

MONEY MATTERS 2023: UL SYSTEM FINANCIAL WELLNESS SERIES

SESSION #12:

**THE FINANCIAL ASPECTS OF YOUR SIDE-HUSTLE #2:
TAXES, PROFITABILITY, EXPANSION, SUCCESS**



JULY 25, 2023



Brian Bolton
Professor of Finance
brian.bolton@louisiana.edu

<http://business.louisiana.edu/financeispersonal>



UNIVERSITY *of*
LOUISIANA
L A F A Y E T T E[®]

**B.I. Moody III College of
Business Administration**

OWNING YOUR FINANCIAL FUTURE

ADULTS RETURNING TO
FINISH A DEGREE:
FINANCIAL & OTHER
CONCERNS

JUNE 6, 2023

FINANCIAL PLANNING
FOR GRADUATE STUDENTS

JUNE 7, 2023

FINANCIAL & TAX
PLANNING FOR
INTERNATIONAL
STUDENTS

JUNE 8, 2023

THE FINANCIAL ASPECTS
OF YOUR SIDE-
HUSTLE #1 – PLANNING,
STRATEGIES, LEGAL,
RESOURCES

JUNE 20, 2023

FAMILY FINANCIAL
PLANNING: MAKING
FINANCES WORK FOR THE
WHOLE FAMILY

JUNE 23, 2023

FAMILY FINANCIAL
PLANNING: SENDING
YOUR LOVED-ONES OFF
TO COLLEGE

JUNE 27, 2023

FAMILY FINANCIAL
PLANNING: CARING FOR
ADULT DEPENDENTS

JUNE 28, 2023

CHANGING CAREERS: THE
FINANCIAL & PERSONAL
ISSUES

JULY 13, 2023

BUILDING SAVINGS
ACCOUNTS & EMERGENCY
FUNDS

JULY 14, 2023

FINANCIAL PLANNING
FOR VETERANS

JULY 18, 2023

FINANCIAL PLANNING
WHEN RETIREMENT IS
GETTING CLOSE
(5-7 YEARS OUT)

JULY 19, 2023

THE FINANCIAL ASPECTS
OF YOUR SIDE-
HUSTLE #2 – TAXES,
PROFITABILITY,
EXPANSION, SUCCESS

JULY 25, 2023

FINANCIAL PLANNING
FOR THE FUN STUFF:
VACATIONS, HOME
IMPROVEMENTS, NEW
VEHICLES

JUNE 26, 2023

INVESTING 101
AUGUST 1, 2023

NAVIGATING THE
IMPACTS OF INFLATION &
TURBULENT ECONOMIC
TIMES

AUGUST 2, 2023



THE FINANCIAL
ASPECTS OF YOUR
SIDE-HUSTLE #2:
TAXES,
PROFITABILITY,
EXPANSION, SUCCESS

July 25, 2023

ALL FUTURE SESSIONS ARE FROM 12:00-1:00PM

UNIVERSITY OF
LOUISIANA
SYSTEM

FOR YOUR FUTURE. FOR OUR FUTURE.

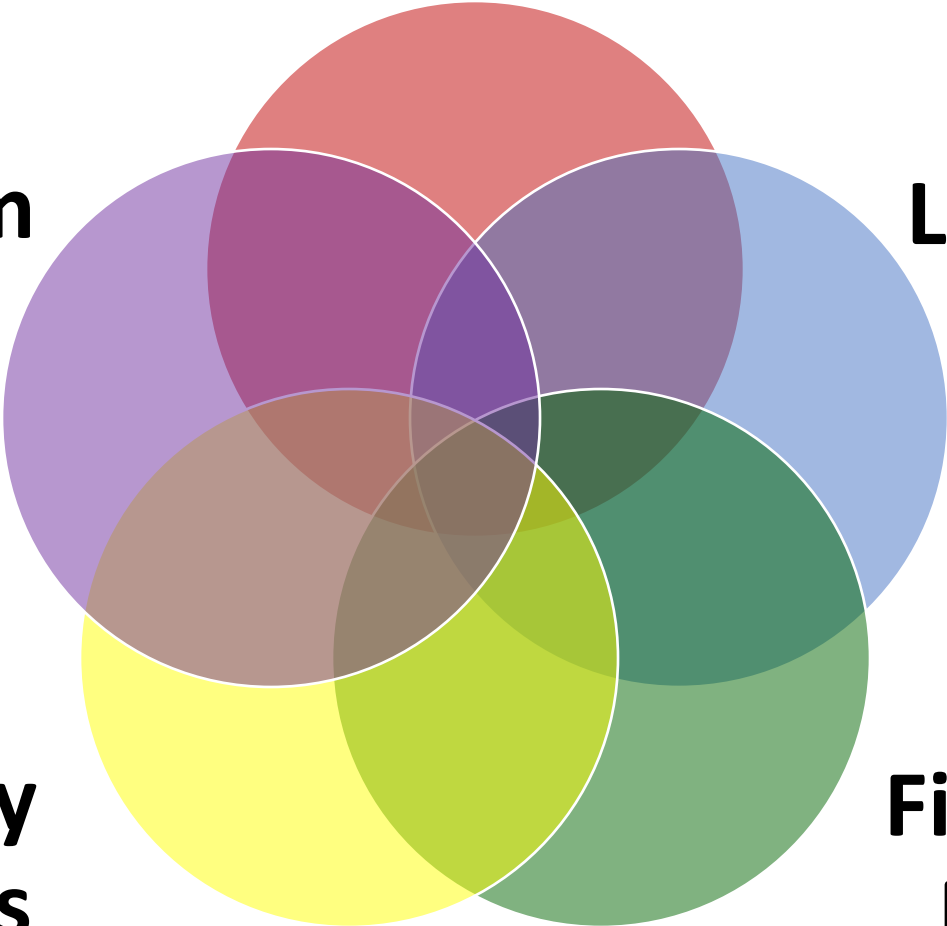
Happiness

**Short-Term
Goals**

**Long-Term
Goals**

**Family
Needs**

**Financial
Needs**



THE FINANCIAL
ASPECTS OF YOUR
SIDE-HUSTLE #2:
TAXES,
PROFITABILITY,
EXPANSION, SUCCESS

July 25, 2023

UNIVERSITY OF
LOUISIANA
SYSTEM

FOR YOUR FUTURE. FOR OUR FUTURE.

Financial Wellness

A goal without a plan is just a dream.

Wealth is largely the result of habit.

The most difficult thing is the decision to act; the rest is mere tenacity.

It takes as much energy to plan as it does to wish.

You cannot escape the responsibility of tomorrow by avoiding it today.



THE FINANCIAL ASPECTS OF YOUR SIDE-HUSTLE #2: TAXES, PROFITABILITY, EXPANSION, SUCCESS

July 25, 2023

UNIVERSITY OF
LOUISIANA
SYSTEM

FOR YOUR FUTURE. FOR OUR FUTURE.

What Are Your Values, Dreams & Goals?

Education

Career

Family

What Is Your Current Situation?

Education

Career

Family

Financial

Create a Personal Financial Plan for You:

Investing

Budgeting

Debt Management

Taxes

Insurance

Retirement

Education

Family

Business Planning

Philanthropy

Estate Planning



THE FINANCIAL
ASPECTS OF YOUR
SIDE-HUSTLE #2:
TAXES,
PROFITABILITY,
EXPANSION, SUCCESS

July 25, 2023

UNIVERSITY OF
LOUISIANA
SYSTEM

FOR YOUR FUTURE. FOR OUR FUTURE.

What Are Your Values, Dreams & Goals?

Education Career Family

What Is Your Current Situation?

Education Career Family Financial

Create a Personal Financial Plan for You:

Investing Budgeting Debt Management Taxes

Insurance Retirement Education

Family Business Planning Philanthropy Estate Planning



THE FINANCIAL ASPECTS OF YOUR SIDE-HUSTLE #2: TAXES, PROFITABILITY, EXPANSION, SUCCESS

July 25, 2023

UNIVERSITY OF LOUISIANA SYSTEM

FOR YOUR FUTURE. FOR OUR FUTURE.

THE FINANCIAL ASPECTS OF YOUR SIDE-HUSTLE #1

1. **YOU MAY BE AN ENTREPRENEUR WITHOUT KNOWING IT.**
2. **TAXES!**
3. **LEGAL & BUSINESS LIABILITY.**
4. **CAN YOU SEPARATE YOUR BUSINESS & PERSONAL LIVES?**
5. **COMMUNICATE WITH YOUR FAMILY & OTHER LOVED ONES.**



THE FINANCIAL ASPECTS OF YOUR SIDE-HUSTLE #2

1. **TAXES...YES, MORE TAXES.**
2. **PROFITABILITY...HOW TO MEASURE IT AND HOW TO PLAN FOR IT.**
3. **EXPANSION...DO YOU WANT TO EXPAND? SHOULD YOU EXPAND?**
4. **SUCCESS...WHAT DO DO WHEN YOU ACHIEVE IT?**



ENTREPRENEURS, STAKEHOLDERS & MAKING MONEY

Revenues

- Cost of Goods Sold
- = Gross Margin
- Operating Expenses
- = Operating Income
- Other Expenses
- = Taxable Income
- Income Taxes
- = Net Income



ENTREPRENEURS, STAKEHOLDERS & MAKING MONEY

Revenues



- Cost of Goods Sold
- = Gross Margin
- Operating Expenses
- = Operating Income
- Other Expenses
- = Taxable Income
- Income Taxes
- = Net Income

Revenues:

Customers give us money to make their lives better. Every dollar of Revenue any business has ever received has come from Customers.



ENTREPRENEURS, STAKEHOLDERS & MAKING MONEY

Revenues

– Cost of Goods Sold
= **Gross Margin**
– Operating Expenses
= **Operating Income**
– Other Expenses
= **Taxable Income**
– Income Taxes
= **Net Income**

Cost of Goods Sold:



We give cash to employees and suppliers to create the goods and services we provide to customers



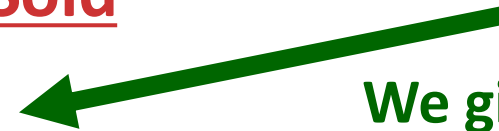
ENTREPRENEURS, STAKEHOLDERS & MAKING MONEY

Revenues

- Cost of Goods Sold
- = **Gross Margin**
- Operating Expenses
- = **Operating Income**
- Other Expenses
- = **Taxable Income**
- Income Taxes
- = **Net Income**

Operating Expenses:

We give cash to employees, the landlord, the advertising agency, the utilities company and others in exchange for giving us the infrastructure to run our business



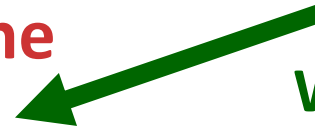
ENTREPRENEURS, STAKEHOLDERS & MAKING MONEY

Revenues

- Cost of Goods Sold
- = Gross Margin
- Operating Expenses
- = Operating Income
- Other Expenses
- = Taxable Income
- Income Taxes
- = Net Income

Other Expenses:

We give cash to the bank and other non-recurring, non-operating sources in exchange for certain benefits.



ENTREPRENEURS, STAKEHOLDERS & MAKING MONEY

Revenues

- Cost of Goods Sold
- = Gross Margin
- Operating Expenses
- = Operating Income
- Other Expenses
- = Taxable Income
- Income Taxes
- = Net Income

Income Taxes:

We give cash to governments because they give us the social infrastructure for our business to succeed (in theory, at least, if not always in practice)



ENTREPRENEURS, STAKEHOLDERS & MAKING MONEY

Revenues

- Cost of Goods Sold
- = **Gross Margin**
- Operating Expenses
- = **Operating Income**
- Other Expenses
- = **Taxable Income**
- Income Taxes
- = **Net Income**



Net Income:

After we make our customers happy and we pay all other stakeholders who made our business possible, whatever cash is leftover is ours to keep, to give to our family, to re-invest in the business, to buy a boat, to return to outside investors.



TAXES...YES, MORE TAXES

1. TAXES!

- Any dollar of income you get, whether it's from selling cookies or the winning at the casino, is considered (potentially) taxable income by the IRS. You have to report every penny you receive.
- In general, you can offset any income received from your side-hustle with the expenses associated with creating that income.
- You may also be able to use business property for personal purposes – like a home office, vehicle or computer – and have the business receive a tax deduction. That's good.



TAXES...YES, MORE TAXES

1. TAXES!

- In general, if your business earns a profit in 3 out of 5 years, your business is a business and you can use these business deductions and carry losses forward into future years. That's good.
- If not, your business is a side-hustle or hobby, and you cannot only apply hobby expenses to hobby income – and you cannot carry losses forward to future years. That's not so good.
- The trade-off is all the work you have to do to achieve a profit.
- The IRS wants to reward serious businesses, but does not want to give benefits for just hobbies...where do you draw the line? Exercising? Video games? Books?



TAXES...YES, MORE TAXES

1. TAXES!

- Unless you structure your business as a corporation, you will report all business operations and file your business taxes on Schedule C of the 1040.
 - Here you will effectively complete the income statement for the business, showing all business (or hobby) revenue and expenses.
 - This applies for all LLCs, partnerships, sole proprietorships and other non-corporations.
 - If you structure as a corporation, the corporation will file its own tax return, independent (and in addition to your personal 1040).
 - If you structure your business as a non-profit...
 - You have to register as a corporation with the state (to get your EIN)
 - You have to obtain tax exempt status through the IRS
 - And the business has to file its own tax return, either confirming it did not make any money (for small non-profits) or providing the income statement for the business.



TAXES...YES, MORE TAXES

1. TAXES!

- Example: The difference between hobby & business tax reporting:
 - Imagine your day job salary is \$100,000.
 - Your hobby or business of selling cookies brought in \$15,000 of revenue and had \$10,000 of expenses. Your total personal income for the year will be $\$100,000 + \$5,000 = \$105,000$.
 - Your hobby of selling cookies brought in \$15,000 of revenue and had \$20,000 of expenses. Your total personal income for the year will be \$100,000. The \$5,000 hobby loss does not help you.
 - Your business of selling cookies brought \$15,000 of revenue and had \$20,000 of expenses. Your total personal income for the year will be \$100,000.
 - However, you can apply the \$5,000 loss to future year's business operations...and if you earn a profit in the future, you can reduce this taxable profit by this year's loss to lower your tax burden. That's good.



PROFITABILITY...HOW TO MEASURE IT

2. Profitability (and financial success)



PROFITABILITY...HOW TO MEASURE IT

2. Profitability (and financial success)

- In short, profitability – or financial success - is measured as Net Income or Net Profit
- Different entrepreneurs will measure success differently
- If you have unlimited resources to throw at the business or hobby, your business can succeed forever
- But most of us do not have that luxury.
- Most of need to earn a profit – eventually – or at least breakeven to keep the business going.
- So let's talk about 'breakeven analysis'

Revenues

$$\begin{aligned} & - \quad \text{Cost of Goods Sold} \\ \hline & = \quad \text{Gross Margin} \\ & - \quad \text{Operating Expenses} \\ \hline & = \quad \text{Operating Income} \\ & - \quad \text{Other Expenses} \\ \hline & = \quad \text{Taxable Income} \\ & - \quad \text{Income Taxes} \\ \hline & = \quad \text{Net Income} \end{aligned}$$



PROFITABILITY...HOW TO MEASURE IT

2. Profitability (and financial success)

- Breakeven Analysis:
 - How many units do we need to sell to break even?
 - In general, in order to break even, we can either decrease our expenses or increase our sales.
 - Breakeven analysis focuses on the sales part of the analysis.
- *Breakeven of Units to Sell:*

$$= \frac{\text{Total Fixed or Operating Costs}}{(\text{Selling Price per Unit} - \text{Variable Costs per Unit})}$$

Revenues

$$\begin{aligned} & - \text{Cost of Goods Sold} \\ & = \text{Gross Margin} \\ & - \text{Operating Expenses} \\ & = \text{Operating Income} \\ & - \text{Other Expenses} \\ & = \text{Taxable Income} \\ & - \text{Income Taxes} \\ & = \text{Net Income} \end{aligned}$$



PROFITABILITY...HOW TO MEASURE IT

2. Profitability (and financial success)

- *Breakeven of Units to Sell:*

$$= \frac{\text{Total Fixed or Operating Costs}}{(\text{Selling Price per Unit} - \text{Variable Costs per Unit})}$$

- You can easily modify this for service businesses, for consulting firms, for businesses with many products or anything.
- The point is you're trying to estimate how many things you need to sell or provide to cover all of your expenses. That's it. Do that and your business will be successful.

Revenues

$$\begin{aligned} & - \text{Cost of Goods Sold} \\ & = \text{Gross Margin} \\ & - \text{Operating Expenses} \\ & = \text{Operating Income} \\ & - \text{Other Expenses} \\ & = \text{Taxable Income} \\ & - \text{Income Taxes} \\ & = \text{Net Income} \end{aligned}$$



EXPANSION...HOW TO GROW YOUR BUSINESS?

3. EXPANDING YOUR BUSINESS

- Many successful businesses have to grow & expand in order to succeed (Walmart, Amazon, most grocery stores).
 - If you margins per sale are small, you need to make lots of sales to breakeven.
- But expansion makes your business exponentially more complicated.
- So, you first need to ask: Do you NEED to expand? Do you WANT to expand?



EXPANSION...HOW TO GROW YOUR BUSINESS?

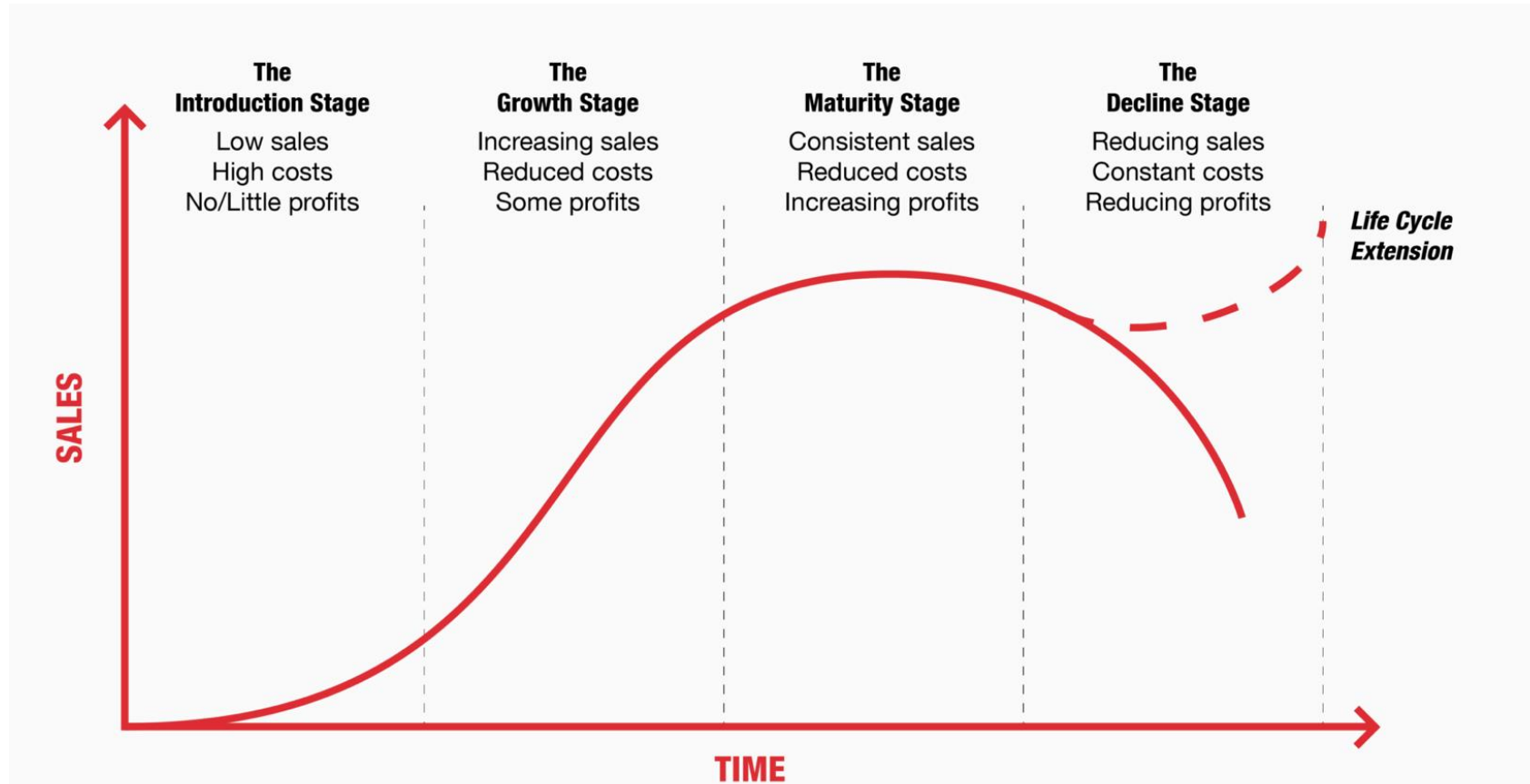
3. EXPANDING YOUR BUSINESS

- Can you expand with existing financial resources?
- Or do you need to acquire external financing?
 - Friends & family and credit cards might not be an option anymore.
 - Bank loans, partnerships and external investors might be your best options.
- Be sure to invest in infrastructure, people and support.
- And be sure to keep focused on your breakeven points, to make sure you have a plan for generating income to support ever-increasing expenses.



EXPANSION...HOW TO GROW YOUR BUSINESS?

3. EXPANDING YOUR BUSINESS



SUCCESS...WHAT TO DO WHEN YOU ACHIEVE IT?

4. Success...Things to think about as your business grows & succeeds:

- **You can now afford to pay yourself – and your most important contributors – a real salary. How much do you pay yourself?**
- **Who owns the business?**
 - Can you sell/give ownership to family, friends or business partners?
 - Yes, legally you can (within limits), and you may want to in order to share your success.
- **What do you do with profits that have accumulated in the business – and that the business does not need anymore?**
 - If you pay yourself and/or other business partners a dividend, that's fine. You will each pay ordinary income taxes on the money you pay yourself.
 - If you keep the money in the business, you do not pay taxes...but maybe the money is not being utilized efficiently.
 - If you choose to have the business invest in other business...well, now you're a magnate!



5 THINGS YOU CAN DO TOMORROW

- Build your team. Don't try to do everything on your own.
 - You probably want to have an attorney and a tax accountant on your team. You may want to connect with other advisors, but having an attorney and accountant on your team is essential.
- Separate your personal and business lives as much as possible.
 - Get separate bank accounts for the business.
 - Establish a credit history for the business.
- Find an accounting system you like. Quicken, Quickbooks, TaxBot, Zero, Sage, FreshBooks are all decent options. Learn it, live it, love it.
- Register your business with the state. This will take a couple hundred dollars and a couple hours...but it's the first step to securing your business name, to building your brand and to protecting your business from liability
- Build your business plan. Tell the narrative of your business. View this as your roadmap or to-do list. Use it to guide both strategy and decision-making.
 - Banks will want to see this. Investors will want to see this. Investors will want to see this.
 - In addition to a full business plan, prepare a 'business model canvas.' This is step 1 towards designing the mission, strategy, operations & future of your business.



Business Venture:

Mission & Vision:

MARKETS

IMPLEMENTATION

VALUE PROPOSITION

CUSTOMERS

MACROECONOMIC ENVIRONMENT

PARTNERS

ACTIVITIES & RESOURCES

COMPETITORS

SALES & MARKETING

COST STRUCTURE

REVENUE STREAMS

Business Model Canvas



THE FINANCIAL ASPECTS OF YOUR SIDE-HUSTLE #2: TAXES, PROFITABILITY, EXPANSION, SUCCESS

July 25, 2023



FOR YOUR FUTURE. FOR OUR FUTURE.

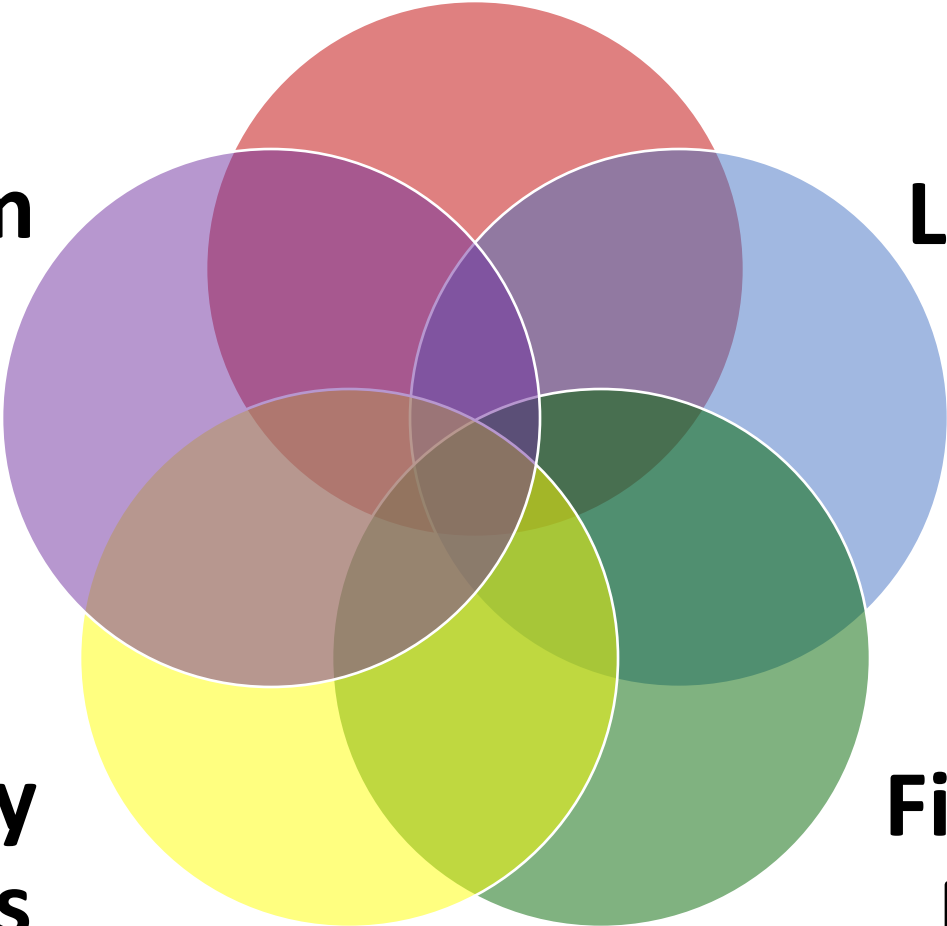
Happiness

**Short-Term
Goals**

**Long-Term
Goals**

**Family
Needs**

**Financial
Needs**

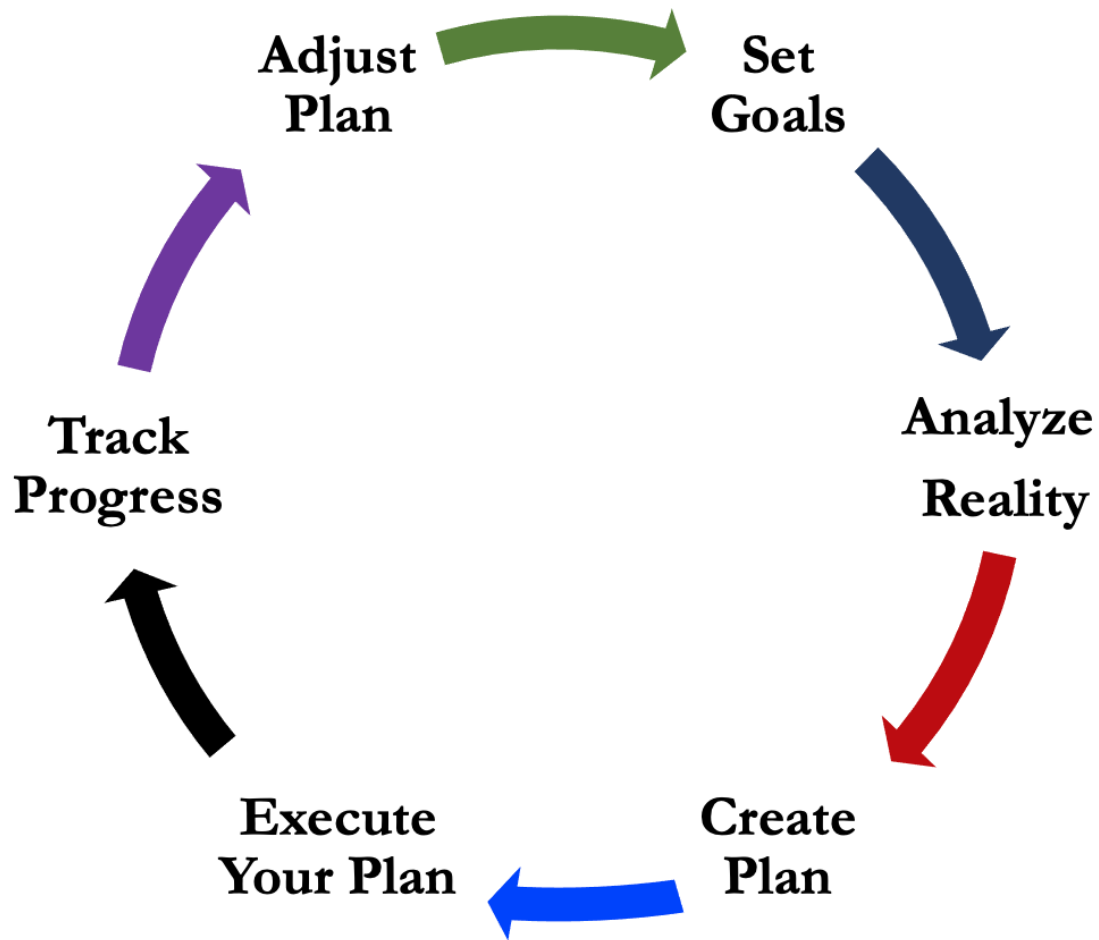


THE FINANCIAL
ASPECTS OF YOUR
SIDE-HUSTLE #2:
TAXES,
PROFITABILITY,
EXPANSION, SUCCESS

July 25, 2023

UNIVERSITY OF
LOUISIANA
SYSTEM

FOR YOUR FUTURE. FOR OUR FUTURE.



1. **Set your goals.** What do you want to achieve in life? What financial goals will make this happen?
2. **Analyze your reality.** What is your situation? What is your income? What are your expenses? When can you achieve your goals?
3. **Create your plan.** Focus on the short-term – the next 3-6 months – and the long-term – the next 1, 2, 5 and 10 years.
4. **Execute your plan.** Work to decrease your expenses. and to pay off debt. Work to increase your income and your savings.
5. **Track your progress.** How are you doing? Are you ahead of your goals? Are you behind your goals?
6. **Adjust your plan** to reflect your progress, your new reality and any new goals.
7. **Repeat. Revise. Enjoy.**

Isn't this a lot like what you do with your education planning?

OWNING YOUR FINANCIAL FUTURE

**ADULTS RETURNING TO
FINISH A DEGREE:
FINANCIAL & OTHER
CONCERNS**

JUNE 6, 2023

**FINANCIAL PLANNING
FOR GRADUATE STUDENTS**

JUNE 7, 2023

**FINANCIAL & TAX
PLANNING FOR
INTERNATIONAL
STUDENTS**

JUNE 8, 2023

**THE FINANCIAL ASPECTS
OF YOUR SIDE-
HUSTLE #1 – PLANNING,
STRATEGIES, LEGAL,
RESOURCES**

JUNE 20, 2023

**FAMILY FINANCIAL
PLANNING: MAKING
FINANCES WORK FOR THE
WHOLE FAMILY**

JUNE 23, 2023

**FAMILY FINANCIAL
PLANNING: SENDING
YOUR LOVED-ONES OFF
TO COLLEGE**

JUNE 27, 2023

**FAMILY FINANCIAL
PLANNING: CARING FOR
ADULT DEPENDENTS**

JUNE 28, 2023

**CHANGING CAREERS: THE
FINANCIAL & PERSONAL
ISSUES**

JULY 13, 2023

**BUILDING SAVINGS
ACCOUNTS & EMERGENCY
FUNDS**

JULY 14, 2023

**FINANCIAL PLANNING
FOR VETERANS**

JULY 18, 2023

**FINANCIAL PLANNING
WHEN RETIREMENT IS
GETTING CLOSE
(5-7 YEARS OUT)**

JULY 19, 2023

**THE FINANCIAL ASPECTS
OF YOUR SIDE-
HUSTLE #2 – TAXES,
PROFITABILITY,
EXPANSION, SUCCESS**

JULY 25, 2023

**FINANCIAL PLANNING
FOR THE FUN STUFF:
VACATIONS, HOME
IMPROVEMENTS, NEW
VEHICLES**

JUNE 26, 2023

INVESTING 101

AUGUST 1, 2023

**NAVIGATING THE
IMPACTS OF INFLATION &
TURBULENT ECONOMIC
TIMES**

AUGUST 2, 2023



**THE FINANCIAL
ASPECTS OF YOUR
SIDE-HUSTLE #2:
TAXES,
PROFITABILITY,
EXPANSION, SUCCESS**

July 25, 2023

ALL FUTURE SESSIONS ARE FROM 12:00-1:00PM

**UNIVERSITY OF
LOUISIANA
SYSTEM**

FOR YOUR FUTURE. FOR OUR FUTURE.

Brian Bolton
Professor of Finance
brian.bolton@louisiana.edu

<http://business.louisiana.edu/financeispersonal>



UNIVERSITY *of*
LOUISIANA
L A F A Y E T T E[®]

**B.I. Moody III College of
Business Administration**