

Chicago Music Commission: Music at Work Forum **“Setting Up Your Music Business”**

Information Provided By: Malina and Company

lisa.malina@hotmail.com

773-576-0401

What is the difference between accounting and taxes?

Accounting is the preparation of financial information to help you run your business. It includes all cash inflows and outflows, and summarizes how profitable a company is.

Tax returns are prepared by using the financial information created in accounting. This collection of documents tells the State and Federal governments how much of your company profit you owe in taxes. The determination of whether you will owe money or receive a refund depends on the types of income and expenses the company has.

What is income, and where does it come from?

Income is generally anything you receive in the form of cash or services. It can take many forms including:

- * Tips
- * CD Sales
- * Classes and Lessons
- * Gigs and Concert Revenue
- * Royalties
- * Prizes and Awards

What are expenses?

Expenses are the day-to-day costs of doing business. Some common expenses include:

- * Supplies: guitar strings and pics, notebooks to write music in, printer ink, business cards
- * Transportation: mileage, rental car, garage parking, meters
- * Advertising: magazine and newspaper ads, flyers*
- * Computer and Internet costs: website hosting, email list maintenance
- * Professional Services: legal, accounting and management

What is the best way to track financial information for a company?

This is really a personal question, best answered by considering the following questions:

- * How confident do you feel about recording and documenting your financial information?
- * Do you have the time to keep up with the data entry?
- * Do you want to do this yourself?
- * Can you afford to have someone else do this for you?

Once you determine who will be responsible for your accounting, the next step is to determine the source that will maintain your financial information. Common options include:

- * By hand: columnar paper
- * Personal computer: Excel spreadsheet or accounting software like Quicken or QuickBooks
- * Bookkeeper/Accountant

What types of documentation to keep?

Absolutely everything! The best accounting approach is to keep documentation of every transaction that will be recorded in your business. If you don't have a receipt, make one, or at least write down on a piece of paper what the income/expense was for and any related information that may be helpful in the future. Also, organize your documents in an expandable file or file cabinet.

Having everything together will make it less likely to lose paperwork over time. Common documentation to retain includes:

- * Mileage log
- * Receipts
- * Bank Statements
- * Credit Card Statements
- * Deal Memos and Contracts
- * Settlement Sheets

Where can I get help with preparing my tax returns?

There are many resources to help you prepare your tax returns. They include:

- * Friends in a similar business: They might be able to answer some basic questions you have, for free!
- * VITA (Volunteer Income Tax Assistance program): Free help from IRS volunteers, for those who qualify.
Call 800-829-1040 for the location nearest you.
- * Computer Software: Do it yourself with user-friendly software. Common ones are Turbo Tax and Taxcut.
- * Walk-in tax offices: Commonly known ones include HR Block, Jackson Hewitt and Liberty Tax. Be aware that employees are generally not accountants, so may not be knowledgeable about unique businesses.
- * Accounting Firms: Employees are accountants and CPAs, and experienced at preparing financial statements and tax returns.

Helpful Websites

Internal Revenue Service: www.irs.gov

State of Illinois: www.cyberdriveillinois.com

Sales Tax Help: www.revenue.state.il.us