

# HELP! How do I Manage my Self Employment Income?

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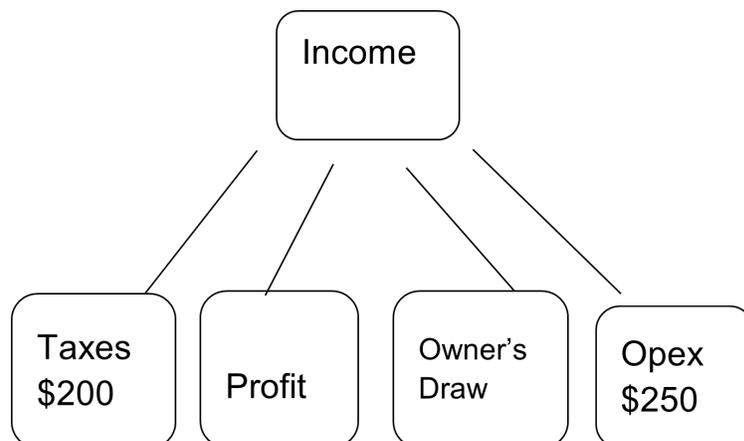


We took a lot of courses when training to become a music educator, performer, or music therapist, to help us grow and learn a variety of skills. However, very few music degrees prepare students to deal with finances in any way. You may have a salary job teaching at a school, but maybe you also play in a band, teach private lessons, or accompany other musicians. The options are endless for additional revenue sources as a musician and yet minimal airtime is given to students to help them feel comfortable with their finances.

While I am not a certified accountant, nor is this legal advice, I am here to share my story of how I went from having my finances be a huge stressor in my business to now enjoying my “Finance Fridays” as I call them. This recommendation goes for any size of business, side hustle and gig income included. Every dollar you bring in should ideally go into this structure from the moment you start. Have a business that is already underway? No problem, this is something that could be implemented at any point.

So, what’s the magic formula? Well, it’s two parts. The first part is a system called “Profit First.” This divides up every dollar you earn into subgroups, so you know exactly how much money you have for specific expenses (taxes, profit, your wage, etc.). Many of us have been taught  $\text{income} - \text{expenses} = \text{profit}$ , this methodology turns that on its head and reverse engineers it, so now the formula is  $\text{income} - \text{profit} = \text{expenses}$ . What this does is makes sure that you aren’t shortchanging yourself for your work and protects money for taxes from being spent. Picture yourself a year from now and getting an envelope in the mail from the IRS, knowing you owe them money. Rather than having a pit in your stomach and your palms sweating as you open it, you rip it open to see how much you owe because you know you have the money set aside and you can easily go, pay it, and be done.

Here’s how it works. There are a couple different ways you can do this, but here is how I set up my bank accounts. First, make sure you have a separate bank account from your personal banking account. You will need 5 bank accounts: Income, Owner’s Draw, Taxes, Profit and Operating Expense (Opex). All money coming into my business goes into my Income account, it sits there until Friday when I allocate that money to the other accounts. I do mine weekly, but it is okay to do however frequently you feel necessary based on your income and expenses. So now for easy math, let’s say I have \$1000 in the Income account on Friday morning, I’m going to funnel 20% of that into my Tax account, 5% into my Profit account, 50% into my Owner’s Draw and 25% into my Opex account. These are the target allocations percentages for most solopreneurs.



The tax and profit accounts are savings accounts. I don’t touch them until a specific time of year. The tax account will just keep growing until I need to pay my tax bill in April. My profit account grows until I take out my money quarterly or yearly. I’m currently on a yearly withdrawal plan with my profit account so once a year I take out

that money as reward money/paying off debt/investing income; however, it best serves me this year. I pay myself twice a month from the business like a regular paycheck and that comes from the owner's draw account. Because my business is seasonal, and summers are slow months, I have enough money in that account now to cover three months' worth of my owner's draw. That way I know in slower months it won't impact my immediate personal budget. Then the last account is the Opex account, which is your checking account. This is where you will pay all your bills, subscriptions for the business, and any purchases you are wanting to make. Depending on if you have a regular income from somewhere else, you might decide to shrink the owner's draw a little bit and increase the Opex account, this could allow a space for you to save for a new computer, or instrument in the operating budget.

This next step is looking exclusively at the operating expense account. This is essentially your business' checking account and what you will be paying your bills and daily business expenses out of. The next question is how do you know if you can afford the purchase, you are looking at? A bank statement is one way to do it, but it's not the most effective way because it doesn't show you the whole picture of your budget.

By using a software program called You Need a Budget (YNAB), it helps you create digital envelopes to assign every dollar a job. Rather than looking at my bank account, I look at my budget, and I know that I have \$500 set aside for office supplies, so when my printer runs out of ink, no problem, there's zero impact on my rent. I have all my bills set up as recurring expenses and I can assign a target to each category. How does this work in actual practice? On Finance Fridays, after I've split up my money, I take whatever number I had going to my Opex account, and I add that to my YNAB budget. After that, I assign a job for each dollar. Therefore, if I had \$250 deposited into the account, I would divide that money up and categorize it as I felt I needed. Maybe \$10 for office supplies, \$50 for music supplies, \$100 for a new instrument, \$10 monthly subscription, \$50 internet, and \$30 new technology.

This program has been a lifesaver for my business and personal life. I now open my budget rather than my bank account to know if I can afford something or what the progress on saving looks like. For example, while it is only July when I'm writing this, I have rent for my business fully funded for August and September and am currently working on October. Simultaneously, I also know that I only have \$140 in my office supply account and probably should hold off buying back to school supplies for the business until August when I can fund the category a bit more.

By implementing these two systems into my business I have been able to shift my financial focus from survival to complete control of my money. It is something that I wish I would have known sooner and the biggest thing I would do differently if I could turn back time. Since I can't do that for myself, the next best thing I can do is to make sure as many self-employed people know that the money side of your business can be positive, fun, and exciting when you get it dialed in.

To learn more about Profit First system read Profit First by Michael Michalowicz. For a free 34-day YNAB trial visit <https://ynab.com>