

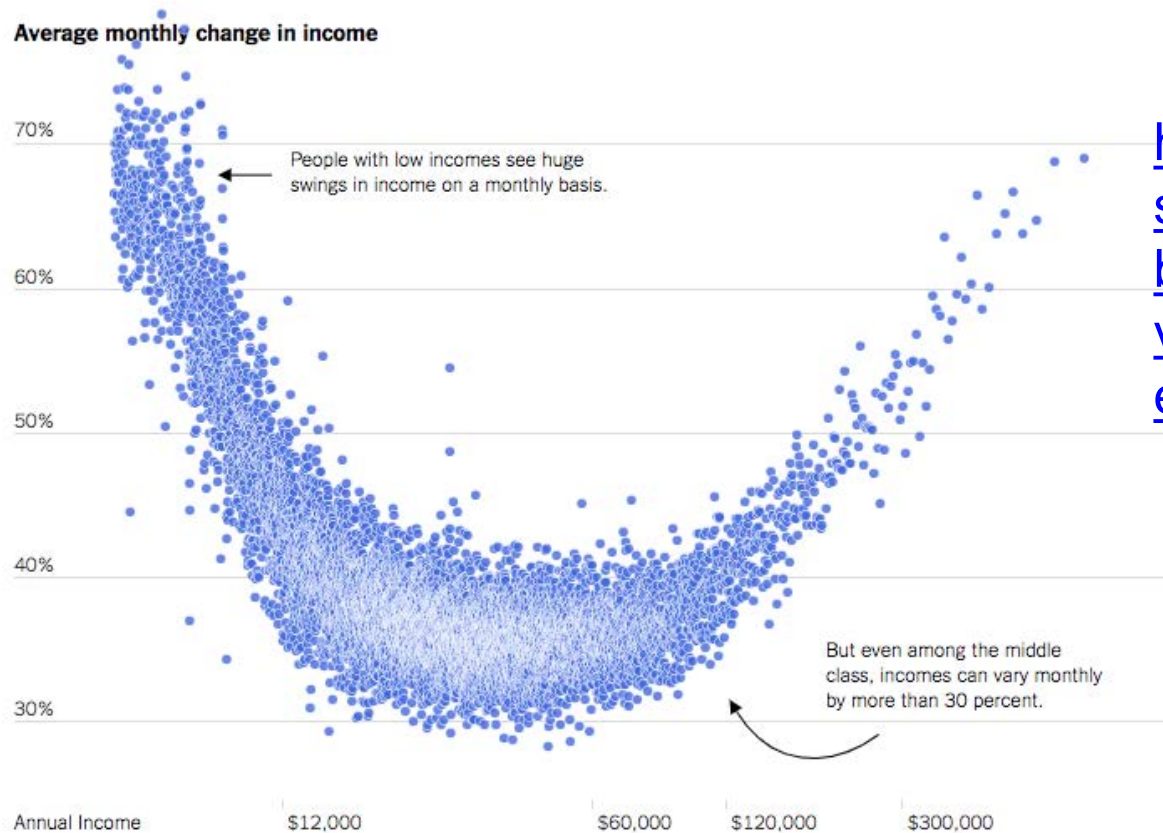
RUTGERS

New Jersey Agricultural
Experiment Station

Financial Planning Tips for Urban Agriculture Entrepreneurs



Entrepreneurs Typically Have Volatile Incomes



<https://www.nytimes.com/2017/05/31/business/economy/volatile-income-economy-jobs.html>

To preserve anonymity, each dot is an average of people who bank at JPMorgan. Includes instances where people receive an extra paycheck a month.

Source: The JPMorgan Chase Institute

Employees vs. Entrepreneurs

Employees

- Unreimbursed employee business expenses are not deductible under the TCJA
- FICA tax collected and matched by employer
- Employer may provide health insurance and a retirement savings plan
- Employer provides income tax withholding
- May receive "sick days"

Employees vs. Entrepreneurs

Entrepreneurs

- Self-employment expenses are deductible directly against business income
- Freelancers must pay full FICA tax (15.3%) themselves
- Freelancers must secure their own health insurance and retirement savings plan
- Must do own tax withholding through estimated quarterly payments
- No work= no pay

Entrepreneurship Quiz

Statement	1 Strongly Disagree	2 Disagree	3 Agree	4 Strongly Agree
1. I sometimes enjoy taking risks.				
2. I like to work hard at projects that interest me.				
3. I have a high level of energy.				
4. I want to achieve results based largely on my own efforts.				
5. I like being creative.				
6. I like to start projects on my own.				
7. I tend to see tasks through to completion.				
8. I am confident in my abilities.				
9. I am good at a lot of different tasks.				
10. I am interested in making lots of money.				
Totals				

Source: *Financial Fitness for Life*, Council for Economic Education

Take the Entrepreneurship Assessment

- **10-14-** Little inclination toward being an entrepreneur
- **15-19-** Somewhat inclined toward being an entrepreneur
- **20-29-** Inclined toward being an entrepreneur
- **30-40-** Very inclined toward being an entrepreneur

Is Entrepreneurship For You?



- **Are You a Self-Starter?** Entrepreneurs must develop projects, organize time, and follow through on details
- **How Good are You at Making Decisions?** Entrepreneurs must make decisions constantly
- **How Well so You Get Along With People?** Entrepreneurs must deal with vendors, clients, etc.
- **Do You Have Physical and Emotional Stamina?** Entrepreneurship can be a lot of work (e.g., 10-hour days)
- **Is Your Drive Strong Enough to Maintain Your Motivation?** Strong motivation can help people weather business slowdowns and burnout

Financial Planning Topics for Entrepreneurs

- Cash flow management on an irregular income
- Income taxes
- Insurance
- Retirement savings

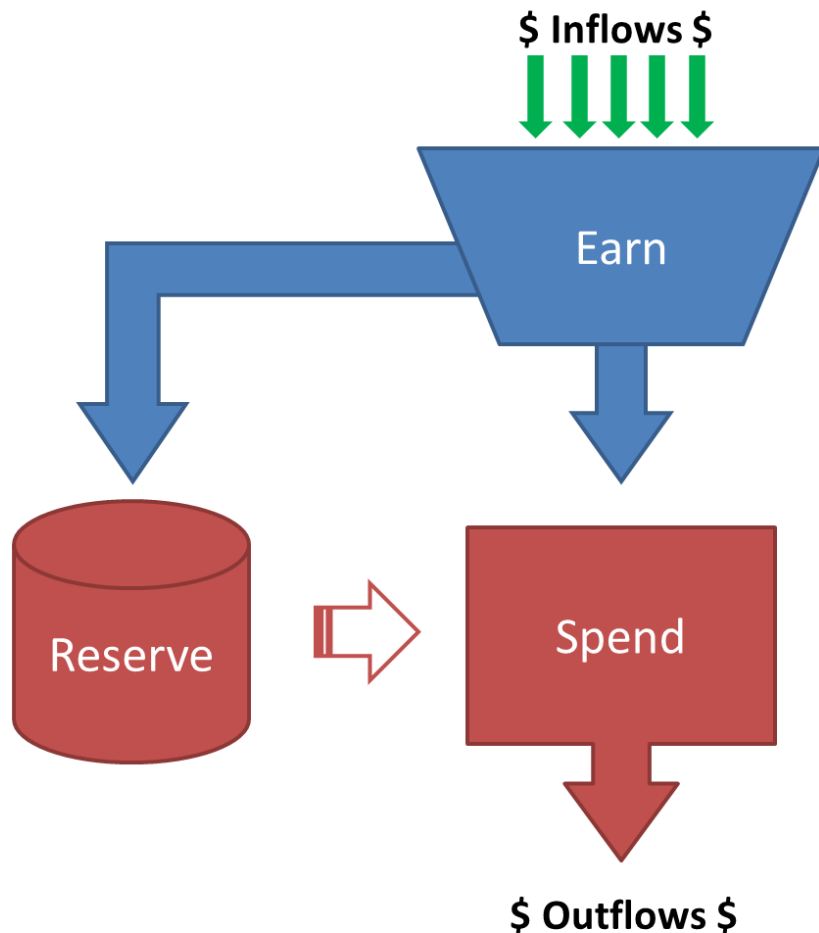


Irregular Income Cash Flow

- Can't do a "typical" spending plan (budget)
- Estimate baseline monthly expenses
 - Include 1/12 of annual cost of periodic expenses
- Project self-employment income
- Identify "peak" and "lean" months (if applicable)
 - If so, save money from peak months for lean months
- Build a substantial emergency fund (6 to 12 months expenses) to tide yourself over between gigs
 - Also consider getting a bank line of credit



Irregular Income Budgeting Process



Source:

<https://www.moneyunder30.com/variable-income-how-to-manage-money-when-you-dont-earn-steady-paycheck>

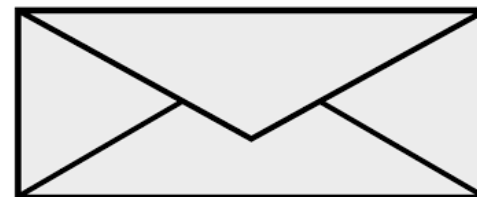
Goal:

To create and fund a “set-aside account” to always have money available to pay household expenses as they come in.

There is No “One” Right Way to Budget With an Irregular Income

Like traditional budgeting, methods will vary:

- Excel spreadsheet
- Budgeting apps
- Paper and pencil free form
- Printed worksheets
- Envelopes and Mvelopes
- Online calculators



However, There are Some Common Themes That Budgeting Experts Agree On

Income Volatility
Budgeting Hacks



Calculate Your Monthly “Baseline” Expenses

- Track spending for 1-2 months
- Add up your “have to pay” bills (e.g., housing, utilities, groceries); i.e., a “bare bones” budget
- Determine the bare minimum needed to “get through the month”
- Add a 10% to 15% contingency “to be safe”



Calculate Your Average Monthly Income

- Review income from the last 1-2 years
- “Do the math” to determine average income
- Use this number as a “guardrail” to avoid overspending
- Determine the gap between average monthly income and monthly baseline expenses
- Reduce expenses to close the gap, if needed



Set Up a Holding (Buffer) Account



- Deposit additional income above monthly expenses
- Deposit unexpected or windfall income (e.g., bonus, overtime, gifts, tax refund, side hustle job)
- Resist the urge to “reward yourself” in flush times
- Use this money to pay expenses when income dips
- Should be a separate account than emergency savings fund

Ideal Amount to Save in Holding (Buffer) Account

- A full month's worth of expenses in checking account at the start of the month
- If this is not possible, start with at least 25% of monthly expenses (\$500 if expenses total \$2,000)
- Work to fully fund a 100% of monthly expense buffer



Have an Adequate Emergency Fund

- The Holding (Buffer) account absorbs bumps in income (funds income dips from income spikes)
- The emergency fund pays for unforeseen expenses
 - Car breakdown
 - Appliance repairs
 - Sick child or pet
- Aim for 3 to 6 month's expenses; 6 to 9 months if supporting a family



Avoid “Floating Yourself” on Credit Cards

- Expenses will cost more with interest and/or fees
- Puts a “band aid” on cash flow management “issues”
- Can mask an insufficient income problem
- Ditto for over-drafting a checking account



Cultivate Multiple Streams of Income



Turn job skills or a hobby into an additional source of income

A profitable hobby can become a “jobby” (hobby job)

Beware Automatic Payments and Checking to Savings Transfers

- Wait until holding (buffer) account is fully funded (100% of monthly expenses) and then some
- Wait until irregular income budgeting system has been in effect for awhile and is working well
- Avoid incurring overdraft fees in checking account



Income Taxes

- **Schedule F**, Profit or Loss From Farming
- **Schedule SE** (Self-Employment Tax); > \$400 earned
- **Home Office Deduction:** IRS rules based on square footage (\$5/sq. ft. up to \$1,500); office must be used “regularly and exclusively” for business
- **Quarterly Estimated Tax Payments**
 - 4/15, 6/15, 9/15, and 1/15 of following year
 - Set aside at least 30% of self-employment income for taxes
 - Another option: over-withholding on “day job” taxes
 - Safe harbor: Amount of tax paid the previous year



Health Insurance

- Pay attention to Affordable Care Act status
 - <http://www.healthcare.gov>
- Consider a high-deductible policy with a HSA
- Join a professional association or business network group plan
- Note: NJ charges an individual shared responsibility payment for failure to have health insurance



Retirement Savings Plans

- **Simplified Employee Pension (SEP):** Easiest to set up; can contribute up to 20% of net self-employment income by 4/15 of following year
- IRAs: Up to \$6,000 (\$7,000 with catch-up) in 2019
 - Roth IRA (funded with after-tax dollars)
 - Traditional IRA (funded with before-tax dollars)



Questions and Comments?

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