

Tax Planning and Schedule C for creatives

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Things to remember:

- Schedule C vs 1099 income
- If you're a business, you'll pay both income tax and self-employment tax
- You may need to pay taxes on grants you've received
- Sales tax is a ongoing tax
- Reinvest That Tax Refund
- Profit motive
- You don't have to claim deductions that you're entitled to and why some do this
- Most importantly, you need a separate bank and credit accounts for your art practice

Taxes - Schedule C and self-employment tax:

- Deductions (expenses) to offset their taxable income
- Work towards lowering possible tax liability
- Cleaner records and metrics on business profitability
- Small business owners pay both income tax and self-employment tax
- Small businesses should set aside about 30% of their income after deductions to cover federal and state taxes
- Self-employment tax is a tax consisting of Social Security and Medicare taxes primarily for individuals who work for themselves.

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.

Taxes and Grants:

Federally

- Most business grants are considered taxable income, meaning you will have to pay taxes
- Deducting your expenses in relation to the grant proceeds will help offset possible taxable income

Note: College grants are different in that they are not taxable income (provided the funds were spent as required)

Locally - Massachusetts

- Grants that are taxable under federal law, are also taxable under Massachusetts law

Note: If you receive a grant that is strictly gratuitous, such as a gift or donation, you may not owe taxes on that amount. However, there must be a donative or charitable purpose for giving the funds to qualify for this tax deduction

Sales tax:

The Massachusetts sales tax is 6.25% of the sales price or rental charge of tangible personal property (and telecommunications services) sold or rented in Massachusetts.

Tangible property includes art – paintings, photographs, and sculptures for example.

Note: Even if you just sell one painting or photograph across a year you owe sales tax to the State of Massachusetts for that sale. Even if you sell just one print for \$20, you owe sales tax.

Reinvest That Tax Refund:

While it can be tempting to pocket your company's profits and/or tax refund, reinvesting can help improve the business leading to even higher profits down the line

- Upgrading equipment
- Software
- Inventory
- More marketing

Profit Motive:

- Profit motive is the intention of making a profit
- The profit motive is when one takes actions that will result in them making money (profiting)
- If you are running a business, it is assumed you want to make a profit.
- With creative freelancers, the issue as to whether someone is running a business or doing a hobby
- Some want to show a profit

Bookkeeping and Separate Records

Most importantly, you need a separate bank and credit accounts for your art practice

This will allow you to correctly track your income and all items that are business related

Why use an accounting software?

Keeping track of income and expenses can turn into a complex and time-consuming process really fast.

As your business grows your accounting also becomes more difficult.








The 5 account used in accounting are the following:

1. Assets
2. Liabilities
3. Equity
4. Revenue
5. Expenses

Top reasons to use an online software:

- Top reasons to use an online accounting software
- Ability to access your data from any device, anytime
- Save time with automation
- Simplified Tax Preparation
- Manage Accounts Receivable
- Manage accounts payable
- Manage and track bills to be paid
- Integrate with your business bank accounts to automate expense tracking
- Easy Bank Reconciliation
- Easily Create Financial Reports

Best Accounting Software for Small Businesses

Product	Best for	Starting at	Promotion
 QuickBooks Online	★ 5.0 /5 Best for Overall accounting software	\$30/month Additional pricing tiers (per month): \$60, \$90, \$200.	50% off for first three months or free 30-day trial.
 Xero	★ 4.5 /5 Best for Ease of use	\$13/month Additional pricing tiers (per month): \$37, \$70.	30-day free trial or monthly discount (terms vary).
 Zoho Books	★ 4.0 /5 Best for Mobile-first features	\$0 Additional pricing tiers (per month): \$20, \$50, \$70, \$150, \$275.	14-day free trial of the Premium plan.
 FreshBooks	★ 3.5 /5 Best for Freelancers	\$17/month Additional pricing tiers (per month): \$30, \$55, custom.	30-day free trial or monthly discount (terms vary).
 Wave Accounting	★ 3.5 /5 Best for Free, unlimited invoicing	\$0 Free (Wave makes money via paid money management products).	N/A
 Sage Accounting	★ 3.5 /5 Best for Affordable inventory tracking	\$10/month Additional pricing tiers (per month): \$25.	70% off of the Sage Accounting plan for six months or free 30-day trial.
 QuickBooks Enterprise	★ 4.0 /5 Best for Industry-specific features	\$1,410/year Additional pricing tiers (per year): \$1,830; \$2,250; \$4,400. Adding users or cloud access costs extra.	30-day free trial

Expenses that may be deductible:

All expenses are split in two different types of costs in accounting:

Direct costs

These costs are directly related to providing your service or producing your product

Indirect costs

These are also known as overhead costs. These are costs that are not directly related to creating the product or service, but are needed to keep the company going.

Direct costs:

- Cost of items intended for resale
- Direct labor costs
- Supplies used in either making or selling the product
- Shipping or freight in costs
- To mail or ship a product
- Digital design assets

Note: Design assets are any digital or physical resources that are created or used in the design process. These can include things like images, icons, fonts, color palettes, and other visual elements, as well as templates, wireframes, and style guides.

Indirect costs:

- Internet, cell phone, utilities
- Computer and equipment
- Legal and Professional Fees
- Advertising and Marketing
- Event sponsorships
- Travel
- Software and apps
- Insurance
- Meals Business
- Home-office deductions.
- Classes, workshops, and educational events
- Rent

Note, clothing is only allowed if the clothing is a costume