they can use to save for retirement. For example, if you had automatic deductions made for a 401k by an employer, try to continue doing this in the new plan you set up. Even if the amount you contribute has to be lower, do your best to contribute what you can. Consult with your financial advisor and/or accountant and reassess your situation regularly. You can also access information regarding retirement benefits for freelancers at the nonprofit site [www.freelancersunion.org](http://www.freelancersunion.org).

Time-off benefits are another story. Most employees covet time off, and to many workers it can be more important than monetary rewards. In fact, chances are excellent that you're one of these people: One of the reasons you've likely started a freelancer business is to

take more control over your time, as well as the type of work you want to do. But in this regard, freelancing can be a double-edged sword. The same person who as an employee used every last hour of every vacation day, stayed home when sick, and took advantage of any leave the employer offered, may now find him- or herself working more than ever and never really taking time away from work.

Don't let this happen to you because it is not healthy. Part of the hard-working, self-starter personality that enabled you to strike out on your own may likely prevent you from separating work from personal time. Since your schedule as a freelancer is more flexible, make sure to include some planned time-off. Also, if you're ill, let yourself "take off from work" unless it absolutely can't be avoided.

Again this can be tough to do, especially since your time off is not paid, as it was when you were an employee. But unless one of your goals for being a freelancer included working all the time, take advantage of your new flexibility.

## Selecting an organizational form for your freelancing business

The vast majority of people starting freelance businesses may assume that operating their business as a sole proprietorship is their best, or perhaps their only, option. This simply is not always true, on both counts.

As when starting any business, you should make an entity form choice based the needs of your particular business. Liability implications and taxes are two factors that play a large role in which form you choose to start your business.

The primary way to protect yourself from liability is to formally organize your business with state authorities. By choosing an organizational form — such as a corporation, a limited liability company (LLC), a formal partnership, or an S corporation — you are formally designat-

business is its own separate entity, separate from its owners. That means the owners enjoy limited liability in operating the business, and can only be held liable for the amount invested in the business. All personal assets are safely protected from the creditors of the business.

You are certainly not required to do this before you start a freelancing business; you can do it later once the business is more established and looks to be on its way to success. But as they say: You can't put the genie back in the bottle. If your business were to face a lawsuit while operating as a sole proprietor or simple partnership without limited liability protections, you can't mitigate the risk. It's too late.

As for income taxes, your entity choice will dictate the rules you must follow. Corporations and LLCs file their own returns, but corporations pay their own taxes, while LLCs' profits are taxed on their owners' personal tax returns. Each has different legal requirements for staying in good standing under the law. Sole proprietorships and simple partnerships have no such formal requirements and the business's profit and loss are determined on the owners' personal tax returns.

The process of registering your business as an entity with the state is not an expensive process, but its can be valuable in the liability and tax savings it can provide.

## Filing and paying taxes for your freelancing business

Generally speaking, you will spend most of your tax compliance efforts on payroll and income taxes. Sales taxes may be an issue if you are selling items at retail, and excise taxes may affect some industries. But most of your time will be spent on payroll and incomes tax filing, which must be done quarterly throughout the year.

**Payroll taxes.** When you start a freelancing business, you are now among the ranks of the self-employed. In eyes of others, you will likely fulfill the criteria for being treated as an independent contractor based on the Fair Labor Standards Act and the Internal Revenue Code. This carries with it some unusual tax burdens.

As both employer and employee, you are responsible for paying both sides of the payroll tax. For every dollar an employee pays in FICA taxes, the employer has to pay the same amount. So that means your FICA payments to the government will be twice what they were when you were just an employee. But at least the government lets you deduct the employer part as an expense when filing your tax returns.

Of course, if you have employees, you will have additional payroll tax responsibilities like any business owner. Unless you use independent contractors yourself—then they will have to file self-employment taxes as both employer and employee.

**Income taxes.** Your income tax obligations are determined by the type of organizational form in which you operate your business. Sole proprietorships and simple partnerships require no special tax filings. All income and expenses are accounted for on the owner's Form 1040. Some formal entity types — such as S corporations and limited liability companies (LLCs) — are considered pass-through entities, meaning that the business's income passes through to the owners and is taxed on their returns. Corporations, on the other hand, file their own extensive tax returns and are subject to their own set of tax laws and tax brackets.

**Quarterly filing.** The federal government doesn't want to wait until the end of the year to get your taxes owed, so it requires the quarterly filing of these taxes. These estimated tax filings cannot be avoided, and if you try you will be hit with penalties and interest, even if you pay in full at year's end. So you will need to stay on top of these quarterly deadlines.

# Special Considerations for Running a Freelance Business

You've gotten through the startup phase and your freelance business is up and running. Like any small business owner, you will find many challenges and rewards in running your own business. As a freelancer, though, running your business involves some special situations you will need to handle.

- Networking and getting work
- Competing with a former or current employer
- Charging for your work
- Dealing with work distractions
- Setting boundaries for work vs. personal time.
- Building your savings and other contingency plans
- Freelancers should keep up on new developments, credentials, licensing and continuing education

## Networking and getting work

With the advent of digital technology and high-speed Internet, the opportunities for freelancing have grown tremendously. Just a few years ago, freelancers were limited by contacts and the availability of work in their general geographical area. Nothing could be further from the truth today.

When looking for new work, start with the people you worked for (or still do). If you are on good terms, they are still your best bet for referrals because they not only know your work, but they also know you.

In addition, now freelancers can go on websites like [www.mingspring.com](http://www.mingspring.com), [www.elance.com](http://www.elance.com) or [www.ifreelance.com](http://www.ifreelance.com), and post their services as a provider or bid on work that they would like to do as a freelancer. But whoever you choose to work with, do your homework because there are risks in doing business blindly. You need to scrutinize any site or potential client just as you would any business or person you're going to work with.

Your particular line of work may also have a trade or industry association that would be a good source of contacts. You can check out chamber of commerce groups that usually have events you can attend. Also, you can join lead clubs that get your name out there.

Just like running any small business, running a freelance business requires pretty aggressive networking, particularly in the most competitive fields.

## Competing with a former or current employer

When freelancing, you may end up competing with a current or former employer. This can lead to a host of unusual situations. In some situations, the demand is so plentiful and varied that there's enough work for everyone. Where this isn't the case, you may want to consider viewing the situation as a mutually beneficial relationship, instead of a competition.

For example, if you were employed as an event planner for a large company, you might want to form an alliance with your former employer where you take on affairs that the company deems too small for its organization. Freelancing for your old company is a huge source of work for many former employees, and this is one of the strongest reasons that you don't want to leave your employer on bad terms. Yes, you might take work away from your former employer because you can charge less or a prospective customer likes you personally, but you'll want to tread carefully here because you're in this for the long haul.

Even if your freelancing business has nothing to do with the work you were doing for your employer, networking and getting work from your former company is still a great source if the lines of communication are open. For example, let's say you worked for the aforementioned company as an event planner, but intensely disliked the long and crazy hours. So you decide to take your love of dogs and start your own freelance dog daycare/sitting business. You know that your former colleagues at the company work long, crazy hours since you worked there too. Many of them feel terrible about leaving their dogs alone so much. What better source of business than your former colleagues and/or bosses? They know you person-

ally, they know you love dogs and they don't have to hunt down someone to fill this need because you make it easy for them. This type of example can be applied to any number of situations. The people who know you best are great potential customers, no matter your field of work.

What if you're still employed but working part-time as a freelancer? First, you need to make sure there are no rules against it. It's better if you are freelancing in a field that is different from your employer, to avoid conflicts. Also, don't let your freelance work affect the work product for your employer. If you can keep all this separate, you'll be better off for it.

If you're running a freelance business in the same field that you're employed, there are some potential traps to avoid. First of all, you must be sure you aren't violating a non-compete agreement. You also should not be doing your freelance work on your employer's time — not only is this unethical, but technically anything you produce or create on company time could be deemed the employer's work product and not belonging to you.

Things get even more complicated if you use inside knowledge to underbid or sneak your way into freelance work. If part of your job includes bidding on projects, you should not use that information to your advantage as a freelancer. Not only could these actions get you fired for cause (translation, no unemployment compensation and no severance), but your name and reputation will be sullied, making it tough to run your freelance business. Instead, take the approach of bidding on work only after your employer passes on it. Or think about an arrangement where you terminate the employer/employee relationship and instead work for your former employer as a freelancer.

## Charging for your work

How and what you are paid for your freelance work is based largely on the field you are in and business custom. If you have experience in your chosen field, you likely have an idea of what the going rate is. If you're new to your freelancing field, you should investigate the market and obtain information as to what others are charging for the type of freelance work you are doing.

In some instances, geography will influence what you are paid, especially if you can only do the work locally. In other cases, location or geography isn't an issue, so it doesn't affect pricing. If you live in a relatively low-cost area of the country and don't have a lot of overhead, you may be able to charge less than someone working out of their home in California with a jumbo mortgage and a very high cost of living. You also may decide that you have something extra worth paying for and that entitles you to charge more than the regular going rate. For example, you may be an attorney with a ten-year background with the IRS who provides tax consulting services. Your freelance business is focused on clients with complex tax issues, and you feel they will pay extra for the experience you bring to the table.

When setting a price, do your best not to charge too much so you end up with no work, but don't sell yourself short and charge too little just to get the client's business. If you charge too little, then rather than the client feeling it's a bargain, he or she may be reminded of the old adage "You get what you pay for." It may leave the impression that your work is not high quality. Definitely not the impression you want your freelance business to convey! Also, you may resent not being paid what you're worth, and you may not give it your best effort. Being successful as a freelancer requires knowing what you're worth. And while you can be flexible, don't be a sucker either. Remember, a freelance business is still a business.

What you charge clients or customers for your work can also turn into a marketing opportunity. Let's say you have a planned price increase coming up. You can send out notices that rates are going up, but that existing customers

can have their rates frozen for some period of time if they sign up for projects now. Also, referring a friend will get the friend a discount of some sort too. This allows you to keep pace with the economy as well as the competitive going rate for your type of freelance work, while increasing goodwill with your client base.

Be sure to stay abreast of emerging trends, so you can stay on top of your pricing issues. Always do competitive research to see what others are doing. Also, you will probably find that as you gain more and more experience freelancing in your field, that experience will enable you to work smarter rather than longer and you can charge more for that experience.

After you figure out what to charge, how do you get paid? Depending on your industry, it may be customary to be paid either at the end of a project or by the hour. So you'll have to follow traditional practices. Some work involves expenses paid by the customer, and depending on the custom in your field, these costs may be covered upfront, in stages, or at the end of the project when the work is completed.

If there are no customary practices, you are in the unique position of simply dictating or negotiating the terms with your clients or customers. This flexibility will allow you deal with situations on a case-by-cased basis. Although, it is probably a good idea to have some standard practices to follow. You don't want to gain a reputation for irregularity in your pricing and billing.

To protect all parties, contracts should be signed for all work agreements. While informalities may be more prevalent, you don't want to get into the situation where a client or customer feels they can negotiate payment with you or, worse yet, not pay you because there has been a miscommunication or you're not taken as seriously. Freelancing is your business and a contract that spells out the terms of your arrangement may seem formal, but can be a useful tool formalizing the transaction as well as due dates and costs, etc. Make sure that any contract you draft doesn't put you at a disadvantage. You may want to work with a professional advisor in your industry or an attorney to get the language right.

One of the biggest issues freelancers face is trouble collecting payment for their work. It appears that when money is tight, freelancers, particularly those with more liberal arrangements with customers or clients, are the last to get paid, if they get paid at all. If you have a valid contract, you can at least threaten to take things to the next level — legal action — if you don't receive payment. Now, it may not be economically feasible for you to take legal action, but at least with a contract you have the option. Penalties for late payments are also good incentives for clients or customers to make timely payments.

You can avoid a lump-sum payment problem by requiring payments in increments, so that if payment is late or not made, you can stop the work. This would mitigate your damages as well as provide an incentive to the client or customer to make payment so the work can be completed. In the end, let experience be your guide. If you're running your business with little to no real problems in this area, you're probably doing something right. If instead you feel like you're you have to badger or harangue clients and customers to pay you on time or at all, it's time to reexamine who you're accepting work from, how much you charge, the method you use to set up work and collect payment, or any combination of the three.

## Savings for the slow times

One situation common to the freelancing business is uneven cash flow. While this can obviously be a problem with any small business, particularly a seasonal one, freelancers often engage in long-term projects. This type of work often includes an advance payment for a project due months later. If a couple projects stack up and you don't carefully spread out the money, you may face cash flow gaps that could make it difficult to later complete the projects you must deliver.

In addition, you may face the opposite problem at times—too little business coming in. Because of the ebb and flow nature of freelance work, you will need to have savings or back-up funds to bridge the gap, until the cash starts flowing again.

Billing and collection also can affect your cash flow, so you'll want to manage these accounts carefully. Keep a watch out for trends that may affect your future cash flow. If your clients have always been quick to pay and lately many of them are slower to pay, this may be a sign of trouble in the economy.

For example, if you are a pet sitter that has had steady business for a couple of years from clients frequently traveling for business, you may be affected quite adversely if your clients' businesses cut back on travel for economic reasons. They will no longer need your services nearly as often. But if you didn't anticipate this, and you just bought a new car with expensive monthly payments, you could be in financial trouble without back-up funds.

So plan for the ups and downs of cash flow associated with freelancing and try to avoid putting yourself in situations that can suddenly overwhelm you and your business.

## Dealing with distractions and establishing boundaries

As a freelancer, you may find that you can work at home, in the park with your laptop, or in the evening or on weekends. This flexibility is probably one of things that attracted you to freelancing in the first place. But this flexibility may cause friends, family, and neighbors to not take your work seriously.

While freelancing has become much more of the norm over the years, you're still going to have to deal with people who don't understand your work flows. They may try to get you to skip working when they are not working—after all, you can make your own hours. What you have to explain is that while they're working you have been off, and vice-versa. If the explanations don't seem to sink in, you will have to adjust your work life to avoid these distractions as best as possible. This should get the message across soon enough.

Even worse than dealing with distractions from those that don't take your work seriously is dealing with people who feel that because you're freelancing your work is somehow less valuable or "free." For example, the type of friend who would have never walked into your employer's workplace during busy tax season and asked you to take care of her college daughter's "simple" tax return, but thinks nothing of asking you to do the same during tax season now that you have a freelance tax return business. Don't get caught in this trap. If your friend's wife is the president of a large company whose business you are pursuing, you may want to consider it. But be sure to explain what you normally charge, even it's a simple tax return and that you are doing it as a favor. If there's nothing in it for you, explain to your friend that you can't spare a minute because a tax return business is seasonal. This is your livelihood and you need to complete the work of paying clients. Real friends will understand and may even be a bit embarrassed that they asked.

Moreover, as the owner of a freelanced business, when you are working you are usually never off the clock. At any time during your "free time," you may have to drop everything and take on some work for your business. Even if it's just some calls or emails, you need to be ready to interrupt what you are doing to take care of business.

On the other hand, you can go like that 24/7 for 365 days a year. When it's time to take a vacation, be on vacation if at all possible and avoid tending to business. You need to refresh and replenish if you are going to be effective when you are back on the job. If you worked on projects around the clock in the winter because you enjoy having most of the summer off, you are entitled to do just that. Don't shortchange yourself in the very important parts of your life because you are a freelancer and are supposed to be flexible.

## Keeping up on credentials, licensing and continuing education

Running a freelance business keeps you very busy. But despite the demands on your time, it is important that you keep up with new developments, credentials, licensing and continuing education in your particular field.

For example, you may need to take a certain amount of credits to keep your CPA license up to date. Or you maybe you need to check that the dogs you walk together have received a new vaccine for a recent outbreak in your area. Or maybe the latest fashions demand that you should start designing more strapless wedding dresses. Effectively running your business requires keeping up with all the latest trends and all the legal requirements.

Obviously, legally required compliance measures should come first (licenses and the like), but particularly in some fields, like fashion for example, trends can be just as important. You want to show that, as a freelancer, you are on the cutting edge. Freelancing or industry associations, seminars and trade shows can help to keep you up to date. This can be an advantage for your business against your bigger corporate competitors. Large companies have a harder time changing directions. So use your nimbleness for change to your advantage.

In many cases, continuing education in your field can be accomplished online. But when time and finances allow, you may want to consider attending conferences and classes in person. These types of gatherings can be vital for networking purposes, socializing and interacting with other business people in your specific field, whether freelancers or not. Being serious about maintaining your qualifications sends a message to others who may end up recommending you for work. There's also the added bonus of avoiding isolation, if your freelance work doesn't call for much interaction with peers.

# Special Considerations for Growing a Freelance Business

All small business share common duties, necessary to growing the business. But freelancing businesses have some unique situations you may have to address. You will need to consider these options:

- Going full-time with your freelancing business — is it time to quit your day job or move out of the house?
- Do you need employees or subcontractors?
- Does your growing freelance business need to form as a new type of entity, to handle the new challenges?

## Going full-time with your freelancing business

Up to this point, you may have tested the waters by starting and running your freelancing business on a part-time basis. Maybe you were unsure of your big idea's successful startup. Or maybe you've been the sole means of support for yourself and others, and you wanted to keep your full-time position and build up a financial reserve before you took such a big step. Or perhaps you have anticipated a life change — an elderly parent coming to live with you or a spouse retiring. One means you may need to work from home more, and the other could mean you are ready for more flexible hours to accommodate your spouse's traveling desires. These are all valid reasons for starting part-time.

But whatever your scenario, there comes a point where you will want to consider going full-time with your freelancing operation. If your business is home-based, this may or may not require moving out of your house. If you need more space, or will be bringing on a number of employees, operating your business out of your home may not be feasible. You will have to deal with all the various issues every small business owner must handle when finding, equipping and running a separate facility. And it is a big step. On the other hand, if you are just going to be doing the same thing you've always done, just doing more of it full-time, you may not need to move out.

When that point comes, only your head and your heart will know for sure. It is not the same point for everyone. Just be realistic. Let's say you've been running your freelance business for two years. Despite giving it your best shot, it doesn't seem to be growing. So don't assume that by going full-time everything will improve. Now, you don't have to abandon your dream. Keep refining your business operations part-time and keep working toward that full-time goal.

On the other hand, many people start and run freelance businesses never intending them to be full-time. Maybe you like your full-time job, or only want to work part-time. Whatever the case, this doesn't mean your business is any less successful than the one that grows to full-time. In fact, the opposite is true. As long as your business is giving you what you want, then it's as successful as it can be.



## Hiring employees and subcontractors for your freelancing business

Most freelance businesses are started and run by one person. As they grow, many of these businesses stay solo businesses. But some freelancers may find that they simply can't handle the added workload alone. Or maybe you have a seasonal business and your busy times are really busy. You don't want to run the risk of turning away work. In this situation, employees or subcontractors are an option.

If you go this route, you'll want to make sure that you have good quality control in place. Make sure that your workers are not damaging the fine reputation you've worked so hard to build. If you establish the right rules and processes, you'll minimize your risks.

For example, Merry is running a freelance heirloom Christmas stocking business. She creates custom Christmas stockings from scratch — cutting out the pattern from fabric, creating the border, adding her signature folk materials and then finally using her considerable needlepoint skills to customize the look per customer request. She started out small a couple of years ago, but when a local paper did a piece on her work, including her impressive artistic background, people clipped the article, went to her website and forwarded information about her and her stockings to friends and relatives around the country.

By October, she already has double the amount of orders as last year, and people can place orders until November 20 for Christmas delivery. Merry is already overwhelmed, but doesn't want to disappoint anyone or tarnish her business reputation. Also the income would help with her family's tight financial situation, since her husband's construction work has been very slow. Merry decides to subcontract the time-consuming parts of her work that don't require her individual touch. She contacts some

members of her needlepoint club who could use some extra money for the holidays and hires three of them as subcontractors to cut out the stockings, stitch them together and needlepoint the basic signature border design. When Merry receives the stockings from her subcontractors, she inspects them for quality and then adds the custom work for each stocking as ordered. Merry is able to fill all the orders she receives and has started thinking about hiring even more subcontractors for next year.

You, too, may find that some steps in the work process can be subcontracted without jeopardizing the quality or individuality of your work or product. As a matter of fact, freeing yourself from some of the more routine or repetitive tasks of your work can make it possible for you to produce an even better service or product for your clients or customers. Subcontractors often are a better fit for most freelance business owners. Independent contractors don't require all the paperwork, procedures and tax filings that must be followed when hiring traditional employees. Many freelancers choose to be in business for themselves, not for employees. And subcontractors are independent contractors, who are often flexible freelancers themselves! So subcontractors are likely to share your similar tendencies.

For other freelance business owners, hiring traditional employees may make sense. The business might be growing so rapidly that it is time for a larger facility with more workers and more equipment. To keep quality control, you might want to contain your operations all in one place, to keep a close eye on all the various moving parts in the business. You can still choose to use independent contractors, but if you are exhibiting control over the workers' output, you may not legally be allowed to do so. You may be required to hire traditional employees.

Of course, you may just need to accept less work. Some freelancers feel that growing the business beyond their personal output is not what they want out of a freelance

business. Maybe you worked as an employee until age 50, and now only want to run a freelance business part-time and be semi-retired. Again, this is an individual decision shaped by many factors, including finances, the type of work involved, family commitments and time of life.

When growing your business, you may find that you need assistance in areas outside of your expertise. Sometimes bartering with another freelancer can be the solution. For example, once Merry was featured in a national needlepoint publication, the inadequacy of her website became quite apparent. She needed a website that could really showcase her product to market it to those who couldn't see it in person. Merry met Wally from Wally's Website Designs at several Chamber of Commerce meetings, learning his wife and mother were big fans of both needlepoint and Christmas decorations. Merry contacted Wally. In exchange for custom Christmas stockings for his mother and wife, Wally created a new website for Merry that truly made her product and its uniqueness sparkle.

## Reviewing the entity choice for your freelancing business

As you grow your business, you should take a second look at the organizational form in which you operate your business.

Many freelancers may start off as sole proprietorships. But as your business grows and changes, your protection needs for the business changes as well. For tax and liability reasons, as well as for ownership and succession reasons, you might need to change your entity to a limited liability company or corporation. Each of the different types of entities has advantages and disadvantages, and you'll want to consider how they affect your growing freelance business and your goals for it. It is not difficult to transition from one entity type to another. You just need to file the right paperwork with state authorities. And you might need to notify the IRS about the change in your tax status.

You can do this yourself, through the services of a lawyer or accountant, or by using a third-party serviced that specializes in these business filings. You always want to protect yourself and the freelance business you worked so hard to build!