

Going Solo

Business formation for music executives

 by Spenser Liszt, CFP®





Spenser Liszt, CFP®

- Former professional musician (saxophone & woodwinds)
- Holistic financial life planner for music executives
- Small talk and holiday cynic
- Woodworker and hockey enjoyer
- MFDOOM superfan
- Husband and father

BUILD-TO-ORDER CHECKING

Account Number:

SPENSER L LISZT

Activity Summary

Beginning Balance on 7/26/15

Deposits/Credits (1)

Withdrawals/Debits (44)

Ending Balance on 8/25/15

\$67.84

Disclaimer

The information presented in this presentation is for educational purposes only and does not constitute personalized financial or tax advice. Please consult with qualified tax and financial professionals before making any business decisions.

Every individual's situation is unique, and the strategies discussed may not be appropriate for your specific circumstances.

LLC vs. S-Corp

Limited Liability Company (LLC)

An LLC provides **liability protection** by separating your business and personal assets. If your business is sued, your personal assets are typically protected.

While an LLC offers no inherent tax advantages, it does establish your business as an official entity, lending credibility and professionalism to your operations.

- Protects personal assets
- Enhances professional credibility
- Simple to establish and maintain

S-Corporation (S-Corp)

An S-Corp is primarily distinguished by its **potential tax benefits**. It allows business owners to be employees of their company and split income between salary and distributions.

This structure can reduce self-employment taxes, as you only pay these taxes on your salary, not on distributions you receive as an owner.

- Potential tax savings
- Split income between salary and distributions
- May reduce self-employment taxes

Self-Employment Taxes

Self-employment taxes fund Social Security and Medicare (FICA) for independent workers. Unlike employees who share these taxes with employers, self-employed individuals pay the full amount directly to the IRS.



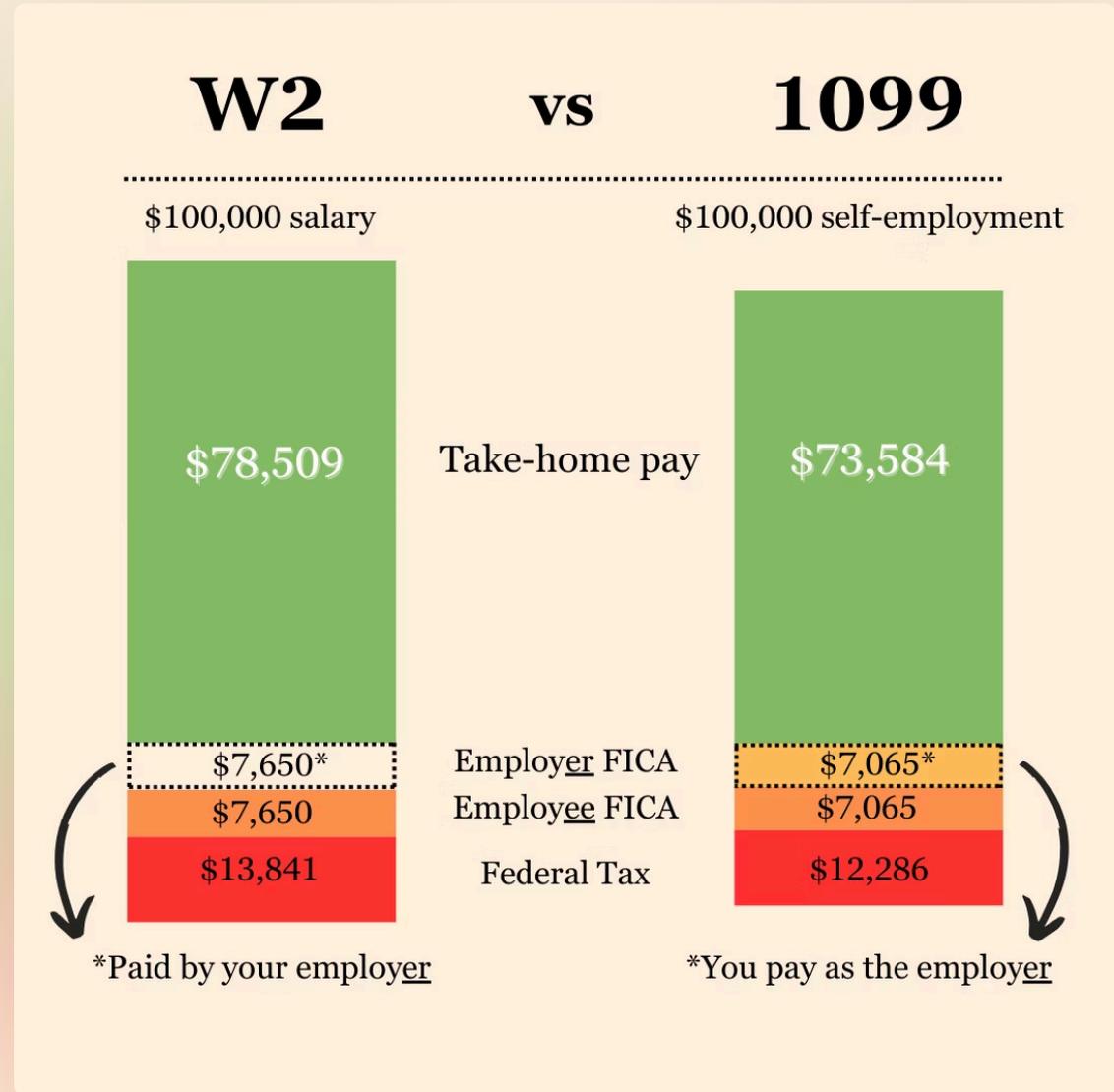
Basic Structure (15.3% Total)

Consists of 12.4% for Social Security and 2.9% for Medicare. While employees split this with employers, self-employed individuals pay the entire amount.



The Bottom Line

For every \$1,000 in net business earnings, you'll pay approximately \$153 in self-employment taxes, in addition to federal, state and local income taxes.



LLC vs. S-Corp



Formation

LLCs are simpler to form.

S-Corps require more paperwork.



Taxation

LLCs: all profits taxed as self-employment income.

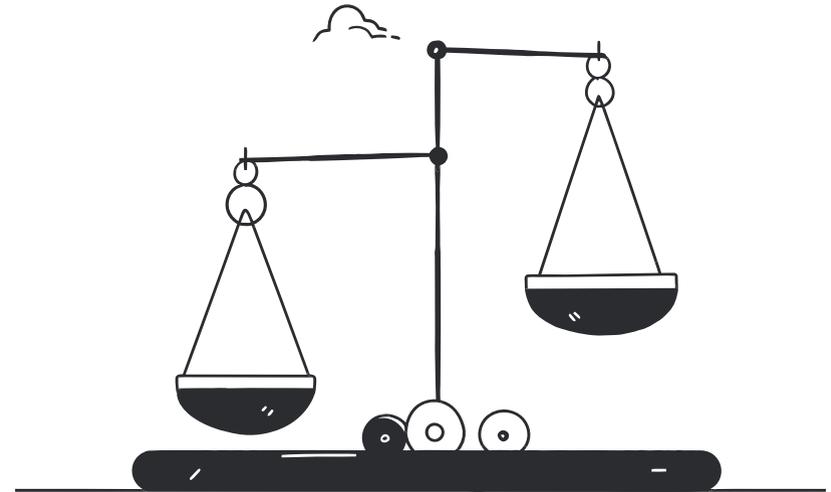
S-Corps: salary plus distributions.



Administration

LLCs have minimal requirements.

S-Corps must run payroll and file Form 1120-S.



LLC, S-Corp, or Partnership?

Structure	Best for	Tax Treatment	Key Notes
Sole-Proprietor	Individual freelancers	Personal income	No legal separation from owner
LLC (Single-member)	Solo consultants	Pass-through	Easy setup, flexible
LLC (Multi-member)	Co-founders	Partnership	Requires partnership tax return
S-Corp	Consultants with profit > ~\$80K	Pass-through with salary + distributions	Can reduce self-employment taxes
C-Corp	Multiple partners	Double taxed	Rarely useful for solo consultants

LLC vs. S-Corp: Example

LLC (Single-Member)

Imagine you earn \$100,000 in consulting fees.

All \$100,000 is subject to self-employment tax (approximately 15.3%) in addition to federal, state and local income tax.

S-Corp

Pay yourself a reasonable salary of \$60,000, subject to payroll taxes.

The remaining \$40,000 is taken as a distribution, which is not subject to self-employment tax.

Disclaimer: This is a simplified example for illustrative purposes only. Consult with a tax professional for personalized advice.

	Sole Proprietor or Single Member LLC	S Corp	Difference
Profit	\$100,000	\$100,000	
Owner Wages	\$0	\$60,000	
Subject to Self-Employment Tax	\$100,000	\$60,000	
FICA Tax (approx. 15.3%)	\$15,300	\$9,180	\$6,120
Pass-through Profit	\$100,000	\$40,000	
Total Personal Income	\$100,000	\$100,000	

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Scenario Analysis | LLC vs S-Corp

Note - Calculations are not audited and should be reviewed with a tax professional

	SCENARIO 1 LLC	CHANGE Scenario 1 → Scenario 2	SCENARIO 2 S-Corp
Total Income	\$100,000	-\$5,000	\$95,000
Schedule 1 Deductions	\$12,065	-\$12,065	\$0
Adjusted Gross Income	\$87,935	+\$7,065	\$95,000
Standard/Itemized Deductions <i>(standard)</i>	\$15,000		\$15,000 <i>(standard)</i>
QBI Deduction	\$14,587	-\$7,587	\$7,000
Taxable Income	\$58,348	+\$14,652	\$73,000
Total Tax	\$21,880	-\$6,316	\$15,564
Marginal Bracket	22.0%		22.0%
Effective Rate	37.5%	-16.18%	21.3%
Total Tax (Net of Refundable Credits)	\$21,880	-\$6,316	\$15,564
FICA			
FICA	\$0	+\$4,590	\$4,590
Tax Plus FICA	\$21,880	-\$1,726	\$20,154
Effective Tax on Next \$1,000 Ordinary Income	17.6%	+4.40%	22.0%
Effective Tax on Next \$1,000 Capital Gains	15.0%		15.0%
FEDERAL WITHHOLDING CALCULATOR			
Total Tax	\$21,880	-\$6,316	\$15,564
Safe Harbor 90% of Total Tax	\$19,692	-\$5,684	\$14,008
Difference	\$21,880	-\$6,316	\$15,564

Key Risks and Costs

Filing Fees

State LLC filing fees vary



Registered Agent

Annual service fees



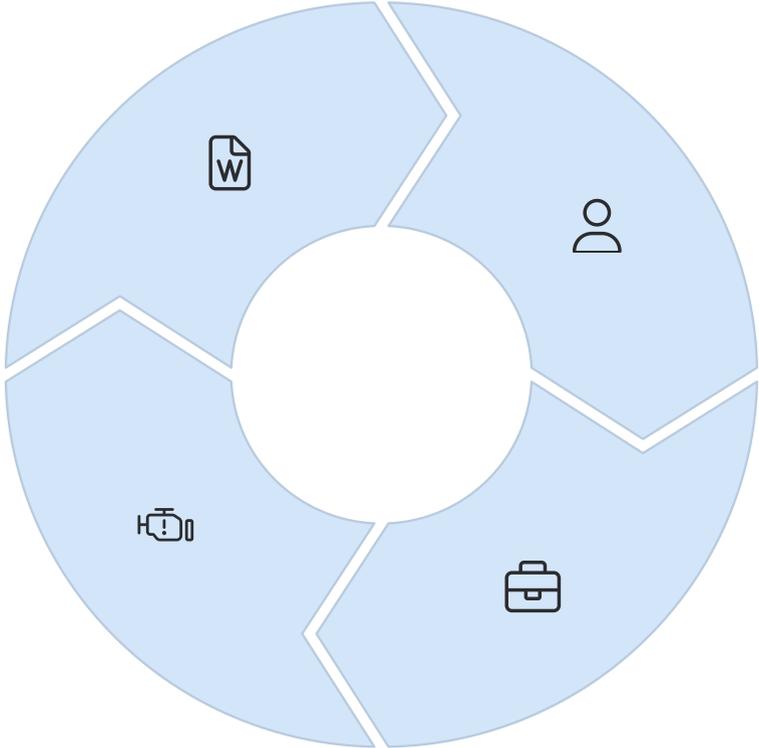
Common Mistakes

Expense misclassification and tax payment errors



S-Corp Compliance

Bookkeeping, payroll, and tax filing costs



Common LLC Costs by State

Here's a breakdown of estimated LLC costs for California, New York, Tennessee, and Texas:

State	LLC Formation Fee	Annual Fee
California	\$70	\$800
New York	\$200 (Publication requirement may add \$500-\$1500+)	\$9 (Every other year)
Tennessee	\$300	\$300
Texas	\$300	\$0

Note: Costs are estimates and may vary. New York requires publication of formation in newspapers, which can be a significant expense.

Setting Up Your LLC or S-Corp: Step-by-Step Guide

Choose Your Business Name

Ensure the name is available and complies with state regulations. Check for trademark conflicts.

1

Draft Operating Agreement

Create a legal document outlining ownership and operating procedures of the LLC.

3

Obtain an EIN

Apply for an Employer Identification Number (EIN) from the IRS for tax purposes.

5

Set Up Business Bank Account

Open a separate bank account for your business to keep finances separate.

7

File with the Secretary of State

Submit articles of organization (for LLC) or articles of incorporation (for S-Corp) with the state.

2

Secure Your Website Domain

Register a domain name that matches your business name for online presence.

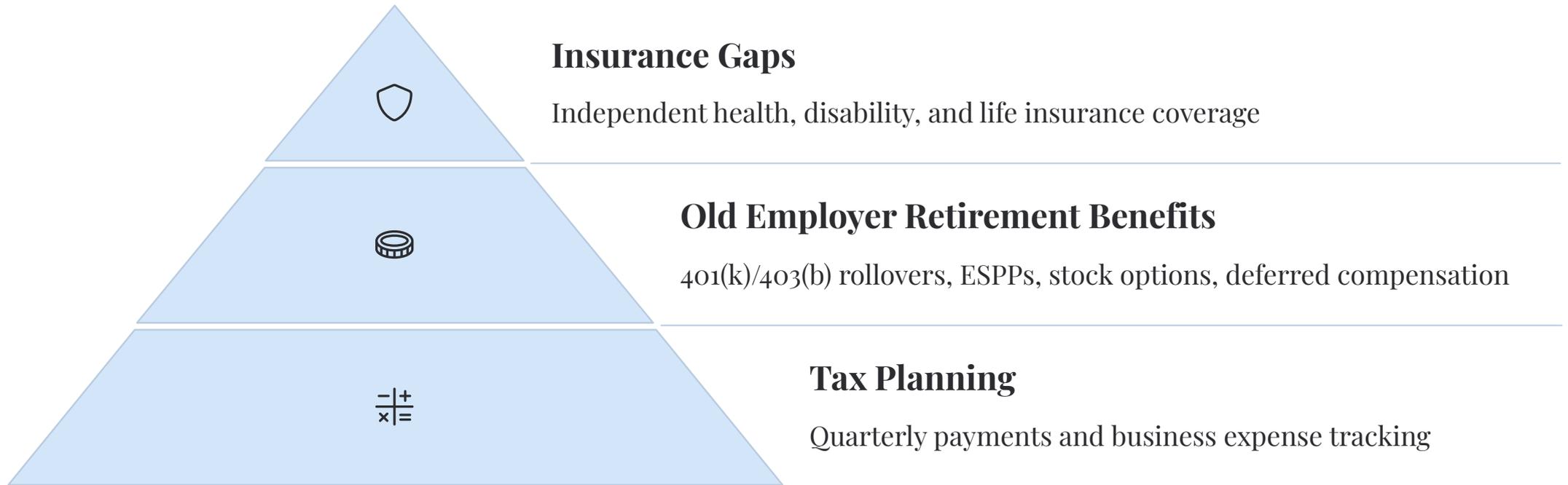
4

File S-Corp Election (If Applicable)

If electing S-Corp status for your LLC, file Form 2553 with the IRS.

6

What Else You Should Be Thinking About



Set aside 30-40% for quarterly taxes. Consider using QuickBooks or hiring a bookkeeper.



Common Blind Spots

Business Emergency Fund

Most freelancers underestimate how much cash they need for business downturns.

Self-Employment Tax

The 15.3% self-employment tax surprises many new business owners.

Retirement Planning

Solo 401(k) and SEP IRA options often go unused by new entrepreneurs.

Life Transitions

Few plan for parental leave, sabbaticals, or potential health changes.

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Financial Planning for Music Executives

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