

Five tips for conquering cash flow struggles when you're self-employed

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By Karen Richardson

When people choose self-employment they're often attracted by the challenge and excitement of creating a business they're passionate about. They may look forward to a more flexible work schedule or the possibility of earning more than they did as an employee, but they don't always realize the other tough challenges ahead.

The one thing most people don't get excited about is keeping track of all their cash inflows and outflows, and planning ahead for their income taxes. Here are five tips to help you overcome the most common struggles I see as a money coach with my self-employed clients:

1. Separate your personal cash from your business cash

The first rule of thumb in self-employment: keep your business income separate from your personal money. Don't use your business checking account for your groceries! Draw income on a consistent basis from your business bank account into your personal account, and keep the amount the same each month or bi-weekly.

Spend business money on business expenses only use personal funds on things like groceries and clothing. It's even a good idea to keep your personal and business credit card transactions separate. You don't need a whole new business credit card, but have a separate account so it is easier to track expenses that are solely business in nature. And always pay off your business credit card with your business income!

2. Set up a bookkeeping system

When you're self-employed, it's easy to think you have to do everything yourself. Hiring a bookkeeper or at the very least, having a system for your business's bookkeeping is very important.

If you have a new business and have the time to set up a system I would encourage you to do so. If your books are always something you leave to the last minute because you're too busy to do them, hire a bookkeeper as soon as possible.

3. Create a cash flow projection

It's really important at the start of each year to have a full cash-flow projection of your income for the coming 12 months. This not only helps you set income goals for yourself, but it identifies the time periods when you may have more or less income available to you. Part of your cash flow projection will estimate all your expenses for the entire year including ones that you pay monthly, ones you pay quarterly and annually.

Once you have estimated all this information and totaled it all up you should have a good idea of how much income will be left over month-to-month and at the end of the year. This information is useful to give you an idea of how much you'll be able to pay yourself and how much income you may be required to pay tax on.

4. Know your "salary after tax" or "net income"

At the end of the day when you're self-employed, you'll owe tax on the income you receive for services or products you sell in your business. Have a plan to put away some of your income to pay your taxes in a separate account to make saving it easier.

The difference between the income you bring into your business and the tax that you owe is your "salary after tax" or "net income". If you're in the U.S., this handy calculator can help you estimate your salary after tax, or if you're in Canada, use this tool to see your net income.

5. Remit your taxes on a monthly basis

As human beings, we only have so much willpower available to us and holding on to tax money owing is never an easy task. Remitting your taxes through a payroll service on a monthly basis (yes, you can use payroll software to pay yourself!) and getting used to living on your net income is a great way to take the worry out of taxes.

Avoiding the financial side of your business, at best, creates an energy drain, or at worst can put your self-employment dreams in jeopardy. Once you have a plan and the right systems in place, you can reinvest that energy into the parts of your business that make you excited to get to work in the morning.

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