2. Living Within Your Means: Money and Taxes

There is no one plan for all everyone regarding these fun topics, but we’ve outlined some basic considerations and asked alumni for advice, most of which we’ve left in their own words. None of these comments should replace professional advice from an accountant or financial planner, but we hope that they at least draw your attention to these important subjects.

Budgeting for the New Graduate

Unless you landed a job with a salary so high you couldn’t possibly spend it all, you need to begin thinking about developing a reasonable monthly budget. Whether or not you’ve landed a job, establishing a budget, actual or estimated, will help you determine what you can realistically afford to spend each month and prevent you from overextending yourself financially.

Someone recommended the budgeting app YNAB. I have found it very helpful at giving me a budget and sticking to it.

— Daniel Noble ’15

Jennifer Shelby ’13 suggests to “find a smart phone budgeting app that works for you, like XpenseTracker or Mint. In your first few months out, challenge yourself to enter each expense as you spend — every last one, right down to that snack you just bought from the food cart. You’ll gain a realistic perspective of your monthly costs and where you can tighten up or treat yourself.”

Sponsored by the Association of Yale Alumni and Students and Alumni of Yale (STAY), the Financial Literacy Workshop is a must for every student and alum who wants to learn more about managing personal finances. Held each spring, this workshop covers issues such as understanding your paystub, preparing income taxes and budgeting for food, clothes, and entertainment.
Check the OCS events calendar for this and other workshops in the “Life After Yale” series: ocs.yale.edu.

Your budget doesn’t have to be an elaborate spreadsheet of numbers and formulas. This Cost of Living Calculator provided by Bankrate is an easy to use tool which even allows you to compare cities. We’ll keep it simple and divide your budget into two categories: income and expenses.

Income

Let’s start with your salary. Anyone who has ever been employed knows that your full salary isn’t what winds up in your bank account—the government takes its share first. Once you get your first paycheck you’ll know exactly how much the government is going to be taking, but for now an estimate will do. If a single person with no dependents makes $37,000 - $90,000 per year, assume that the federal government will be taking about 25 percent of each paycheck for taxes. Then there are state and sometimes city or local taxes. The more you make, the more they take, so adjust this figure accordingly. You can use online paycheck calculators found on sites such as www.paycheckcity.com to estimate what your net, or “take home pay,” will be.

Many of you will be going on to graduate or professional school. Your “income” will most likely be a combination of research assistantships, scholarships, loans, and stipends. For loans, remember that there is always a loan origination fee of around 3 percent of the amount you borrow. So if you take out $10,000, you will only receive a check for $9,700. If you are receiving scholarships, assistantships, and/or stipends, pay attention to the way this funding will be disbursed to you. Some schools will apply this money directly to your student account, while others will cut you a check that you then use to pay your tuition and fees. In the latter method, you will need to report this income on your tax return and may have taxes taken out of your disbursement check as well. It may be best to ask if you can be paid directly into your student account.

Other possible sources of income include signing bonuses and any dividend checks you receive from personal investments. Since we’re working on a monthly budget here, only include those additional sources of income that you will be receiving monthly. A one-time windfall such as a signing bonus shouldn’t be factored in.

You can use the tax calculators at www.bankrate.com to help estimate how much money will be in your paycheck or, if you don’t know what your
income will be, how much your gross salary needs to be in order to cover your estimated expenses. There is also a student budget calculator to help those of you continuing your education.

Expenses

Here's where the subtraction comes in. Your expenses will vary greatly depending on where you live. The cost of living in major metropolitan areas, including New York City, San Francisco, Boston, and Washington, DC, to name a few, is significantly higher than the national average. For those of you job searching, keep in mind that there are many other metropolitan areas that have lower costs of living and excellent quality of life.

Your expenses can be divided into four broad categories: household expenses, existing debt, personal/recreational spending and savings.

Household Expenses

Rent will likely be your biggest expenditure. It will vary considerably depending on where you’re living, but you shouldn’t plan on spending more than a quarter to a third of your monthly income on rent if you can avoid it. In areas with high costs of living, such as New York and Washington, DC, the amount you spend on rent will most likely be higher. You may be relocating to a city already familiar to you and have a good idea of what the rent is going to cost you. In case you don’t, check out websites such as www.rent.net to get a sense of what you should expect.

In some cases you may need to find a roommate or two in order to comfortably afford your rent. If you are relocating for a new job, ask your new company whether they offer any kind of relocation services to help you find an affordable apartment. If you are entering graduate or professional school, contact the housing office at your new university for assistance. Most schools will have on-campus housing available, as well as resources for finding an apartment off campus. Some will also offer a roommate matching service.

The next part of your household expenses will be your utilities: electricity, gas, phone, internet, cable, renters insurance, and so on. Sometimes rent includes electricity, heat and/or hot water. Be sure to ask when considering a rental. When they are not included in the rent, keep in mind that some of your monthly expenses—renter’s insurance, for example—will have a fixed dollar amount so you’ll know the amount to budget for each month. See Chapter 4 for more on renter’s insurance. The rest of your utilities will vary from month
to month, depending on your usage. When you call to set up your utilities, ask what the average monthly bill for your apartment was the previous year. Most companies have this information readily available, and although your personal use might vary from the average, at least you’ll have an idea of what to expect. You may also want to ask about setting up a budget plan so that you have a set amount you pay each month. Jennifer Shelby ’13 suggests that “if you are living in an apartment that does not include electricity, remember to account for the fact that your electricity bills will vary widely throughout the seasons depending on how much heat or AC you use. I say this because I was shocked by the huge variation!” More information on utilities can be found in Chapter 4: Setting up House.

Finally, you need to consider transportation expenses associated with owning and parking a car or using public transportation. Depending on where you live, public transportation may be the easiest and most affordable option. An alumnus states that, “basically everyone in New York, LA, and other major cities commutes to work. This is particularly true for the straight-out-of-college kids who tend to live in less expensive parts of town. Hip places in Brooklyn for the twenty-somethings mean hours on subways and/or buses, and that means big transportation costs. You can almost always get a break on your commute through one of a number of agencies that conduct pre-tax commuter programs. A lot of people I know use www.wageworks.com, but there are plenty of others; in my case, my company provides the service itself. The way it works: you enter in your employee info on the agency’s website, you purchase the monthly commuter pass online in advance, and the purchase is taken out of your salary before you’re taxed on it. I save around 33 percent a month on transportation costs, and the subway ticket is mailed to me well before my old one expires, so I’m never surprised to find that my pass has run out.” If you will be commuting via public transportation, most subway, train, or bus systems have monthly passes available for purchase. Along with your commuting expense, don’t forget to budget a little extra for the cost of Uber or cabs for evenings out or personal errands.

For those of you living or working in areas where public transportation is not a viable option, you’ll most likely need a car. Owning a car comes with expenses, including the costs of purchasing, registering, and maintaining your vehicle. Undoubtedly, your parents and/or siblings have purchased a few vehicles at some point; it’s a good idea to discuss your needs with them for advice on finding the right vehicle for you. Additionally, www.bankrate.com and www.dinkytown.net have a number of auto calculators (buy vs. lease; new vs. used; auto payment calculator) to help you weigh your options,
and websites such as www.edmunds.com and www.kbb.com can give you estimates on car values and car buying tips.

Once you have your car, don’t forget about insurance and registration. Registration fees and, in some states, car taxes are typically yearly expenses that aren’t usually figured into your monthly budget, but it’s important to look into what it will cost you and plan ahead. Insurance may be a monthly, biannual, or yearly expense, depending on the payment plan you choose. Shop around; rates may vary. Also, you should ask about discounts for setting up both auto and renters insurance policies. (See Chapter 4 for more information on renters insurance.)

Additionally, you’ll need to factor in the cost of maintenance and filling your gas tank. You can get a good idea of how much to budget for gas by first estimating how many miles you’ll be driving per month. Use websites such as www.mapquest.com or maps.google.com to see how far your workplace is from your home; add extra miles for weekend trips to the store and going out. Next, check your car owner’s manual to get an idea of how many miles per gallon your car averages. Divide your estimated miles per month by the average miles per gallon to estimate how many gallons of gas you’ll use per month. Multiply this number by the price per gallon of gas in your area. Gas prices fluctuate regularly, so it’s better to use a slightly higher price to avoid underestimating. Websites such as www.gasbuddy.com can help you find the gas stations in your area with the lowest prices and provide historical averages that you can use to project how much you may spend on filling up your tank.

Parking may be another expense to consider. Some apartments have parking included; others charge a monthly fee. The same holds true for your office or campus. Is there free employee/student parking, or are you at the mercy of a public garage? If you will be using a public garage, monthly rates are generally much cheaper than paying daily, so make sure you do a little shopping around to find a garage that is close, safe, and economically feasible.

Health Insurance
Healthcare and insurance coverage are major public policy issues that may be in flux over the next few years, so make sure you stay current on laws that may affect you. But for now, whether you are contributing to your employer’s plan or purchasing your own, health insurance is critical.

Most of you will have the option of signing up for healthcare through your employer, with your employer paying a portion of the cost as a benefit.
Take advantage of this. If your employer doesn’t offer this benefit, if you’re freelancing, or if you’re job searching, don’t fret—you still have options.

Gabriella Puente ’13 suggests, “Don’t forget to schedule doctor appointments! You can use zocdoc.com to easily find nearby doctors based on your insurance coverage and you can schedule your appointment online. Remember to schedule appointments with a primary care physician, OB/GYN (if female), dentist, eye doctor, and any other specialist that may be needed. Try to schedule your appointments for the year in advance because it can take weeks to get an appointment.”

First we’ll focus on demystifying some of the terminology you may encounter as you look at health insurance plans. Below are common terms and acronyms defined.

**HMO —** A Health Maintenance Organization is a type of health plan that contracts with doctors, health care providers, and hospitals, who agree to offer services at a fixed price and accept payments from the HMO. These plans have set guidelines you need to abide by. That means they tend to give members less flexibility in choosing doctors, and they require you to obtain referrals from your “Primary Care Physician” before you can see a specialist for services. These plans tend to be more affordable than other health plans, because they offer lower out-of-pocket costs, such as co-payments and deductibles, and lower premiums.

**PPO —** Preferred Provider Organization — Like an HMO, this plan also contracts with doctors, hospitals, and health care providers who agree to accept payments from the health plan. PPOs are less restrictive than HMOs, allowing members to choose doctors outside of the ones who have contracted with the network, though they may reimburse these doctors at a lower rate. Additionally, PPOs allow flexibility in seeing specialists without a required referral. Due to higher out-of-pocket costs and premiums, a PPO is typically more expensive than an HMO.

**Co-Payment —** A co-payment, or “co-pay,” is a predetermined fee that you pay when you access health care services. For example, some HMOs require a $10 co-payment for each office visit, regardless of the type or level of services provided during the visit, or a $15 co-payment when you fill a prescription.

**Deductible —** This is a predetermined amount that you must pay for health care expenses before insurance covers the costs. Oftentimes,
insurance plans have yearly deductible amounts. For example, with a $100 deductible, you would be responsible for the first $100 in health care charges for the year. After that, the coverage would be split according to your plan formula which may cover a percentage of the fee charged, or limit your costs to a specific co-payment.

Premium — The amount it will cost you each month to purchase health coverage.

Evaluating Plans

Here are some key questions you should ask yourself when deciding on a plan. While this is not an exhaustive list, it will give you an idea of the range of considerations. Evaluate plans based on your individual needs.

How often do you see a doctor? Do you have any pre-existing medical conditions that need to be managed or monitored? If so, what types of services related to your condition(s) will be covered?

Are you taking any prescription medications? Are these covered? What deductibles or co-payments would you be responsible for?

If you have a history of using one physician, can you continue to see this physician under your new plan?

Are vision services covered? What about dental coverage?

How much is your co-payment per visit? Are there any yearly deductibles? How much are these?

No Employer Insurance?

Thanks to the recently passed health care reform laws, if you don’t have access to insurance through your employer, you can get coverage through your parents’ insurance plan until age 26. Talk with your parents about their insurance coverage to find out about the enrollment process and the cost.

Existing Debt

If you are lucky, you managed to get out of Yale without student loans and with a zero balance on your credit cards. However, some graduates will have one or both of these forms of debt, which will require a monthly payment.
You may benefit a great deal from seeking professional advice on your options for managing your debt. An exit-interview advisor (for your student loans) or a financial advisor can offer solutions that may include refinancing or consolidating, and can advise you on how the current economy affects the options available to you.

Student Loans
The following advice applies to federal loan programs. If you have taken out loans through private sources, you should contact them directly regarding their loan-repayment process.

Here are some basics to know about loan-repayment. If you are going straight into graduate or professional school, you should submit a request for a loan deferment. Once granted, you will not have to make monthly payments on your loans until you have finished your next degree, but depending on the terms of your loan (subsidized or unsubsidized), interest may continue to accrue while you are in school.

If you are heading straight into the work force, you will have a “grace period” of six months before you need to start repaying your loans. Once repayment begins, there are four types of payment plans — standard, extended, graduated and income contingent. With the standard plan, you pay a fixed amount each month until your loans are paid in full. Your monthly payments will be at least $50, and you’ll have up to 10 years to repay. The extended plan also has monthly payments of at least $50, but you will have up to 25 years to repay your loans, depending on the amount you owe; you must have more than $30,000 in loans to be eligible for this plan. With the extended plan, you can choose to have fixed payment amounts for the life of the loan, or payments that start low and increase every two years, as with the graduated plan. If you choose the graduated plan, your payments will start low and increase about every two years, and you will have up to 10 years to repay your loans. With the income contingent plan, your payments are based on your ability to pay each year, and your monthly payments will be calculated on the basis of your annual income, among other factors. You will have up to 25 years to repay your loans with this option.

While it might initially seem best to go with the lowest possible monthly payment, don’t forget that you are accruing interest on your loans each month. So while you may save money on a monthly basis with the lowest monthly plan, the total amount you pay back could be much more than if you choose the highest monthly payments. This is not to say that every person will be able to subscribe to the standard plan. Based on the amount of money
you borrowed and your upcoming salary, you may only be able to afford the lowest monthly payment. Making double payments, even once a year or so, can make a big difference in the amount of interest accrued.

You should also think about other debt when trying to decide which payment option to choose. If you pay less on a loan that charges an average of 7-percent interest so that you can pay more on a credit-card that charges 17-percent interest, you are actually coming out ahead of the game. Begin by visiting the Direct Loans website, www.ed.gov/DirectLoan, and use their repayment calculators to determine what your monthly payments will be and which plan will be best for you. While on the website, check out the information on loan consolidation. If you have two or more federal loans, you may be able to consolidate them into one interest rate and one monthly payment. Oftentimes, this will lower the total amount you would be paying each month.

Credit Cards
If you're lucky, you don't have any credit card debt and are able to pay your balance in full each month. For those carrying a balance on your credit cards the goal is to pay off your debt as quickly as possible, but at the same time not to leave yourself so short on cash that you wind up charging even more. If you can afford it, pay more than the minimum monthly payment for each of your credit cards. Just paying the minimum barely covers the interest you generated in the course of the month, so you aren’t really getting ahead. Try to pay as much as possible above the minimum payment (without leaving yourself short on cash) to start reducing your total balance. If you are carrying more than one credit card, pick out the one that has the highest interest rate and pay it off as soon as you can, then move on to the next highest interest-rate card. If your interest rates are fairly even across your cards, begin by paying off the one with the lowest balance. That way you will reduce your number of monthly payments as quickly as possible while generating a feeling of accomplishment that you knocked out one card completely. Then remember to cancel the card or put it away for emergency use only. Keep in mind that canceling a credit card could negatively impact your credit.

For some of you with multiple credit cards, you may have the option of transferring your balances onto one card with a lower transfer interest rate. Before you start consolidating credit card debt onto one card, make sure you read the fine print and understand the terms of the transfer. There is often a transfer fee, and that lower interest rate may only last for a certain period of time. If possible, consult with a financial advisor to make sure this is the best move for you.
Stay focused on the goal of avoiding unmanageable credit card debt. An alumna suggests that you “only charge what you can afford to pay off at the end of the month, and if you do have credit-card debt, have a solid plan to pay it off quickly. Carrying credit-card debt costs a fortune!”

Other Debt
Have you purchased any large ticket items, such as a computer or furniture, for which you are currently making payments? Don’t forget to factor these payments into your monthly budget as well.

If you purchased any of these items on a “zero interest for twelve months” plan, be sure to pay off the full amount well before the deadline, or all of the accumulated interest from the twelve-month period will be added to your balance.

Personal/Recreational Spending
Some of your personal spending will be absolutely necessary, including groceries, toiletries, laundry, and prescription medications. Start with the assumption that you will spend between $50 to $75 per week on groceries, depending on how often you eat out, the number of store-brand, ready-to-eat, and organic foods you buy, and the cost of living in your area. If you stock up on basics when they’re on sale, make dishes from scratch instead of buying canned or pre-packaged, and buy generic versus name-brand items, you can trim your grocery budget. Toiletries can run you anywhere from $30 to $75 per month, again depending on how many name-brand versus generic items you buy. Keep in mind that buying toilet paper in a 12-roll pack is cheaper in the long run than buying individual rolls; the same goes for many other toiletries, so carving out some space in the bathroom to store bulk purchases can save you money in the long run.

You should have a vague idea of how much you spend on laundry, since you have been paying to do it at Yale or in your apartment building for the last several years. If you will be working in an office where professional dress is required, don’t forget about dry cleaning. Laundromats and cleaners often have coupons and Groupons which can save up to 50%.

Next we move to the fun stuff—entertainment, clothing, and other miscellaneous expenses. Here are some activities that make your money disappear: going out to eat, buying your morning coffee, seeing a movie, going to a concert or the theater, subscribing to magazines, and purchasing music, new clothes, vacations, and haircuts, to name just a few. You probably know
how much you currently spend on recreational items, so begin by factoring in that amount into your budget to get started.

If your budget is tight, you may need to reduce the frequency or expense of some of your excursions and indulgences.

If you start out in a big city, there’s ‘always so much to do.’ Keep in mind that not everyone is in the same income bracket -- so if you do tend to make more, you should try to accommodate friends who do not have the ability to spend as freely -- choose affordable/fun activities. Staying in and cooking dinner together is great fun, and something I have started doing in NYC, where eating out can really rack up the credit card bill. Make sure to start saving early, and don’t feel like you have to attend every party or go to every bar event that you see on Facebook. That said, have fun (within limits), because life must be defined by more than work alone.

— Alumna ’13

Savings

Establishing an emergency savings fund is necessary. Savings can give you peace of mind when unexpected challenges come your way. You’ll be grateful for the financial cushion an emergency fund provides if you experience a job loss, car trouble or even a medical emergency. An alumna suggests that you “start saving from the beginning. Make a habit of putting aside money every month that you don’t touch.” Another alum echoes that sentiment and recommends that you “make sure it’s the first thing out of your paycheck, not the last, otherwise you might find yourself postponing your savings every month.”

Start small and build up your fund over time. Though there are a wide range of guidelines on how much you should have in an emergency fund, a common recommendation is to have the equivalent of 3-6 months of your take home pay stored away in an interest-earning savings account.

Planning Ahead

Some of you may be preparing a budget before you know what your income will be (or perhaps where it will come from). Although it may seem impossible at first glance, it is feasible to live on a limited income, even in expensive cities.
The key is limiting your expenses accordingly, perhaps by choosing not to live in the trendiest part of town or by having several roommates.

Staying Organized

In the end, you want to make sure you have a good idea of how much you spend every month so you can work out how to live within your means.

Monika Adamczyk ’10 has found that “Quicken is a great program for doing budgets, so long as you are committed to keeping up with it and do monthly reconciliations. It allows you to download expenses and class them based on self-created categories and gives you a visual picture of your expenses and how you are measuring up to (or surpassing) your self-created budgets. Other free programs exist to help recent graduates do the same; www.mint.com is an online tool similar to Quicken and PearBudget is a useful Excel sheet that is great for budgeting.”

Another alumnus recommends Google Docs personal finance spreadsheets. These are free and customizable, and they can be edited from your phone or through your laptop. These will help you see precisely how much you are spending on eating out, clothing, entertainment, and other expenses. Remember, there is no one-size-fits-all way to manage your money; you may need to try out a few different methods to find one that works for you.

Still a little bit shaky on creating a budget? Here are some additional resources and suggestions from Yale alumni:

- *The Money Book for the Young, Fabulous & Broke* by Suze Orman
- *The Millionaire Next Door* by Thomas Stanley and William Danko
- *Get a Financial Life* by Beth Kobliner
- *Personal Finance for Dummies* by Eric Tyso
- *Rich Dad, Poor Dad* by Robert Kiyosaki
- www.mint.com

Credit Reports

Think of your credit report as your financial transcript and your credit score as your financial GPA, only this GPA is a bit more complicated to calculate.
There are three nationwide consumer credit reporting companies — Equifax, Experian and TransUnion — that compile information on your credit history, including how many lines of credit you have open, how much you owe to each creditor, and your payment record. This information is used to calculate your credit score, which lenders use to establish your interest rate and terms for loans or credit cards. Your FICO score, the best known and most widely used credit score, is a three-digit number ranging from 300 – 850; the higher the number the better. Your score is seen as a predictor of your creditworthiness and likelihood to pay your debts on time.

With your written consent, your credit score can also be accessed by those evaluating your applications for insurance, home or apartment rentals, and employment. You want to keep your credit score as high as possible, so make sure you pay off all your bills on time, and consider consulting a parent or financial advisor for more help learning about and managing your credit report and score.

Needless to say, it is important to periodically check your report to clear up any discrepancies and guard against identity theft. It is also recommended that you check your credit report before applying for loans and/or starting your apartment search. Yes, landlords can turn down your rental application based on your credit report and score! You are entitled to receive one free credit report every 12 months from each of the three credit reporting companies, and you can always access additional reports for a fee.

An alumna recommends that you “check your credit report a few times a year with www.annualcreditreport.com just to make sure all the info is correct and nobody has opened any accounts in your name. The three free reports don’t have to be obtained at the same time, and credit monitoring services seem to be a waste of money. It’s easier to keep the report accurate from the beginning than to get calls from a collection agency asking for a person you’ve never heard of regarding an account you never knew existed.”

Monika Adamczyk ’10 agrees, stating that checking your credit report and knowing your credit score “is an incredibly important step because it gives you a picture of where you stand and lets you correct any discrepancies that can endanger your ability to get loans later in life or could compromise your ability to get certain federal jobs. I would advise all recent grads to familiarize themselves with credit reports and basic tax forms because they are here to stay and financial literacy is an important life skill to develop.”
Taxes

If you are not familiar with income taxes, take time now to talk with your family, friends or a financial advisor to learn the basics. You don’t want to be surprised by owing more tax than has been withheld by city, state, and/or federal governments, or by the receipts and records you may need before April 15 (the deadline for filing taxes typically falls on April 15). For many, this year is the first year filing as an independent. If you are doing contract (or freelance) work, you’ll need to familiarize yourself with self-employment tax, which you may be required to pay every three months. The following are additional tips from Yale graduates on the fun subject of taxes.

The most complicated part of doing your taxes the first year after graduation is that half of the tax year was your last semester at Yale, while the second half probably involves moving, getting a job, going to school, traveling, etc. The most important thing is to get all of your paperwork together before you start, since your W2s and other forms might be mailed to your school, permanent, or new address. Most recent grads can e-file their federal returns for free (some states offer free options as well) using software available through the IRS website. Also, some tax prep services like H&R Block offer reduced rates for recent grads if you don’t qualify for free e-filing.

—Alumna

For people whose parents have always handled taxes before, it is an extremely good idea to talk with them about what you are preparing to do in terms of tax filing your first year out. Not only will they have good advice but (more importantly) they may need to know exactly what declarations and deductions you are making in order to have it line up with their own filing. Are you still a dependent? Are you declaring the work you did at your parents’ store over the holidays and summer? This sort of stuff can be very helpful for everybody involved, and may help avoid an ugly audit for your folks.

—Alumnus

You should also think about how taxes will affect your savings and investments. Believe it or not, now is the time to start thinking about retirement planning. To get the most out of your savings or investments, you’ll want to efficiently manage your future tax burden—I strongly encourage you to save in your company’s 401(k) plan (or the Thrift...
Savings Plan for federal government employees) and a Roth IRA. Having both types of accounts will allow you to save for future expenses, like your first house or retirement while managing how much you pay in future taxes.

—Alumnus

If your ideal occupation does not involve working for someone else and you would rather paint, write, act, direct, etc., following your own inspiration, you may experience the thrill of creating along with the reality of keeping your expenses in order, especially regarding tax issues. A recent graduate has outlined the following three suggestions:

Ask around amongst other people working that job for an accountant who specializes in helping workers in that industry. For example, there are accountants who specialize in waiters, and working with one was extremely helpful for me in my serving days. (To waiters: It is legal for you to claim as a business expense the money that you “tip out” to other restaurant workers. Find an accountant who knows this; it makes a huge difference.) Simply put, a trustworthy accountant with a focused expertise will know of more legal deductions and will save you much more money than the cost of the accountant’s services.

Second, keep receipts for your business expenses. For artists, these may often seem counterintuitive as “business” expenditures. Again, speak with a knowing accountant. Examples of expenses for actors include movie tickets/rentals and theater tickets as research, and travel in your car or on the subway to and from auditions; painters can deduct museum visits; musicians can deduct CDs and stereo equipment; all artists can deduct periodicals that relate to their industries, etc. These little deductions add up, and you should keep track of them. (If you spend cash on a deductible, then keep the receipt and write any details on the receipt you might forget. For example, if you call an alumnus after graduating to get some advice, and he isn’t kind enough to pick up the tab, then you should write “Dinner with ‘X’ for career advice post graduation” on the receipt and keep it in one place with your other receipts. If you use a credit or debit card, then bank statements and end-of-year reports will likely contain all the necessary information.)

Third, you may find it helpful to form a “dba” in your city, or a “Doing Business As” name. This is a relatively cheap form of license that allows you to open a bank account with a business name like “Mary Beth, dba Artist Girl.” Keeping a separate account with a separate debit card from your personal account can
make keeping track of expenses easier, because you can pay for every business expense with that debit card. At the end of the year, this makes your separation of personal and business expenses very clear. At some point in your career it may make fiscal sense to incorporate. Again, speak with an accountant for the necessary expert advice, which can be both industry and state specific. (Roughly and inexpertly defined, incorporation is the creation of a formal business entity that is a more legally delineated and protected version of the above dba and often includes many tax benefits for self-employed people.)