

# 5 financial mistakes to avoid when managing your side hustle

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Side hustles offer exciting opportunities for financial growth and personal fulfillment. However, avoiding financial errors is essential to maximise the potential of your side hustle.



Seeking advice from financial experts, utilising financial resources and continuously expanding your personal finance knowledge will help you secure lasting success and overcome common stumbling blocks

In today's gig economy, engaging in side hustles has become increasingly popular as a means to earn extra income or pursue personal interests. However, many individuals unknowingly make financial mistakes that hinder their progress and long-term achievements. While side hustles provide avenues for financial expansion and flexibility, they also present unique challenges. Therefore, avoiding common financial traps that can jeopardise your financial stability and overall success is crucial.

Findings from the *Momentum Unisa Household Financial Wellness Index* reveal that approximately 14% (equivalent to 2,639,126) of households acquire supplementary income through side hustles. Despite the potential benefits, a significant number of individuals face financial challenges that impede their progress.

Let's explore five typical financial mistakes individuals tend to make when engaging in side hustles and present practical solutions to address them. By avoiding these mistakes and implementing the suggested fixes, you can ensure that your side hustle journey is financially rewarding and sustainable.

## 1. Failing to separate personal and side hustle finances

A common mistake people make is not separating personal and side hustle finances. This can result in a tangled mess of income and expenses, making it challenging to track profitability accurately. Establishing separate bank accounts and bookkeeping systems for your side hustle is crucial.

This allows you to monitor cash flow, track expenses and determine your true profitability. Doing so gives you better control over your finances, and you can make informed decisions about your side hustle's financial viability.

## 2. Overlooking tax obligations

Another significant error is disregarding tax obligations associated with side hustles. Engaging in any income-generating activity, regardless of its scale, requires proper tax reporting. Failure to account for taxes can lead to penalties, unexpected liabilities, and potential legal issues.

To avoid this, maintain meticulous records of all income and expenses related to your side hustle. Familiarise yourself with the applicable tax laws and regulations, or consult a tax professional to ensure compliance and optimise your tax deductions.

Additionally, research any permits, licenses, or registrations required for your specific side hustle and make sure you meet all legal obligations to avoid potential penalties or legal issues.

## 3. Inadequate pricing and profit margins

Determining the appropriate pricing for your side hustle offerings can be challenging. Many individuals underprice their offerings, undervaluing their time and effort. Failing to consider all costs associated with the side hustle, such as materials, overhead, and marketing, leads to inadequate profit margins.

Conduct thorough market research to understand pricing dynamics and ensure your prices cover both direct and indirect costs. You establish a sustainable and profitable side hustle by valuing your work appropriately.

Remember, it's better to charge appropriately and provide value than to undercut yourself and struggle to sustain your side hustle financially.



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## 4. Ignoring insurance and liability

Side hustles often involve activities with inherent risks, whether providing services, selling products, or using personal assets. Neglecting insurance coverage and liability protection can expose you to substantial financial risks.

Therefore, depending on your side hustle, it is advisable to consider obtaining appropriate insurance policies, such as liability insurance, professional indemnity insurance, or product liability insurance. These precautions will safeguard your personal finances in case of accidents, damages, or legal claims.

## 5. Failing to plan for retirement

Side hustles are often seen as short-term ventures, but they have the potential to become long-term sources of income. One mistake people make is neglecting retirement planning while focusing solely on short-term financial gains. Regardless of the scale or duration of your side hustle, saving for retirement is crucial.

Take the time to explore retirement account options such as retirement annuities (RA), unit trust funds or tax-free investments, and make regular contributions to secure your future.

By prioritising retirement planning, you not only ensure your financial well-being in the long run but also guarantee a comfortable retirement. Remember that retirement savings are essential for long-term financial stability and provide the foundation for your financial security.

To summarise, embarking on a side hustle can be an exciting endeavour, but it is crucial to avoid common financial mistakes that could hinder your success. By embracing these recommendations and incorporating them into your side hustle journey, you can build a solid financial foundation and achieve long-term prosperity.

### ABOUT THE AUTHOR

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