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TAX BASICS FOR CREATIVES

South Arts Tax Workshop | January 25, 2023

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OUR GOAL:

To make navigating tax season a bit easier.

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MORE SPECIFICALLY...

- ▶ Highlight 2024 changes.
- ▶ Review overall income tax landscape.
- ▶ Identify ordinary and necessary business expenses.
- ▶ Identify effective records and systems.

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BRIEF DISCLAIMER

THIS INFORMATION IS FOR EDUCATIONAL PURPOSES ONLY. THIS INFORMATION SHOULD NOT BE RELIED UPON FOR TAX, LEGAL, OR ACCOUNTING PURPOSES, OR TO AVOID PENALTIES UNDER SECTION 230.

TAX LAWS AND FINANCIAL PLANNING CONVERSATIONS ARE NUANCED AND SPECIFIC, AND LEARNING ABOUT THESE TOPICS IN A GROUP SETTING IS NO SUBSTITUTE FOR CONSULTING WITH A PROFESSIONAL WHO KNOWS THE DETAILS OF YOUR UNIQUE SITUATION

WHAT IS NEW THIS YEAR?



2024 CHANGES

Regular Changes

- ▶ Retirement contribution limits
- ▶ Standard deduction increases
- ▶ Tax bracket changes
- ▶ New mileage rate

2023 Retirement Contribution Limits	
IRA	\$6,500 <i>(\$7,500 if over 50)</i>

2024 CHANGES

Regular Changes

- ▶ Retirement contribution limits
- ▶ Standard deduction increases
- ▶ Tax bracket changes
- ▶ New mileage rate

2023 Standard Deductions	
Single	\$13,850
MFJ	\$22,700
MFS	\$13,850
HoH	\$20,800

2024 CHANGES

Regular Changes

- ▶ Retirement contribution limits
- ▶ Standard deduction increases
- ▶ Tax bracket changes
- ▶ New mileage rate

Standard Mileage Rates	
2023	\$0.655
2024	\$0.67

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2024 CHANGES

Regular Changes

- ▶ Retirement contribution limits
- ▶ Standard deduction increases
- ▶ Tax bracket changes
- ▶ New mileage rate

New Changes

- ▶ 1099-K
- ▶ FinCEN's BOI Requirement

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A presentation slide with a white background and a black border. The title "1099-K RULES" is in teal. Below it are three bullet points, each starting with a teal arrowhead. The first bullet point is "1099-K is a form you'll get from payment apps if your activity exceeds a certain level." The second bullet point is "2023 Limits" with two sub-bullets: "2023 limit is \$20k from 20+ transactions" and "\$600 threshold does not apply for 2023." The third bullet point is "2024 Limits" with one sub-bullet: "TBD, but the IRS is planning for \$5k (IRS Notice 2023-74)". At the bottom, there is a dark grey footer with a repeating pattern and the text "MINERVAFINANCIALARTS.COM © 2024 MINERVA FINANCIAL ARTS".

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1099-K SUGGESTIONS



Key Point

Clean up your recordkeeping practices for 2024 by separating business and personal payment apps and keeping excellent records of money movement.

Remember: Income is taxable regardless of the thresholds for issuing 1099s.



For further reading:

- <https://www.irs.gov/1099k>

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WHAT IS A BOI? OR A FINCEN?



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FINCEN'S BOI REQUIREMENT

▶ Definitions:

- ▶ **FinCEN** is the Financial Crimes Enforcement Network, a division of the U.S. Treasury.
- ▶ **BOI** is Beneficial Ownership Information.
- ▶ A **beneficial owner** is someone who controls the company or owns 25% or more of the company.

▶ Key Point:

- ▶ FinCEN is requiring businesses to report information about their beneficial owners as an anti-money laundering practice.

FINCEN'S BOI REQUIREMENT

▶ Does It Apply to Me?

- ▶ It applies to LLCs and Corporations, but not generally sole proprietors (unless you had to file paperwork with your secretary of state).
- ▶ Getting an EIN or registering a fictitious name does not trigger a filing requirement.



For Further Reading

The FAQs are fantastic: <https://www.fincen.gov/boi-faqs>

FINCEN'S BOI REQUIREMENT

▶ What Do I Need to Do?

- ▶ Complete the form online before December 31, 2024.
 - ▶ Within 90 days of formation if you formed an entity in 2024.
- ▶ Update the form within 30 days if any information changes.



For Further Reading

The Small Business Resources are excellent:

<https://www.fincen.gov/boi/small-business-resources>

Here's the direct link to FinCEN: <https://www.fincen.gov/boi>


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FINCEN'S BOI REQUIREMENT

What Else Should I Know?

- ▶ **Free:** There is no fee to complete the form, so be wary of groups who offer to do it for a fee. (Scam alert.) Your accountant or attorney can help.
- ▶ **Access:** The information will not be publicly available but will be accessible by certain government officials and financial institutions.
- ▶ **Non-Profits:** Non-profits are generally exempt from reporting beneficial owners.
- ▶ **Fines:** The penalties for non-filing are high (\$500 per day). Stay compliant (including for address changes in the future).

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HOW DO FEDERAL INCOME TAXES WORK?

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Form 1040


- Human Info
- + W-2 Income
- + Other Income
- Adjustments
- Standard Deduction
- = Taxable Income
- % Total Tax
- Credits
- Paid In During Year
- = Due or (Refund)



Key Point
Permanent residents, dual citizens, and U.S. citizens all get to file tax returns in the United States.



For further reading for other folks:
IRS International Tax Matters FAQs
<https://bit.ly/3uhrcxH>



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KEY TAX QUESTIONS


1. What type of income do I have?
2. What is deductible for my business?
3. What records should I keep?
4. How should I plan for taxes?

WHAT TYPE OF INCOME DO I HAVE?

(And why does it matter?)

Form 1040


- Human Info
- + W-2 Income
- + Other Income
- Adjustments
- Standard Deduction
- = Taxable Income
- % Total Tax
- Credits
- Paid In During Year
- = Due or (Refund)



Key Point
We list the money you earned from various sources, which can be complicated in the arts.

It is usually:

- Wages (reported on a W-2)
- Business income (reported on 1099s or tracked with your own system)
- Other income



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TAXES ON W-2 INCOME


▶ Geography: Reported as “wages” on Form 1040

Form **1040** Department of the Treasury—Internal Revenue Service


U.S. Individual Income Tax Return

2023

1a Total amount from Form(s) W-2, box 1 (see instructions)	1a
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Calculation Details
Your employer is splitting employment taxes with you (7.65% each) and withholding Federal, State, and Local taxes from your paychecks.



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Form 1040

- Human Info
- + W-2 Income
- + Other Income
- Adjustments
- Standard Deduction
- = Taxable Income
- % Total Tax
- Credits
- Paid In During Year
- = Due or (Refund)

Big Question

How do I earn money?

- W-2:** No business deductions
- Grants/Awards:** Form 1040 or Schedule C
- 1099:** Probably on Schedule C/E with deductions
- Sales:** Probably on Schedule C/E
Track your own sales and COGS

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Form 1040

- Human Info
- + W-2 Income
- + Other Income
- Adjustments
- Standard Deduction
- = Taxable Income
- % Total Tax
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Track your own sales and COGS

Schedule E

Schedule C

Net Profit from Business

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TAXES ON BUSINESS INCOME

▶ Normally income from your creative practice is business income on Schedule C or Schedule E.

Part I Additional Income	
1 Taxable refunds, credits, or offsets of state and local income taxes	1
2a Alimony received	2a
b Date of original divorce or separation agreement (see instructions) ▶	
3 Business income or (loss). Attach Schedule C	3
4 Other gains or (losses). Attach Form 4797	4



Calculation Details

You are your own employer, so you pay the entirety of your employment taxes (15.3%), plus Federal, State, and Local taxes.

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AM I RUNNING A BUSINESS?



Key Point

Whether or not you are running a business is one of the bigger tax hurdles you may face.



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AM I RUNNING A BUSINESS?

- Approach it professionally and keep books & records

(For example: Have a business plan, track income/expenses/customers)

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WHAT ARE BOOKS & RECORDS?

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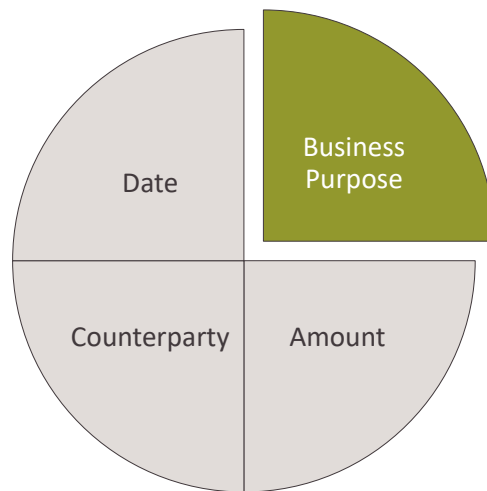
BOOKS & RECORDS

Any system suited to your needs that shows your income and expenses.



Key Point

Know how you work best and build a system around those habits. Not the other way around.



For Further Reading...

IRS Publication 583, *Starting a Business and Keeping Records*




OPTION 1: DATABASE


Database System

Export the data

Add categories and business purpose

Planning scenarios


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DATABASE SET-UP

Here's how you might set up your own system...

Date	Vendor/Client	Amount	Category	Business Purpose
Date of the transaction	Who you paid or who paid you	\$ 5,000.00	Match this to your tax form	Describe how this is ordinary, necessary, and effectively connected to your trade or business

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DATABASE SET-UP

And maybe you add a mileage log as well...

Date	Miles	Business Purpose

Total 0.0
IRS Rate (2023) \$ 0.655
Deduction \$ -

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OPTION 2: SOFTWARE





Key Point
Mint is no longer an option!

Software System

- QuickBooks
- FreshBooks
- Xero
- Wave
- YNAB
- Simplifi
- Personal Capital

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 **Pro Tip**
Schedule a bit of time regularly (monthly, quarterly, or in a rhythm that works with your creative practice) to keep your books and records up to date.

It also *really* helps to have a separate bank account or credit card just for the business.

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AM I RUNNING A BUSINESS?

(What else? Besides books & records?)

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AM I RUNNING A BUSINESS?

- Approach it professionally and keep books & records
(For example: Have a business plan, track income/expenses/customers)
- Spend enough time on it to make it profitable
(For example: Regularly conduct activity)
- Have the knowledge needed to make it successful
(For example: Have knowledge/expertise, engage advisors)
- Make money and/or depend on it for your income
(For example: Advertise, attempt to earn income, try to improve profitability)

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AM I RUNNING A BUSINESS?




Key Point

The IRS's **rebuttable presumption** is that you engage in an activity for profit if you show profit in 3 out of 5 years.

If not, you can show you engage in an activity for profit by doing some of the previously mentioned things. (*Metz v. Commissioner is a good reference.*)

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WHAT BUSINESS EXPENSES ARE DEDUCTIBLE?

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A DEDUCTIBLE EXPENSE

An expense is deductible (also known as a deduction or a write-off) if you are permitted to use it to reduce your taxable income.

 **Key Point**
“Deductible” (the adjective) for tax purposes is different from a “deductible” (the noun) for insurance purposes.

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A DEDUCTIBLE EXPENSE

Generally, business expenses are deductible if they are **ordinary** and **necessary** and **effectively connected** to your trade or business.

Ordinary
“Common and accepted in your industry.”

Necessary
“Helpful and appropriate for your trade or business.”

(But there are always exceptions and special rules.)

SCHEDULE C

Part II Expenses. Enter expenses for business use of your home only on line 30.			
8	Advertising	8	
9	Car and truck expenses (see instructions)	9	
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	
14	Employee benefit programs (other than on line 19)	14	
15	Insurance (other than health)	15	
16	Interest (see instructions):		
	a Mortgage (paid to banks, etc.)	16a	
	b Other	16b	
17	Legal and professional services	17	
18	Office expense (see instructions)	18	
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):		
	a Vehicles, machinery, and equipment	20a	
	b Other business property	20b	
21	Repairs and maintenance	21	
22	Supplies (not included in Part III)	22	
23	Taxes and licenses	23	
24	Travel and meals:		
	a Travel	24a	
	b Deductible meals (see instructions)	24b	
25	Utilities	25	
26	Wages (less employment credits)	26	
27a	Other expenses (from line 48)	27a	
	b Energy efficient commercial bldgs deduction (attach Form 7205)	27b	

Part V Other Expenses. List below business expenses not included on lines 8–26, line 27b, or line 30.

SCHEDULE C PRO TIPS

- ▶ Track everything business-related in your system. Then figure out what to deduct (or not) on Schedule C.
- ▶ Create a *map* that shows where your categories end up on Schedule C.



For Further Reading...

The instructions to Schedule C are super helpful, as is IRS Publication 583, *Starting a Business and Keeping Records*.

DO YOU HAVE ANY
EXAMPLES?

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EXAMPLE – CAR COSTS

Car & Truck Expenses

A musician drove their personal vehicle 10 miles to and from a gig and spent \$25 on gas during the trip.

They paid \$5.50 to park at a meter, but the meter expired so they received a \$65.00 parking ticket. (It was totally worth it, though. The gig was amazing.)

What is Deductible on Schedule C?

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EXAMPLE – CAR COSTS

Car & Truck Expenses

A musician drove their personal vehicle 10 miles to and from a gig and spent \$25 on gas during the trip.

They paid \$5.50 to park at a meter, but the meter expired so they received a \$65.00 parking ticket. (It was totally worth it, though. The gig was amazing.)

What is Deductible on Schedule C?

- Parking: \$5.50
- Mileage at the IRS rate (\$0.655 for 2023)

Date	Mileage	Business Purpose
1/24/23	10.0	To and from gig at Amazing Club



Key Point

Fines are not generally deductible. Neither is gas (if you use the standard rate).

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EXAMPLE – TRAVEL COSTS

Travel & Lodging

A visual artist was invited to participate in a show in Las Vegas. They paid \$495 for airfare to get to the event. They checked luggage for \$35 and paid \$45 to upgrade their seat on the plane.

They stayed for three nights (\$1,200 in total), plus an extra night (\$400) to see an old friend.

What is Deductible on Schedule C?

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EXAMPLE – TRAVEL COSTS

Travel & Lodging

A visual artist was invited to participate in a show in Las Vegas. They paid \$495 for airfare to get to the event. They checked luggage for \$35 and paid \$45 to upgrade their seat on the plane.

They stayed for three nights (\$1,200 in total), plus an extra night (\$400) to see an old friend.

What is Deductible on Schedule C?

- Airfare: \$575
- Lodging: \$1,200



Key Point

The primary purpose of the trip is business related, but personal costs are not deductible.

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EXAMPLE – MEALS WHILE TRAVELING

Meals

While out of town for a training program, a visual artist spent \$400 on meals.

When she got back home, she was too tired to cook, so she spent \$50 on Door Dash so she could get back to work.

What is Deductible on Schedule C?

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EXAMPLE – MEALS WHILE TRAVELING

Meals

While out of town for a training program, a visual artist spent \$400 on meals.

When she got back home, she was too tired to cook, so she spent \$50 on Door Dash so she could get back to work.

What is Deductible on Schedule C?

- Travel meals: \$200 (50% limitation)



Key Point

Meals are subject to a 50% limitation on the deduction. Individual meals are okay while traveling, but there must be a business purpose.

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EXAMPLE – BUSINESS MEALS


Meals
A writer paid for lunch with their agent (\$150) to talk about project ideas for 2024.
What is Deductible on Schedule C?

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EXAMPLE – BUSINESS MEALS

Meals
A writer paid for lunch with their agent (\$150) to talk about project ideas for 2024.
What is Deductible on Schedule C? <ul style="list-style-type: none">• Business meals: \$75

 **Key Point**
Document the business purpose of the meal!

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EXAMPLE – PEOPLE COSTS

Contract Labor

The most responsible member of the band collects the income from a gig (\$2,500) and pays the other three performers \$625 each.

What is Deductible on Schedule C?

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EXAMPLE – PEOPLE COSTS

Contract Labor

The most responsible member of the band collects the income from a gig (\$2,500) and pays the other three performers \$625 each.

What is Deductible on Schedule C?

- Income: \$2,500
- Contract labor: \$1,875 (3 musicians * \$625 each)



Key Point

Don't forget to send out 1099s by January 31! (Track1099.com is a great option to use.)

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EXAMPLE – ATTIRE

Attire

An artist bought a new outfit to wear (\$225) to an artist talk at an event where they also got an award.

A dancer uses performance-only shoes (\$110) on marley that cannot be worn outside.

A glass-blower wears a special apron (\$45) and goggles (\$12) for safety purposes in their studio.

What is Deductible on Schedule C?

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EXAMPLE – ATTIRE

Attire

An artist bought a new outfit to wear (\$225) to an artist talk at an event where they also got an award.

A dancer uses performance-only shoes (\$110) on marley that cannot be worn outside.

A glass-blower wears a special apron (\$45) and goggles (\$12) for safety purposes in their studio.

What is Deductible on Schedule C?

- Dancer's performance attire: \$110
- Studio safety equipment: \$57

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EXAMPLE – HOME STUDIO

Business Use of Home

An artist has a separate room of their house that they only use as a studio. It is about 100 square feet, and the total home is 1,000 square feet.

What is Deductible on Schedule C?

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EXAMPLE – HOME STUDIO

Business Use of Home

An artist has a separate room of their house that they only use as a studio. It is about 100 square feet, and the total home is 1,000 square feet.

What is Deductible on Schedule C?

- 10% business use of home (100 / 1,000)
- Allowable expenses: Rent/mortgage, utilities, etc.



Key Point

The space must be the *principal place of business* used *exclusively* and *regularly* for the business purpose, with no other place for administrative tasks.



For Further Reading

IRS Publication 587, *Business Use of Your Home*, is a great resource.

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EXAMPLE – HOME STUDIO

Business Use of Home

A poet has an office at home where they write during the day. After school, the room is a playroom for their kiddos. Their office space is 70 square feet, and their home is 490.

What is Deductible on Schedule C?

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EXAMPLE – HOME STUDIO

Business Use of Home

A poet has an office at home where they write during the day. After school, the room is a playroom for their kiddos. Their office space is 70 square feet, and their home is 490.

What is Deductible on Schedule C?

- 0% (The space is not used exclusively for the business purpose.)

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EXAMPLE – HOME STUDIO

Business Use of Home

A designer works for an agency full-time as a W-2 employee. She works from home 100% of the time, and she has a dedicated space she only uses for work. The space is 300 square feet, and her home is 1,500 square feet.

What is Deductible on Schedule C?

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EXAMPLE – HOME STUDIO


Business Use of Home

A designer works for an agency full-time as a W-2 employee. She works from home 100% of the time, and she has a dedicated space she only uses for work. The space is 300 square feet, and her home is 1,500 square feet.

What is Deductible on Schedule C?

- 0% (Expenses for W-2 jobs are not deductible.)

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WHAT OTHER DEDUCTIONS
ARE YOU CURIOUS ABOUT?

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WHAT SHOULD I SAVE FOR
TAXES?

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SIMPLIFIED TAX EXAMPLE

Artist A			
	Records	Taxes	Notes
Sales	\$ 65,000	\$ 4,550	7.0% sales tax collected
Business Deductions	(18,700)		
Net Business Income	\$ 46,300	\$ 7,084	15.3% SE tax
Standard Deduction	(13,850)		
½ of Self-Employment Tax	(3,542)		
IRA Contribution	(3,000)		
		2,889	Federal Income Tax (11.2%)
Taxable Income	\$ 25,908	1,036	State Tax (4.0%)
		259	Local Tax (1.0%)

Tax
\$11,268

17.3% of Sales

24.3% of Net Bus. Income

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SIMPLIFIED TAX EXAMPLE

Artist B			
	Records	Taxes	Notes
Gigging Income	\$ 35,000		
Business Deductions	(8,000)		
Net Business Income	\$ 27,000	\$ 4,131	15.3% SE tax
Standard Deduction	(13,850)		
½ of Self-Employment Tax	(2,066)		
IRA Contribution	n/a		
		1,109	Federal Income Tax (10.1%)
Taxable Income	\$ 11,084	222	State Tax (2.0%)
		0	Local Tax (0.0%)

Tax
\$5,462

15.6% of Gross

20.2% of Net Bus. Income

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SIMPLIFIED TAX EXAMPLE

Artist C			
	Records	Taxes	Notes
Freelance Income	\$ 145,000		
Business Deductions	(25,000)		
Net Business Income	\$ 120,000	\$ 18,360	15.3% SE tax
Standard Deduction	(13,850)		
½ of Self-Employment Tax	(9,180)		
IRA Contribution	(6,500)		
		14,383	Federal Income Tax (15.9%)
Taxable Income	\$ 90,470	3,619	State Tax (4.0%)
		1,809	Local Tax (2.0%)

Tax
\$38,171

26.3% of Gross

31.8% of Net Bus. Income

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PLANNING FOR TAXES

The Just-Getting-Started Way

- ▶ Set aside 30% of what you earn in your business
- ▶ Adjust your W-4s to withhold extra



The IRS Tool

The IRS created a Tax Withholding Estimator to help you plan each year:

<https://www.irs.gov/individuals/tax-withholding-estimator>

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PLANNING FOR TAXES

The Have-Some-Experience Way

- ▶ Do a more diligent estimate of self-employment and income taxes
- ▶ Do a bit more proactive planning



Another Calculator

Feel free to use a tax calculator (or your CPA) to estimate your taxes – Just know that it is only an estimate.

WRAPPING UP



KEY TAX QUESTIONS

1. What's new this year? ← BOI is the biggie
2. What type of income do I have? ← W-2 vs. Business
3. What is deductible for my business? ← Ordinary & necessary expenses (track it all)
4. What records should I keep? ← Database or software
5. How should I plan for taxes? ← Set aside 30% of what you bring in (then adjust)

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RECAP

- ▶ Highlight 2024 changes.
- ▶ Review overall income tax landscape.
- ▶ Identify ordinary and necessary business expenses.
- ▶ Identify effective records and systems.

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THANKS!

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