

We will discuss your commitment (interchangeable) in your enterprise in terms of time/money/energy. Your success and the size of your business will depend on the investment of all three.

Time & Energy: scheduling your life and applying your energy to

- creating new product or offering services
- promoting yourself (through marketing & booking gigs)
- handling administrative duties (accounting, customer service, researching & purchasing supplies, etc.)

Money: setting aside a budget and investing in

- raw materials
- exhibition opportunities
- marketing (advertising, packaging, visual presentation supplies, etc.)
- professional services

Keep track of the hours (time/energy) required to handle every aspect of your business, your materials (cost of all business-related supplies), and marketing costs (promotional events and methods).

Figure out how much you need to earn monthly/quarterly/annually. Include all business expenses into the equation. Your medium, demand, and technique need to be considered.

- Do you know how profitable your products or services really are?
- If you are considering purchasing new materials or equipment, do you know how to figure the likely return on your investment?
- The art of accounting is the ability to use data to come to as close an approximation as possible regarding the financial health of your business.

Create reports based on certain time periods:

- How much did you earn?
- How much did you spend?
- How much do you have left over?

You use a **Schedule C** (Form 1040) to report income or (loss) from a business you operated or a profession you practiced as a sole proprietor. An activity qualifies as a business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity with continuity and regularity.

Include what is relevant of the following:

- Mileage driven for all art-related events & supplies
- Parking fees, car insurance, auto repair
- Advertising
- Legal & Professional Fees
- Office Expenses such as business supplies
- Art Supplies & Materials
- Utilities
- Art Event expenses (entry fees, supplies for art shows)
- Website costs
- Shipping & Postage costs
- Online commerce fees (Ebay, Etsy, and the like...)
- Education & Art Retreat fees
- Art Competitions
- Credit Card Processing fees (and Paypal)
- Art & Business Meetings

Multi-Use Spaces

- Determine how much of the space (square footage) is for Business Use
- That percentage can be written off in terms of
 - Utilities
 - Insurance
 - Supplies
 - Cleaning Services
 - Etc..

Multi-Use Vehicles (read your handout!)

- Determine how much driving is for Business Use
- That percentage can be written off in terms of
 - Repair
 - Insurance
- Mileage Recording is for all art-related driving
 - Deliveries
 - Art supply shopping
- Mileage Recording does not include commuting
 - Driving to and from your studio does not count
 - If you have to make a stop along the way to your studio or from your studio that does count

*The rules that disallow commuting expenses for employees also apply to self-employed individuals. **Those rules generally state that travel between your home and your office or first business-related stop of the day, and travel between your last business-related stop of the day and your home, are not deductible.** However, travel between your first business stop of the day and a second are deductible as business expenses. One exception to this rule applies when small business owners use their homes as a place of business, and their home office is considered their principal place of business. In that situation the commuting rules generally do not apply, and the business owner is allowed to deduct mileage from their home to their business-related stops.* -Leo Damren, CPA

There has to be cash flow, so have a budget before you “shop”.

Income Statement: shows revenues, expenses, profit for a certain period of time

Balance Sheet: shows what your company owns, what it owes, and how much it is worth

Cash Flow Statement: shows what your company has in the bank, plus anything that can be readily turned into cash

COGS (Cost of Goods Sold): all costs directly related to making a product or delivering a service.

Operating Expenses: the costs required to keep the business operational. They reduce profit immediately.

Working Capital: your resources that include cash, inventory, receivables minus whatever your company owes in the short term. Working Capital=Current Assets-Current Liabilities

Receivables: money that you currently expect to receive.

Net Profit: what is left over after subtracting COGS/cost of services, operating expenses, taxes, interest, one-time charges, noncash expenses such as depreciation.

cash-based accounting: great for businesses that are just starting out, or intend to stay small. Cash-based accounting is based on when the actual transaction occurs (sales & purchases)

accrual accounting: measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur

Accounting does not have to be complicated. Develop a system that matches your needs. For a smaller enterprise try a filing system (even an accordion file will do). You can hand over your organized receipts at the end of the year or add them up yourself.

Organize the data in MAC office software or Microsoft Office software. You can also use Google Drive as your “online office”.

For those who are a bit more ambitious or need a more sophisticated system:

- Smart Phone Apps
- QuickBooks-Intuit
- Outright.com
- Xero.com
- Kashoo.com
- Homebiztools.com (for business tools)
- SBA.gov (for business tools)

Use “the Google” to research website/software/business tool options.

Don't forget to keep track of invoices!

You, Inc.

- Sole Proprietorship
- LLC (limited liability corporation)
- S-Corp

Sole Proprietorship

No formal action is required to set up a sole proprietorship. Your business activities create your status. As a sole proprietor you are 100% responsible for the debts and losses of your business and you get 100% of the profits. A sole proprietor is owned and operated by one person. At the end of the year, your business and personal taxes are handled all at once (annually) through a Schedule C and Form 1040.

LLC

You have to set up a LLC but it is relatively simple and inexpensive to do so. You have to pay estimated quarterly taxes. And your business has to be kept entirely separate from your personal affairs.

S-Corp

This is probably not the way an artist would set up a business as it is more expensive and complicated to set up, and the rules for maintaining your S-Corp are more stringent. You as the business owner would receive a salary plus dividends from additional profit. There are tax benefits due to you giving yourself a salary while deducting payroll expenses like federal taxes and FICA. Any additional profit would be taxed at a lower rate than income.

Sales Tax

Even if you do not sell your art on a regular basis, you must collect and pay sales tax. It is against the law not to! Sales tax in the State of Massachusetts is 6.25%

Get a Sales Tax I.D:

- Visit Mass Tax Connect (www.mass.gov/masstaxconnect)
- Select Register a New Business on Home (Landing) Page
- Questions? Call 617-887-6367

When do I pay Sales Tax?

- If across an entire year you only owe \$100 or less in sales tax, you can file annually. That would mean you sold no more than \$1600 worth of art that year. If that is all you owe, you can file that payment annually (with your personal taxes due in April).
- If you owe \$101 to \$1200 in sales tax, you file quarterly. The filing is done online.
- If you owe \$1201 or more in sales tax, you file monthly. The filing is done online.

How to I pay Sales Tax?

- Visit https://mtc.dor.state.ma.us/mtc/_/
- Log-in using your Username & Password
- Be sure to print out a receipt for your records.

What If?...

I exhibit in other states?

- If you are the one handling the transaction (for example, at a weekend art event) you have that collect THAT STATE's sales tax and remit it to that particular state. Check out the state's revenue website to learn how they want you to do this. Process can vary from state to state. Many states will need you to have a transient sales tax certificate. NOTE: Some states do not offer transient sales tax certificates. You are therefore considered a business in that state on an ongoing basis. Be careful about this!

I sell my work online?

- The rules are always changing. Do your research before deciding how and where you want to sell your work. However, if the recipient is in YOUR state you do have to charge sales tax or at least include that transaction when filing quarterly.

What About?...

purchasing the supplies I use to produce my inventory?

- Purchases made for inventory production can be tax-free (no sales tax added at time of purchase). However, you have to be prepared to PROVE 100% of the purchases went into inventory production. In some cases, showing your Sales Tax ID is sufficient. Some vendors will ask you to fill out a ST-12 form. Print a form out from www.mass.gov and bring it with you. Or the vendor may have some on hand. You must fill out the form for every transaction.

I sell my inventory to wholesalers?

- Have wholesalers fill out a ST-4 form for every transaction. You do not pay sales tax on these transactions because the wholesalers did not pay sales tax when purchasing the items.

PLEASE NOTE: The forms will vary from state to state.

Be Smart! Financial Do's & Don'ts

- Do invite your team to have a comprehensive understanding of the finances. This way they have an equal investment in the success of the company.
- Don't treat your business like a cash cow, milking it while not investing in future growth. Your company is not your personal piggy bank!
- Do have a comprehensive understanding of where your finances are today and where you strive to be a year, 3 years, 5 years down the road.
- Do design a way you can measure your success in sales, customer service, productivity, etc. so you can identify weaknesses and gain efficiency.