

Metal New Artist Network

Sorting Your Freelance Artist Finances Top 5 Tips from Remi Harris Consulting

Organisation and Money are two things that the stereotype 'creative person' isn't supposed to be bothered about, too mundane for the ditzy, artsy person. However, when you're self-employed both are super important and need to be working well in the background for your business to be able to pay you. There are some systems you can put in place so that you get this organised, without any stress, from early on. Here are my top 5 tips:

1. KNOW IF YOU ARE RUNNING A BUSINESS OR DOING A HOBBY

Did you know that you can sell goods or services as a hobby without it being a business? The definition of 'trading' is 'carrying on a trade with the intention of making a profit'. So, for example, making and selling cards to friends, with the aim of covering your costs, is not 'trading'. Whereas setting up a record label that loses money in the first few years, but is aiming to make a profit, is called trading.

Typically, when people first set up their business, they start working without registering as sole-traders or being sure what they are doing, as they are figuring things out. That's okay. In fact, since 2017 the UK tax authorities have offered a 'Trading Allowance' meaning you can sell up to £1,000 of products or services before you have to register as self-employed.

This is great for anyone that is doing some casual work on the side, starting to operate but not generating any income yet or just figuring out what they're doing. It means you are fairly free to get on with running your business and you don't have to register with the government before getting going.

2. UNDERSTAND THAT SALES – EXPENSES = PROFIT

Understanding this trio of concepts is essential to understanding how any business works. Let's look at each of them:

Income is the money that comes into the business, like what a shop takes over the till, the total of a contractor's invoices for the year, or all the payments from all the customers. You'll sometimes hear this described as 'Sales' or 'Turnover'. 'Income' is a bit of a confusing term, because we also think of a salary or our profits as income, the word is used a bit interchangeably, but in finance it means the same as turnover or sales.

Expenditure is the costs of the business. You might also see these described as costs, and there are two main costs to be aware of: fixed costs / overheads and variable costs / cost of sales. An example would be a self-employed photographer. Their expenses might include photography equipment, studio time, travel costs, accountancy bill, props, model's fees, marketing their business and so on.

Profit is the best bit of being self-employed! After you collect in your income and deduct your expenses you are left with profit: $\text{income} - \text{expenditure} = \text{profit}$. This is also known as gross profit, so you still have to pay tax and perhaps some other deductions, but this is the money that is left to pay you – the owner of the business!

3. KEEP RECORDS

You must keep accurate business records, so make sure you keep track of any income or anything you buy for the business by keeping receipts and giving receipts or invoices to customers.

The records you need to keep include:

- Business bank statements
- Purchase Invoices or receipts for everything you buy for the business
- Sales invoices or a record of sales to track what you sell
- Payslips for you or your staff
- Record of the tax you've paid

You can keep physical paper records, filed by tax year (6 April to 5 April the following year). Alternatively, you can keep digital copies of all of these. In either case you will need to keep the records until 5 years after you submit your personal tax return. As you can imagine, if you need to find a receipt or an invoice up to 6 years later, you need to have a good filing system.

Alongside these documents, you need to be able to total up and categorise them so you'll probably need at least a spreadsheet of all your sales and all your expenses so you can total them up. Using a business bank account or even an accountancy application will make this much easier to track,

4. SET UP A SEPARATE BANK ACCOUNT

If you determine that you are running a business, I highly recommend setting up a separate business bank account, Good reasons to set one up include:

- Keeps your business money separate, so if you want to track income and expenses, it's separated from your own spending and easier to do.
- Keeps your personal money private, so if you work with an accountant or similar professional, they won't see your shoe shopping habit or Sainsbury's purchases in the same account.
- Makes it easy to do your tax return.
- Makes you look more professional – you can use a trading name for your business on a business account, e.g., Tom Smith trading as Incredible Creations by Tom.

5. REGISTER AS A SOLE-TRADER, IF YOU NEED TO

A sole-trader is someone who is the owner and manager of their own business, doesn't have anyone else running or owning the business with them, and doesn't want to convert to a limited company (more about limited companies coming up).

If you're a sole-trader you will need to register with HMRC (the UK's tax authorities) to tell them you are self-employed as a sole trader, and keep proper records of your income and expenses so that you can do a 'self-assessment' tax return and pay your tax and national insurance.

You also have a period of time from when you first start trading until you are required to register yourself as a sole trader (more about them coming up). What's called the 'tax year' in the UK runs from 6 April to 5 April the following year, and you must register by the October following the tax year that you start trading in. For example, if you start your business between 6 April 2020 and 5 April 2021 then you'll need to have registered by October 2021 at the latest.