TAXES 101:
THE BASICS OF INCOME & SALES TAXES FOR CREATIVES

The Next Festival for Emerging Artists
June 25, 2020

HELLO.

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CPA-PFS, AFC®
Founder, Minerva Financial Arts

Photo credit: Kim Long Photography
www.kimlongphotography.com
WHAT ARE WE DOING?

Key Outcomes for the Webinar

- Identify creative deductions
- Review tax landscape
- Identify records to keep
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 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.

WELCOME & OVERVIEW

Ground Rules and Group Parameters

- Share the Floor with Respect
- Equal Parts Teacher & Learner
- Stories Stay; Lessons Leave
How Do Taxes Work?

Form 1040
+ W-2 Income
+ Net Profit from Business
+ S Corp/P-ship Net Profit
+ Interest/Gains
  - “Above the Lines”
  - <Standard Deduction>
= Taxable Income
% Tax Owed
- <Credits>
- <Paid In During Year>
= Due <Refund>

Schedule A
Itemized deductions
State & Local Taxes
Home Mortgage Interest
Charitable Contributions

Schedule C
Net Profit from Business
Form 1040

W-2 Income

Net Profit from Business

S Corp/P-ship Net Profit

Interest/Gains

“Above the Lines”

<Standard Deduction>

= Taxable Income

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Schedule A

Itemized deductions

State & Local Taxes

Home Mortgage Interest

Charitable Contributions

Schedule E

Net Profit from Business

Schedule C

Net Profit from Business

Big Question

How do I earn money?

BUT WAIT! WHAT ARE YOU?

It turns out, it is REALLY important (from a tax perspective) to understand if you are employed by someone else or self-employed.

Employed By Someone Else

• Paid as a W-2 employee
• Tax withholdings
• Employer (generally) owns your work
• Employer provides support
• Employer controls what you do and how you do it, plus the result

Self-Employed

• Paid as a 1099 contractor / collect direct revenue
• No withholdings
• You (generally) own your work
• You provide your own support
• You control process; client controls result

Behavioral Control | Financial Control | Relationship
Form 1040

Big Question
How do I earn money?

W-2 Income
Net Profit from Business
S Corp/Partner Net Profit
Interest/Gains/Other

Above the Lines

<Standard Deduction>
= Taxable Income
%
= Tax Owed
- <Credits>
- <Paid In During Year>
= Due <Refund>

Schedule E

Schedule C

Big Question
What is deductible?

W-2: No deductions

Grants/Awards: Probably on Form 1040 (but could be on Schedule C)

1099: Probably on Schedule C/E with deductions

Sales: Probably on Schedule C/E
Track your own sales and COGS
Generally, business expenses are deductible, as long as they are ordinary and necessary, effectively connected to your trade or business, and not lavish or extravagant.

**Ordinary**
“Common and accepted in your industry.”

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

(But there are always exceptions.)
IS IT DEDUCTIBLE?

Biggest Hurdle
Are you running a business?

Second Biggest Hurdle
Bifurcation
**Is It Deductible?**

**Professional Support**

<table>
<thead>
<tr>
<th>Probably Deductible.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document the business purpose.</td>
</tr>
<tr>
<td>Make sure it relates to your <em>current</em> industry, not a new industry you hope to join.</td>
</tr>
<tr>
<td>Be clear on if you are hiring professional support in a <em>contractor</em> capacity or an <em>employee</em> capacity. In either case, make sure everyone understands the relationship.</td>
</tr>
</tbody>
</table>

**Hardware / Equipment**

<table>
<thead>
<tr>
<th>Probably Deductible.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document the business purpose of the hardware or the equipment.</td>
</tr>
<tr>
<td>Bifurcate the deduction if there is personal use.</td>
</tr>
<tr>
<td>Insurance on the hardware or equipment is probably deductible too.</td>
</tr>
</tbody>
</table>
### IS IT DEDUCTIBLE?

#### SOFTWARE / SUBSCRIPTIONS

<table>
<thead>
<tr>
<th>Probably Deductible.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document the business purpose of the software or the subscriptions.</td>
</tr>
<tr>
<td>Make sure you are backing up everything regularly (and if you pay for that, the payment is probably deductible too).</td>
</tr>
</tbody>
</table>

### IS IT DEDUCTIBLE?

#### PROFESSIONAL ATTIRE

<table>
<thead>
<tr>
<th>Probably Not Deductible.</th>
<th>Maybe Deductible.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attire you can wear elsewhere (even if you wouldn’t).</td>
<td></td>
</tr>
<tr>
<td>Performance attire.</td>
<td></td>
</tr>
<tr>
<td>Performance shoes (maybe).</td>
<td></td>
</tr>
<tr>
<td>Specially made garment with poor tailoring (for elbow room).</td>
<td></td>
</tr>
<tr>
<td>Safety equipment.</td>
<td></td>
</tr>
<tr>
<td>Reference material (especially if it isn’t in your size).</td>
<td></td>
</tr>
</tbody>
</table>
**IS IT DEDUCTIBLE?**

**RESEARCH**

**Probably Deductible.**

Document the business purpose. (Seriously. Document the business purpose well.)

Make sure the research supports your body of work or a project you are actually doing. (And make sure it is not research you are doing as an employee.)

**OFFICE SUPPLIES**

**Probably Deductible.**

Document the business purpose of the supplies, especially if they are unusual.
**Is It Deductible?**

**Marketing Materials**

<table>
<thead>
<tr>
<th>Probably Deductible.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document the business purpose of the marketing materials.</td>
</tr>
</tbody>
</table>

**Pro Tip:** Track the effectiveness of your marketing efforts as well so you can make informed future choices.

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**Is It Deductible?**

**Home Office or Studio Space**

<table>
<thead>
<tr>
<th>May Be Deductible.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Follow the letter of the law on this deduction.</td>
</tr>
<tr>
<td>The space must be used exclusively and regularly for your business purpose.</td>
</tr>
<tr>
<td>Principal place of business; no other place where you conduct administrative tasks related to your business.</td>
</tr>
</tbody>
</table>

**For Further Reading:**

IRS Publication 583, “Starting a Business and Keeping Records”
**IS IT DEDUCTIBLE?**

**INSURANCE**

**Probably Deductible.**

- Document the business purpose of insurance (it may be obvious).
- Make sure you are really covered for what you think you are covered for. Some renter’s policies or homeowner’s policies have per item limits that are too low to cover your instrument.

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**TRAVEL, TRAVEL MEALS, AND LODGING**

**Probably Deductible.**

- Document the business purpose of the travel.
- Make sure the primary purpose of the trip is business-related and there is an overnight stay.
- Investigate per diem rates. (Sometimes they are better for you.) See: www.gsa.gov

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**Tax Change Alert**

Watch for unreimbursed employee expenses. They are no longer deductible.
**Is It Deductible?**

**Business Miles Driven**

<table>
<thead>
<tr>
<th>Probably Deductible.</th>
<th>Tax Change Alert</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document the business purpose of the miles driven... Or track actual expenses.</td>
<td>The IRS updates the rate annually (ish). For 2020, it is $0.575.</td>
</tr>
<tr>
<td>The “exclusive and regular” test does not apply.</td>
<td></td>
</tr>
<tr>
<td>This also applies to local transportation (metro, subway, bus, ride shares) with a business purpose.</td>
<td></td>
</tr>
<tr>
<td>Documentation should be written (or in an app). Save this documentation.</td>
<td></td>
</tr>
</tbody>
</table>

**Business Meals & Entertainment**

<table>
<thead>
<tr>
<th>Deductible, but Limited.</th>
<th>Not Deductible.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document the business purpose of the meal.</td>
<td>Entertainment.</td>
</tr>
<tr>
<td>Deduction is limited to 50%.</td>
<td></td>
</tr>
</tbody>
</table>

**Tax Change Alert**

Entertainment is no longer deductible. This is a change, effective in 2018.
IS IT DEDUCTIBLE?

PROFESSIONAL MEMBERSHIPS

Probably Deductible.

Document the business purpose of your membership.

Watch for non-deductible exclusions (lobbying) on your annual statement from the group.

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Form 1040

+ W-2 Income
+ Net Profit from Business
+ S Corp/P-ship Net Profit
+ Interest/Gains
- “Above the Lines”
- <Standard Deduction>

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% Tax Owed
- <Credits>
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= Due <Refund>

Schedule E

Schedule C

Flow Through

Income from your business, minus ordinary and necessary business deductions lead to net profit. This amount flows through to your tax return.
Form 1040

W-2 Income
Net Profit from Business Interest/Gains
“Above the Lines”
<Standard Deduction>
= Taxable Income
% Tax Owed
- <Credits>
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Schedule A
Itemized deductions
State & Local Taxes
Home Mortgage Interest
Charitable Contributions
Miscellaneous

Schedule E
Net Profit from Business

Form 1040

W-2 Income
Net Profit from Business Interest/Gains
“Above the Lines”
<Standard Deduction>
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% Tax Owed
- <Credits>
- <Paid In During Year>
= Due <Refund>

State Form
Taxable Income
Adjustments
Tax Owed
<Credits>
<Paid In>
Due <Refund>

City Form
Taxable Income
Tax Owed
<Paid In>
Due <Refund>

Savings AND Taxes?!?
There are some tax-advantaged ways to save here...

Big Question
What states and cities do I have to file in?
WHAT RECORDS SHOULD I KEEP FOR ALL OF THIS NONSENSE?

For Further Reading:
IRS Publication 583, “Starting a Business and Keeping Records”
WAIT – WHAT ARE “BOOKS AND RECORDS”?

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

STATUTE OF LIMITATIONS

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/5/20</td>
<td>4/12/21</td>
<td></td>
<td>4/15/24</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$100 Expense</td>
<td>File Tax Return</td>
<td>3-Year Statute Ends</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4/15/27</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6-Year Statute Ends</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[--- SEVEN YEARS ---]
STAYING ORGANIZED

Schedule a bit of time each month (say, two hours) to update your books and records. You’ll be glad you did.

Have a separate bank account just for your business.

ANY FINAL QUESTIONS?

IDENTIFY ORDINARY AND NECESSARY BUSINESS DEDUCTIONS

REVIEW THE OVERALL TAX LANDSCAPE

REVIEW RECORDKEEPING SYSTEMS