

Untangling the Personal and Professional

Microentrepreneurs' Financial Realities, Pain Points, and Aspirations



Entrepreneurship has historically been viewed as a pathway to economic opportunity and social mobility.

While this remains true for some, more and more Americans are becoming entrepreneurs out of necessity. Whether called to entrepreneurship out of necessity or ambition, or anywhere in between, taking on gig work, a side hustle, or starting a small business can be fraught with financial risk. The challenges facing women entrepreneurs, entrepreneurs of color, and entrepreneurs living with low-to-moderate incomes are even greater.

Yet amid these challenges, millions of Americans are exploring self-employment as a way to make ends meet and build lasting wealth. The [Pew Research Center](#) reported that self-employment increased by nearly 20% between the second quarter of 2020 and the second quarter of 2021 – meaning an additional 14.9 million people in America are now engaged in entrepreneurship.

In SaverLife's [research](#) from May 2021, over two-thirds of self-employed SaverLife members shared that their personal finances and business finances are highly intertwined. This interconnectivity was magnified for members who shut down their businesses in 2020 due to COVID-19. For those members, the majority reported reducing their own salary from their business, loaning money to their business, or borrowing money from their business. No matter how the self-employed intertwined their bank accounts, the connection between personal and professional finances offers critical insight into the overall financial health of individuals earning income from self-employment.

“ I’m trying to get my goal between \$20,000 and \$25,000, just because if something does happen and I can’t work, then I have that to fall back on to get my bills straight.”

– D.W., *South Carolina*





“

It's extra money. It's not a lot, but it keeps the income coming in...I have something to survive [on].”

– J.B., Mississippi

To learn more about the financial needs of self-employed individuals, SaverLife, with the support of the Wells Fargo Foundation, launched a comprehensive marketing and outreach campaign targeting those earning some or all of their income from gig work, a side hustle, or a small business. In the course of 10 weeks, 9,000 individuals who identify as self-employed joined SaverLife. Their membership included cash prizes, member forums, and relevant content that specifically addressed self-employed individuals' financial goals and pain points. This campaign enabled SaverLife to provide critical support to the self-employed and demonstrate how the financial health sector can deliver impact at scale.

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Through this campaign, SaverLife conducted both quantitative and qualitative research¹ to:



better understand the financial challenges facing self-employed individuals who overlap their personal and business finances.



explore this population's appetite and potential to transform their side hustle into full-time self-employment or a small business with employees.



propose interventions to the financial health field that would support the goals, ambitions and financial health of self-employed individuals.

¹ SaverLife conducted a comprehensive marketing and outreach campaign to recruit self-employed individuals who identify as self-employed. We then invited a subset of this population to complete a survey about their self-employment experiences and participate in additional interviews. More details on SaverLife's research methodology can be found in the appendix of this report.

“

For me, I'm still looking for grants and any financial help, because right now I'm kind of doing it out of pocket, and with the funds that I earned.”

– A.S., New Mexico

Who are Microentrepreneurs?

From small business owners to gig-economy workers, microentrepreneurs come in a variety of forms. In fact, nearly nine out of 10 SaverLife members who identify as small business owners are actually microentrepreneurs (87%). Microentrepreneurs are focused on leveraging a passion, side hustle, or business idea to augment their own personal financial health.

To make ends meet in their personal lives, microentrepreneurs often rely on traditional forms of employment. Over one-third of those surveyed report having paid employment outside of their self-employment, the majority of which is full-time employment. Furthermore, six out of 10 SaverLife microentrepreneurs have a total annual household income less than \$35,000 (61%).

No matter what these microentrepreneurs are hoping to achieve, they are in the early stages of developing their self-employment aspirations and do not always identify as a microentrepreneur. This needs to change. Whether they're delivering meals, walking dogs, or selling handcrafted items, SaverLife members, and millions like them, are seeking self-employment opportunities to make ends meet. It is critical that no matter what shape their "business" comes in, microentrepreneurs are able to take advantage of the same financial services, management tools, and tax benefits afforded to wealthier business owners. Ultimately, this will enable them to shore up their personal financial health so that they can achieve their self-employment aspirations and build lasting wealth for themselves and their families.



During COVID, I was in between jobs, so I started doing Uber Eats, DoorDash, and even cutting grass.

– C.D., South Carolina

The Top Drivers for Pursuing Entrepreneurship



of SaverLife microentrepreneurs are **launching a small business to fully cover their living expenses.**



of SaverLife microentrepreneurs are **generating extra income to cover personal expenses.**

Microentrepreneurs Deserve a Clear Path to Prosperity

Over the course of our campaign, SaverLife gained insight into microentrepreneurs' diverse experiences through the stories, survey data, and financial data that they shared. Because of members' honesty and openness about their financial lives, SaverLife learned that:

- Personal finances are further constrained by lack of access to the right business financial products.
- Tax benefits are elusive for some microentrepreneurs living with low-to-moderate incomes.
- Black entrepreneurs are especially well positioned to benefit from greater access to business management tools and technology.
- Current loan product offerings are keeping women entrepreneurs from leveraging mainstream financial institutions.

These learnings are consistent across all types of microentrepreneurs. Whether someone is starting a business with several employees, becoming a sole proprietor, pursuing a side hustle as a passion project, or taking on gig work, there are many ways to accelerate wealth building for all microentrepreneurs using SaverLife's learnings.

There is a significant opportunity for the financial health field – from financial service providers to tax preparers to organizations in the social sector – to design programs and services that actually address microentrepreneurs' goals and personal savings needs. If entrepreneurship persists as a viable way to achieve economic mobility, microentrepreneurs deserve financial resources that create a clear pathway to prosperity – no matter where they are on their financial health journey.



Personal finances are further constrained by lack of access to the right business financial products.

Microentrepreneurs' personal financial health is greatly impacting their ability to reach their goals. In fact, two-thirds say their personal financial position is holding them back from pursuing their business goals. This constant trade-off that microentrepreneurs are making between their financial health and their business goals becomes even more obvious when considering their employment status. In addition to the revenue that microentrepreneurs generate from their self-employment venture, many also rely on traditional, full-time employment to make ends meet.

Over half of the microentrepreneurs surveyed shared that they intertwine their personal and business finances to some degree – 58% use the same checking account for their personal life and business venture. The blurred lines between business and personal expenses combined with lack of savings and low credit scores mean microentrepreneurs are unable to fully reach their aspirations.

A Lack of Savings or Credit Is Holding Microentrepreneurs Back

Of the microentrepreneurs surveyed:



agree that a **lack of personal savings** is making it hard to start and grow their ventures.



are **struggling to save enough money** to start and grow their ventures.



are **struggling to find financing** because their personal credit score is low.



When I see [loans] online, I try to fill them out to see if they approve me. But a lot of them haven't approved me. I haven't tried recently."

– J.B., Mississippi

Microentrepreneurs' financial health is compounded because they are locked out of traditional financing tools. Six in 10 of those who identify as small business owners or sole proprietors and are earning revenue state that a lack of financing, such as loans, makes it hard for them (62%) to improve their financial health or build wealth. To combat these barriers, they rely on personal money, personal credit cards, and their family and friends to help pursue their microentrepreneurship aspirations.

SaverLife microentrepreneurs have passion, drive, and big aspirations. But the compounding effect of their personal financial health with poorly designed traditional financing tools creates a challenge. However, it opens innovative ways for the financial health sector to help self-employed individuals maximize their income.

Microentrepreneurs Are Turning to Themselves or Their Communities to Finance Their Businesses

Of those microentrepreneurs who identify as small business owners or self-employed and are earning revenue:



are **using their own personal money to finance their microentrepreneurship.**



are **utilizing a personal credit card to pay for self-employment related expenses.**



have **borrowed money from friends and families** to support their microentrepreneurship.

“

It's not a soluble business yet, so it's just too hard to get lending.”

– T.C., Florida



RECOMMENDATIONS

SaverLife recommends that anyone who interacts with microentrepreneurs with low-to-moderate incomes or develops products and services that are traditionally marketed to small business owners work to reduce friction between personal and business finances. This can be achieved by:

- 1 Creating more content and expert advice about the benefits of maintaining separate bank accounts and tracking business-related income and expenses separately from their personal finances.** These resources should specifically address microentrepreneurs and their unique experiences so that microentrepreneurs can navigate self-employment with confidence and build lasting financial resiliency.
- 2 Marketing small business financial products and services such as expense trackers and accounting software to an expanded group of microentrepreneurs who have 1099 income.** The limited definitions surrounding “small business owners” in marketing of such services are causing many people with 1099 income to think that they’re not eligible for small business financial products and services. By clarifying this language, the financial sector will connect many more microentrepreneurs with the resources they need to build financial stability.
- 3 Implementing flexibility in tagging expenses as “personal” or “business” in financial service products and accounts.** The majority of microentrepreneurs acknowledge that their personal and business expenses are intertwined and that bills are paid across business and personal accounts. Creating new expense tagging will create a strong reporting and tracking mechanism for them.
- 4 Establishing a microloan program that’s designed for early-stage microentrepreneurs.** These loans should offer and heavily market features like deferred payments, income-based payment structures, and loan restructuring options. Many microentrepreneurs are hesitant to seek traditional financing options, so a flexible microloan will allow them to establish a steady income stream without the fear of rigid loan requirements or repercussions. If the financial sector creates credit products that can be adapted to meet microentrepreneurs’ different financial situations and pain points, it will reduce the fear surrounding rigid credit programs and ensure that the self-employed establish thriving business endeavors.

Microentrepreneurs with Low-to-Moderate Incomes are Missing Out on Tax Benefits

In the United States, tax season is the most pivotal wealth-building moment for people living with low-to-moderate incomes. Tax season could not be more important for microentrepreneurs whose tax returns are complex due to the mixture of W2 and 1099 earnings and the commingling of personal and business expenses in bank accounts.

Many microentrepreneurs lack support on accounting and tax preparation that is needed for them to maximize tax benefits and returns. While wealthier business owners pay professional tax preparers and accountants to assist with maximizing tax benefits, microentrepreneurs living with low-to-moderate incomes are leaving money on the table. Less than half of those surveyed are writing off their small business, self-employment, gig work, or side hustle expenses on their tax returns (43%).

No matter what their ambition is, microentrepreneurs are overwhelmingly missing out on significant tax benefits that could help reduce their taxes and increase their tax returns to support their personal and financial health. However, those microentrepreneurs with side hustles are significantly less likely to track, report, and write off their 1099 earnings and related expenses.



of SaverLife microentrepreneurs earning revenue who say their self-employment, gig work, or side hustle **income and expenses are part of their personal tax return.**

Regardless of Ambition, There Are Opportunities for Microentrepreneurs to Improve Financial Health

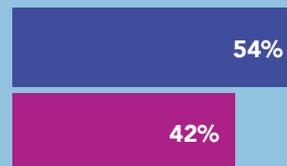
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- Small business owners or sole proprietors
- Members pursuing side hustles

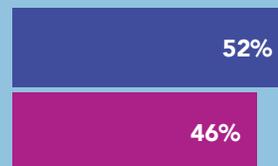
I carefully track my small business, self-employment, gig work, or side hustle expenses.



I write off small businesses, self-employment, gig work, or side hustle expenses on my tax return.



I have a checking account specifically for my small businesses, self-employment, gig work, or side hustle.



Based on 310 small business owners or sole proprietors earning revenue and 182 members pursuing side hustles and earning revenue.

RECOMMENDATIONS

To ensure that microentrepreneurs maximize tax benefits and access the tax code to support their financial health, SaverLife recommends:

- 1 Changing how microentrepreneurs view their work.** All microentrepreneurs, whether they're pursuing gig work, side hustles, or sole proprietorships, should be encouraged to think of themselves as small business owners. They should understand that investments in themselves may actually be tax deductible.
- 2 Making it easier for microentrepreneurs to write off business expenses.** As noted in the previous section, microentrepreneurs are struggling with the commingling of business income and expenses with personal income and expenses. Solving that should minimize hurdles so that they can access all possible tax advantages.



I'm just hoping that it all works out, because I sunk everything into this again."

– T.C., Florida



I use my personal account to pay for anything that I need to do hair. I don't feel like I need a business account at the moment."

– I.W., Mississippi

Black Entrepreneurs are Especially Well Positioned to Benefit from Greater Access to Business Management Tools and Technology

Black microentrepreneurs who aspire to be fully self-employed or start small businesses are significantly more likely to set up their ventures as standalone entities and untangle their personal and business finances than their white peers. Despite taking steps to set their small businesses up for success, Black microentrepreneurs also face specific barriers that limit their access to relevant and affordable business management services. In particular, Black microentrepreneurs share that it can be challenging for them to find or afford mentorship, get help with bookkeeping, and navigate the tax and loan processes.

One way to help microentrepreneurs would be to close the gaps in access to technology, tools, and information that's centered on owning and operating a small business. This could help all microentrepreneurs, and Black microentrepreneurs in particular, establish financial stability and create a thriving business.

Black Microentrepreneurs Are More Likely Than White Entrepreneurs to Separate Personal and Business Finances

Compared to white microentrepreneurs, Black microentrepreneurs are:



16% more likely to **track their small business or self-employment, expenses.**



42% more likely to **have a checking account specifically for their small business or self-employment expenses.**



28% more likely to **write off their small business or self-employment expenses on their tax return.**



[I would benefit from] free assistance: being able to speak with somebody and being like, 'What can we put together?' Like a game plan. Because I have an idea, but putting all of the pieces together is kind of difficult for me."

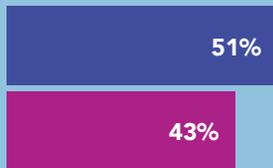
– K.M., Texas

Black Entrepreneurs are Struggling with Support for Their Businesses

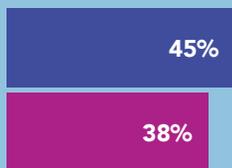
% agree

■ Black
■ White

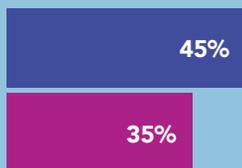
I am struggling to find/afford quality advice or mentorship on my small business, self-employment, gig work, or side hustle expenses.



I'm struggling with accounting/managing bookkeeping for my small businesses, self-employment, gig work, or side hustle.



I struggle navigating the tax process for my small business, self-employment, gig work, or side hustle.



Based on 197 Black members and 351 white members pursuing small businesses or sole proprietorship.

RECOMMENDATIONS

SaverLife recommends improving access to financial and business products for microentrepreneurs by:

- 1 **Ensuring access to tailored bookkeeping and small business coaching services for microentrepreneurs, especially for people of color, to help navigate the complex web of personal and business finances during early-stage entrepreneurship.** This will deliver targeted support to self-employed people who are being overlooked by an outdated and inequitable small business ecosystem.

“

I'm getting denied a lot, so that pushes me to work harder with the talent that I have to make money to invest in myself, so I can possibly, hopefully, get my credit to where it needs to be one day.”

– R.C., Oklahoma

Current Loan Products are Keeping Women Entrepreneurs from Leveraging Mainstream Financial Institutions

When it comes to seeking out or receiving financing, female microentrepreneurs who indicated that they are starting a small business with employees are nearly 50% less likely to pursue financing than men. And when they do apply for financing, it is typically for small amounts – a finding that remained true across racial groups. More often, these women pursue collateral-free financing options and loans that don't penalize borrowers for late payments. They also seek an easier, more flexible loan process.

When female microentrepreneurs do seek funding for their side hustle or small business, they are 38% less likely to receive it. Additionally, women are 6% more likely to self fund than men. Female microentrepreneurs' needs are not being met by mainstream financial services and they are therefore more likely to try to prop up their businesses on their own.

Women are Struggling to Navigate Financing Options

% agree

■ Women
■ Men

Loans that don't penalize me for missing a payment from time to time when business is slow.



Collateral-free financing options for businesses with very small amounts of monthly revenue.



An easier process for applying for small business loans.



Based on 671 female microentrepreneurs and 439 male microentrepreneurs.



I need all the free help that I could get. First of all, that I wouldn't have to pay back or pay back a little bit. But as far as loans, I have not dug into that because [there's] always something that defers them from actually giving me a chance."

– R.C., Oklahoma

RECOMMENDATIONS

For microentrepreneurs to achieve their self-employment aspirations, SaverLife recommends expanding financing and capital options and:

- 1 Recognizing that microentrepreneurs, especially women and people of color, are making trade-off decisions between pursuing their self-employment goals and the need to maintain traditional employment in order to cover daily living expenses.** Creating grant funds to invest directly in microentrepreneurs gives them more time to dedicate to building their businesses and meeting their self-employment goals.
- 2 Creating innovative loan options to potentially bring more women into traditional financing options.** As mentioned in the first section, the establishment of microloan programs and the creation of flexible credit products may encourage more women microentrepreneurs to invest in themselves and their businesses through the banking system.



Conclusion

Because their self-employed work is not yet their primary source of income, microentrepreneurs overwhelmingly do not identify as small business owners—even though they have ambitious entrepreneurship goals. Microentrepreneurs face many challenges in managing their financial lives and navigating the intersection of their personal finances and business plans. However, these challenges present an opportunity for the financial health and social sectors to recognize microentrepreneurs' ambition, goals, and dreams and help make them possible. We must work together to develop the right products, services, and approaches that create greater financial stability and wealth for microentrepreneurs.

In conclusion, SaverLife recommends that that financial health and social sectors collectively address microentrepreneurs' challenges by:

- 1** Encouraging all microentrepreneurs to think of their businesses as businesses.
- 2** Reducing friction between personal and business finances by encouraging all microentrepreneurs to track revenue and expenses and reduce the intermingling of personal and business accounts.
- 3** Supporting microentrepreneurs in maximizing tax benefits.
- 4** Improving access to financial and business products for microentrepreneurs.
- 5** Expanding financing and capital options so microentrepreneurs can achieve their self-employment aspirations.

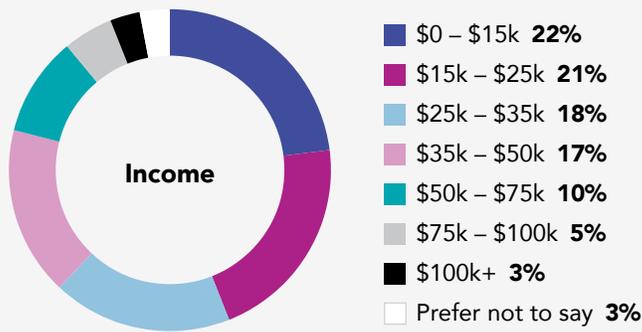
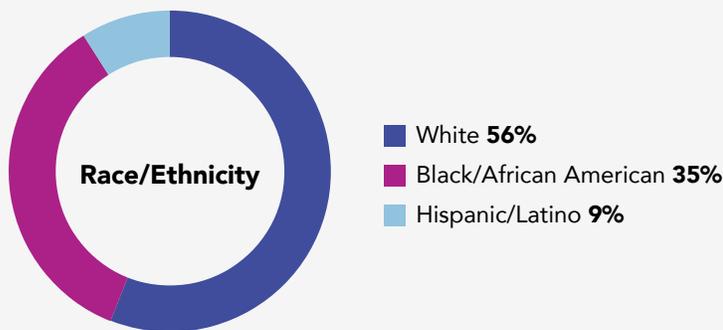
Appendix

Methodology

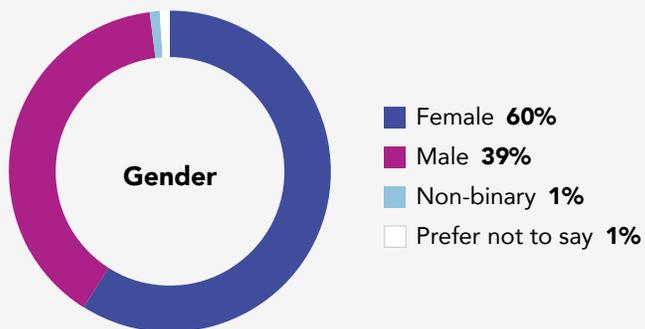
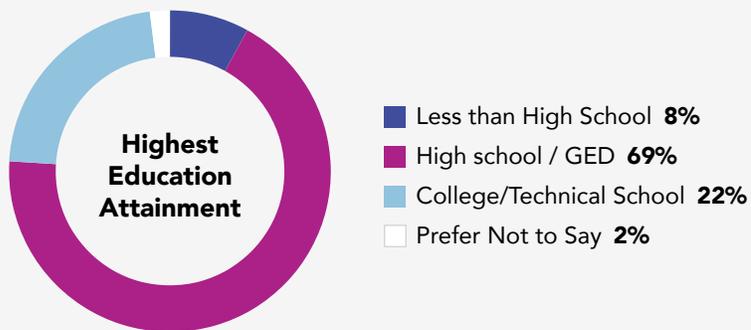
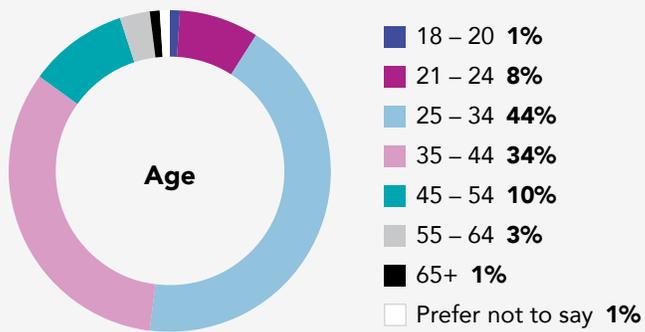
To learn more about the financial needs of microentrepreneurs, SaverLife launched a comprehensive marketing and outreach campaign targeting the self-employed. A subset of microentrepreneurs were invited to participate in quantitative and qualitative research.

- SaverLife conducted a survey among 1,287 microentrepreneur members. Fieldwork occurred between March 16th and June 28th, 2022. Demographic information about survey respondents is provided below.
- SaverLife conducted qualitative interviews with 20 members who identify as microentrepreneurs via telephone. Interviews were approximately 30 minutes in length.

Survey Demographics



Survey Demographics (continued)





SaverLife is a 501(c)3 nonprofit on a mission – to inspire, inform, and reward the millions of Americans who need help saving money. Through engaging technologies and strategic partnerships, we give working people the methods and motivation to take control of their financial future.

Made possible by the
Wells Fargo Foundation



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