AMPLIFY ARTS

Financial Planning Resource Guide

As an artist, planning for your financial future may not come naturally. Income can be sporadic, and meeting basic needs like health insurance and having six months of savings in the bank can seem like currently unattainable, far-off future goals. That makes understanding your relationship to income, debt, taxes, and savings even more vital. Always keep track of account balances and hang on to receipts for expenses related to your art practice. Get a filing system in place (shoebox, Quickbooks, spreadsheets) that you can update easily and stick with for a long time.

Don't wait for tax season to take a hard look at your financial situation. You may need to make adjustments to your budget, by either saving some of your income or spending it on tax-deductible items for your business to make sure your hard earned money doesn't lose its value. Since many artists are self-employed, they must develop long-range plans, including a retirement plan. When you sell work, put some of the income away in a safe place, such as a retirement account, bonds, or savings plan.

Most people (artists not excluded) end the month with nothing left in the bank and are often left reaching for credit cards to cover expenses. If you're already in a position where you save money reliably, congratulations—you're ahead of the game. If you aren't, it should be your first goal. Don't worry about investments, credit card points, cryptocurrencies, or anything else yet. Getting your monthly budget under control is how to build security and freedom.

Statistically, a 50/30/20 budget, based on three simple categories, will help you achieve a degree of financial autonomy, whether you're working for yourself or employed by a larger company. Those three categories are listed below:

- Obligations: how much you have to spend (50% of your income)
- Discretionary: any time you pay for a thing out in the world (30% of your income)
- Savings: the money that you don't spend each month, which is building up your financial security (20% of your income)

To get started setting a monthly budget, add up all the costs of your recurring monthly expenses. This includes costs like rent, utilities, phone bill, metro, insurance, internet, vet, prescriptions, etc. These are your Obligations, i.e. the things you have to spend money on. Ideally this amount is no more than 50% of your income. "Ideally" is the qualifier to pay attention to there. It's not uncommon for 100% (or more) of someone's income going to obligations. While realizing finding yourself in that situation isn't "ideal," it's better to know than not to know. Knowing where your finances stand will can help you find ways to increase your income, and bring down your expenses.

After taking care of your obligations, 20% of your monthly income should be going towards savings, i.e. your own financial security. The first priority with saving money is building up an emergency fund. No matter how small the amount, having some money in the bank that is yours is a success, and will give you some flexibility should you need it down the road.

The second priority as you work to save money is to pay off any high-interest debt that might be holding you back (debts with interest rates over 5% would count as “high-interest”). Most people don’t know what the interest rate on their debt is, and meanwhile, those negative interest rates are digging them into a deep financial hole. So, by paying them off quickly you’ll be doing yourself a big favor.

An example of a 50/30/20 budget:
Jean works a couple jobs and makes about $2,000 a month. Her rent is $700, her utilities are $100, her insurance is $140, and her phone bill is $60.

So Jeanette’s budget is as follows:

- Obligations (bills, rent, recurring payments) = $1,000 (50% of $2000 ($700+$100+$140+$60=$1000))
- Savings (debt repayment, emergency funds, retirement payments) = $400 (20% of $2000)
- Discretionary (food, transportation, entertainment, wants) = $600 (30% of $2000)

When Jeanette gets paid, the first thing she does is move $400 to her savings account. If she is carrying credit card debt, maybe she sends an extra $100 to get rid of it faster. Or, she puts it in her savings account dedicated to her emergency fund to ensure she has money in the bank just in case she needs it. The main thing here is to ensure you’re able to save 20% of your monthly income, and if you can’t save yet, you should use that 20% to more quickly get to the point where you can.

To make it easier on yourself, set up automatic transfers (any online banking service should allow you to do this). Every month, have your bank automatically transfer money to your savings account, and automatically transfer money to your dedicated discretionary account (probably your debit account). This way you won’t spend money you don’t have to spend. Once you’ve done that, really the main thing you need to do is keep an eye on your discretionary spending. Keep that up, and you’re doing great

Live on Less

Think twice about the way you spend money. Instead of buying a fancy vehicle or taking a long vacation, consider doing something that costs less money and saving the rest. Invest in opportunities that will allow you to travel, like residencies, exhibitions, and site-specific projects, to help your career move forward while doing something you love. Living modestly does not mean living in poverty, but rather striking a good balance of saving and spending. You have to plan with both emergencies and retirement needs in mind.

It is recommended that a person with a steady paycheck put away 8 to 12 months of income in case of emergencies. If you work as an independent artist without a regular paycheck, the recommendation is three years worth of income. That number is not exaggerated, but rather based on statistics that come from a wide ranging data set of working artists.

Credit Cards

This one may be super obvious, but credit cards can get you into trouble faster than almost any other financial issue. Resist the temptation to buy supplies or fund an exhibition on credit. If you need additional financial support, consider asking the gallery / exhibition / project space to help. In kind donations from family, friends, and total strangers can also help to offset costs. Getting into too much debt can prevent you from making work and taking advantage of future opportunities. Think about your long-term goals and ask yourself whether the cost of the thing you're charging is equal to perceived benefit.

The other half of the credit equation is that you need to establish a good credit history to buy a car or home. Charing smaller purchases to your card and paying your monthly balance is a smart way to establish credit or keep your existing credit score in good shape.

Student Loans

Over 70% of undergraduate students leave school with student loan debt. In 2016, the average amount owed by an individual was $28,400. Those numbers go up for students coming out of grad programs. Collectively, Americans hold $1.5 trillion in student debt.

There are plenty of ways to manage student loan debt to varying degrees of efficacy. Subsidized federal loans are do not accumulate interest until you're out of school; unsubsidized federal and private loans do. Interest can be a big factor in how much you're paying each month. If you're not seeing your balance shrink while making regular monthly payments, you may want to call your loan provider and work with them to get a lower interest rate.

Federal Income Driven Repayment Plans structure a payment schedule based on how much money you make. For some artists and freelance contractors, this can be the difference between paying hundreds vs thousands of dollars a month. You likely won't see your balance decrease, but after 25 of regular payments on one of these plans, your debt is forgiven. You still however must pay taxes on the forgiven balance.

Public Service Loan Forgiveness is another option for those who work in the nonprofit sector or education. After enrolling in the program, providing yearly employer certification to confirm your eligibility, and making regular payments for 10 years, your loans are forgiven. Like Income Driven Repayment plans, you're still responsible for taxes owed on the forgiven amount. This is also a program that routinely comes under fire by the Trump administration and will disappear if Congress passes their 2020 budget.

Insurance

A lot of artists feel that health insurance is something that they cannot afford, but financially, it's a smart idea to shop around for a policy or group policy that will cover the cost of an unexpected illness or injury that would otherwise put you in debt. Compare prices for group plans against individual coverage. Renter's insurance can also be an important investment in the case of fire, floods, or earthquakes.

Investments

Investing is not just about buying stocks. An investment is something you put resources into with the expectation of a return. Putting money into a savings account will result in interest, albeit relatively small. Research other kinds of accounts that may increase your gains. Be sure to understand the level of risk you undertake when investing. Investing can also be something invaluable that you do for your own personal development, on par with attending workshops and classes, or maintaining your health.

If you have a 401K, that's great. If your employer contributes or matches funds you contribute to that 401K, even better. The earlier you start saving for the future, the better off you'll be. As freelance or independent artists, consider opening an IRA or Roth IRA (Individual Retirement Account).

Once you've gotten rid of high-interest debt and built some cash savings, then it's time to get the magic of compounding working for you. The good news is that investing has gotten really easy.

Investing 10-20% of your income, or whatever you can (anything is better than nothing), is a good rule of thumb. There are a lot of good investment providers. Fidelity and Vanguard are popular choices for artists and have competitive products and services. And there also are lots of interesting startups and apps that help you invest your money. The popular term lately is “robo-advisor”—these are services which provide nice interfaces to help you invest. While robo-advisors are generally user friendly, they also have higher fees than some larger, more established companies. Remember: because of compounding, even a fee that seems small can add up.

- **401(k) Retirement Accounts:** Some types of accounts are only available through your job. At private companies you will see “401(k)” plans. At non-profits there are plans called 403(b), which provide a match on retirement contributions. If you work in local government, it’s a 457(b), and it’s called a TSP if you’re in the military. These accounts allow for “pre-tax” contributions, which means when you put in the money today, you don’t need to pay income tax on those funds. But, when you retire and start taking money out of these accounts, you pay the taxes on the amount you put in and on any growth from the investments.

  Often, employers will offer to match your contributions into the above types of accounts. That’s a great deal, and you should at least contribute up to the match—it’s free money, after all. Just putting in that amount likely won’t be enough, though. Depending on your age, you need to be investing 10-20% of your monthly income to ensure you’ll have enough to comfortably retire.

  Note: Do not take money out of your 401(k) until retirement, unless it’s a dire emergency. You have to pay the taxes on top of a penalty for early withdrawal, and you lose out on the years of compounding. This is a common mistake, and will kill your ability to build up personal wealth over time.

  One last note: In 2018, the legal max you can personally contribute to a retirement account is $18,500 per year. Your employer can contribute more than that, which is why matching programs can be so helpful.

- **IRA**: An IRA (investment retirement account) is an account set up at a financial institution that allows an individual to save for retirement with tax-free growth or on a tax-deferred basis, that you can open independently of your employer. You can open a “traditional IRA” which has rules like a 401(k): you get to deduct the contribution today, from this year’s tax return (and therefore not pay income tax on that money). You can invest $5,500 yearly ($6,500 if you are over 50). You can still contribute and have it count for the previous year’s taxes if you make a contribution before tax day, April 15.

- **Roth IRA:** With a Roth IRA, you pay the income taxes today, and then you owe no taxes later when you retire. Since we don’t know what tax rates will be in the future, having both a pre-tax 401(k) and a post-tax Roth IRA, when the option is available, is a smart way to go.

- **Savings Accounts:** Most savings accounts are low risk with a relatively low rate of return. The interest that money in a savings account earns may not always keep up with the rate of inflation. Still, they’re a safe place to put your money and an important piece of your overall financial health.

- **Certificate of Deposits (CD’s):** Certificate of Deposits usually have a higher rate of return than a regular savings account because they tie up money for long(er) periods of time—from 6 months to 10 years. There is usually a penalty for withdrawing money from the account before the time limit is met. Some types of CD’s are insured, and they are generally a safe investment.

- **Stocks:** You can invest in a private company (a company that does not sell shares on the stock market) or a public company (a company that sells shares on the stock market), but be aware that stocks carry a lot of risk. If the company you invest in goes under, so does your money. Most advisors recommend that you educate yourself before playing the stock market without professional guidance.

- **Bonds:** Bonds are loans to governments or companies in which they promise to pay you a certain amount of money regularly, and then to give you the original loan amount back after a certain amount of time. They don't pay you a lot, but they tend to be reliable.

- **Index Funds:** Picking out stocks and bonds yourself can be challenging. Consider "index funds" instead. These are collections of lots of stocks and lots of bonds, which together provide "diversification." With diversification, you buy lots of different stuff to protect yourself because, while any one company might go out of business, the odds are good that most of them won't.

- **Target-date funds:** Your investing strategy needs to change depending on your age. Let's assume most people want to retire at age 65. In this scenario, a 25 year-old has 40 years until they retire, whereas a 55 year-old only has 10. You want more stocks when you're young, because you want the potential for more growth (and if the stocks don't grow as much, you'll still have time to invest in bonds). But when you're nearing (or in) retirement, you want more bonds, because they're more secure. This is why you buy "target-date funds": they automatically rebalance themselves as you age.

- **Mutual Funds:** Mutual Funds are a collection of stocks from many different companies. The idea is that if one company loses, then the rest of the companies balance the loss. Most retirement accounts are invested in mutual funds. They are meant for the long haul, and meant to grow over time.
- **Real Estate:** Buying a home can entail lots of risk because you must make your payments on the loan or else lose the property. However, a home usually appreciates in value. There are tax benefits associated with owning a home. As with all investments, research is essential.

- **Investing in a Start-Up Project or Business:** This is considered a high-risk venture because it can have a high return. It might give you a new career or a lot of job satisfaction, but be cautious, well-informed, and plan ahead before considering such a move.

- **Fees:** You do have to pay to invest, but you'll never see a bill. This is because the fees are taken directly out of your account as something called an "expense ratio." Look for expense ratios well below 0.5%. 1% or above is robbery, (1% might not sound like a lot, but remember the power of compounding—1% will eat up a lot of your money over the years!). Always ask to see the total expense ratio for any account you set up, and don't trust anyone that tries to hide it from you.

Getting Organized

Here are some tips for keeping your finances organized:

- Keep your personal finances and finances related to your practice separate. Dedicate a separate checking account and credit card just for your artistic income and expenses. Use the artist account to pay for artistic supplies, research materials, marketing expenses, licenses, etc. Deposit any income you make from your artistic endeavors into this checking account.

- Each time you get a receipt, make a note directly on the receipt about the purchase and what it was for (e.g., art supplies, copies, parking for meetings, or workshop fees). Make a habit of putting your receipts into a daily file. Once a week, enter these receipts into an accounting program on your computer, or into Income and Expense Charts, and store the hard copies in a dedicated folder or other container. Set up categories that you use often for your artistic practice such as Supplies, Office, Studio Rent, or Research.

- Taxes are an important part of your financial planning, so be sure that you understand how much you are going to need to pay at the end of the fiscal year. If you're running a small business, you need to pay your quarterly taxes. Many artists don't realize they're supposed to be doing this. If you have a regular job, then your employer is setting aside your tax deductions for you. If you are self-employed, it's up to you to set aside your "estimated taxes." The IRS wants your deductions quarterly, i.e. every three months. If you don't do this, you might be subject to fees and interest when you file your yearly return.

Additional Resources:

1. https://www.artsy.net/article/artsy-editorial-financial-advice-artists-four-experts
2. https://cerfplus.org/get-ready/craft-a-career/financial-management/
3. http://artistmyth.com/11-steps-to-better-finances-for-artists-and-creatives/
4. http://current.nyfa.org/post/115132900238/how-to-budget-as-a-artist
5. https://nation1099.com/freelance-finances/