



# Got a side hustle? Here's how to pay your taxes

By: [Lindsay Van Thoen](#)— February 10, 2015



If you've got a full-time job and are freelancing on the side, you may be unfamiliar with the tax rules associated with your side gig. I've been working a full-time job and freelancing for more than 5 years, and here's what I learned:

## 1. Do I need to pay taxes?

If you made more than \$400 from client work, side gigging, Etsy, etc. this year, you need to pay taxes.

## 2. But I'm not incorporated or a real "business". Do I still need to pay business taxes?

Yes. Don't let the words "business" or "self-employment" faze you; you need to pay taxes as long as you earned income outside of your full-time gig.

### **3. How much will I get taxed?**

You owe taxes on the profit of your business -- your total income minus your expenses. But the total percentage depends on how much income you make overall, of course. Expect 20-30% as a rough estimate.

Why so much? You are double-taxed as both an employer and an employee when you're self-employed. This means you're paying both the employer *and* employee's tax burden. Yeah, not that fun!

On top of that, since your taxes aren't taken out in each paycheck (like they are at your full-time job), it feels like a big hit at the end of the year to pay taxes on your side-gig income. Speaking personally, most of the tax refund I *would* receive at the end of the year is eaten up by taxes on my self-employment income.

### **4. How do I file?**

You need a 1099 from each of your clients. You should receive one in the next few weeks if you haven't received one already. Here's a quick guide on how to read your 1099.

If you're filing online, you simply need to enter in the information on your 1099. If you're using a tax professional, just submit the 1099s directly to him/her along with the W2 from your full-time job.

### **5. I don't want to file...**

Unfortunately, when you're issued a 1099, the IRS receives one too. Those 1099s have your social security number on them, and freelance tax evasion is an area the IRS is really zooming in on.

## **6. I didn't receive a 1099 from one of my clients. What should I do?**

You should email your client and ask if they're planning to send you one. You should have received one by January 31. But if you don't receive one, you're not excused from reporting that income; just add up your invoices for the year and submit it.

In fact, some tax experts recommend that you don't ask for a missing 1099 -- just submit it. Here's what [Robert Wood of Wood LLP](#) in San Francisco has to say: "If you call or write the payor asking for a Form 1099, the payor may issue it incorrectly. Alternatively, you may end up with two, one issued in the ordinary course (even if you never received it), and one issued because you asked for it. The IRS computer might end up thinking you had twice the income you really did."

## **7. When do I have to pay?**

Your self-employment taxes are due at the same time as your regular taxes: April 15. But if this is your first year submitting 1099s, you paid more than \$1,000 in taxes, and you expect to make more self-employment income this year, you are now required to pay *quarterly taxes*.

This means that on April 15, you're not only required to pay tax on last year's income; you're also required to pay taxes on any self-employment income earned from January 1 - March 31 of this year!

[Here's a full guide on quarterly taxes](#). Actually, I find it's easier to pay quarterly taxes rather than waiting until April 15 -- it takes the sting out of a big end-of-year tax bill!

If you're getting ready to pay quarterly tax, I highly recommend you visit a CPA or tax professional to get it sorted out for the first year.

## **8. How do I get tax deductions for expenses, etc.?**

Yes, you can deduct business expenses. But remember, the IRS is pretty suspicious of these deductions; make sure you have receipts to back it up! And only deduct the

portion of those expenses that **relates to your business**. For instance, if you use internet in your home for business and your private use, you can only deduct the percentage of your internet bill you use for your business. This means you'll need to calculate percentage of time spent on business vs. private use -- for all your expenses.

Here are some common self-employment deductions:

- Your home office or co-working space
- Your website
- Your telephone and internet expenses
- Office supplies

[See a full list of common deductions here.](#)

## **8. Does my home office “qualify” as an office? (Even if I work on my couch?)**

The IRS only lets you deduct for your home office if you almost exclusively use that space for business. (So if you work on your couch, you're out of luck.) [Here are the rules from our favorite CPA, Jonathan Medows:](#)

- 1) A portion of your home must be used in the course of your trade or business, and your use of the home office has to be regular and exclusive, which means that the space claimed as a home office must be used solely in connection with a trade or business that you conduct frequently. If the space is used partly for business use and partly for personal use, then the home office deduction does not apply to that space.
- 2) You must also: a) use your home office as your principal place of business; or b) use it to physically meet with clients, patients or customers; or c) use a home office that is detached from your home.

## 9. What about sales tax?

If you sell physical goods -- like crafts in your Etsy shop, or art on your website -- and send it to someone in your state, you have to charge the buyer sales tax. If you ship out of state, there are different rules. [Go here for a full explanation of sales tax rules.](#)

For professional services, your sales are tax-exempt unless your state's regulations rule otherwise!