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TAX BASICS FOR CREATIVES

South Arts Tax Workshop | January 26, 2023

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OUR GOAL:

To make navigating tax season a bit easier.

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MORE SPECIFICALLY...

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

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ELAINE GROGAN LUTTRULL

CPA-PFS, AFC®

(she/her)

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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

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HOW DO FEDERAL INCOME TAXES WORK?

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Form 1040

Human Info

+	W-2 Income
+	Investment 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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Form 1040

Human Info

\+ W-2 Income
\+ Investment Income
\+ Other Income
\- Adjustments

\- Standard Deduction

= Taxable Income

% Total Tax

\- Credits
\- Paid In During Year

= Due or (Refund)

Key Point

Next we list the money you earned from various sources, which can be complicated in the arts.

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Big Question

How do I earn money? The answer will tell you where the income is reported on your tax form.

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** **2022**

1a	Total amount from Form(s) W-2, box 1 (see instructions)	**1a**	

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
\+ Investment 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 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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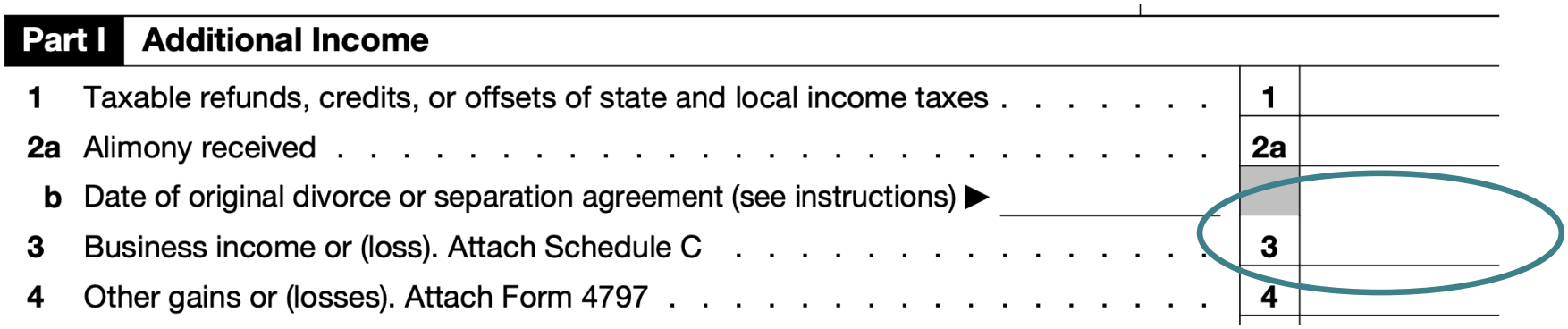
TAXES ON BUSINESS INCOME

- 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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Form 1040

Human Info

\+ W-2 Income
\+ Investment Income
\+ Other Income
\- Adjustments

\- Standard Deduction

= Taxable Income

% Total Tax

\- Credits
\- Paid In During Year

= Due or (Refund)

Big Question

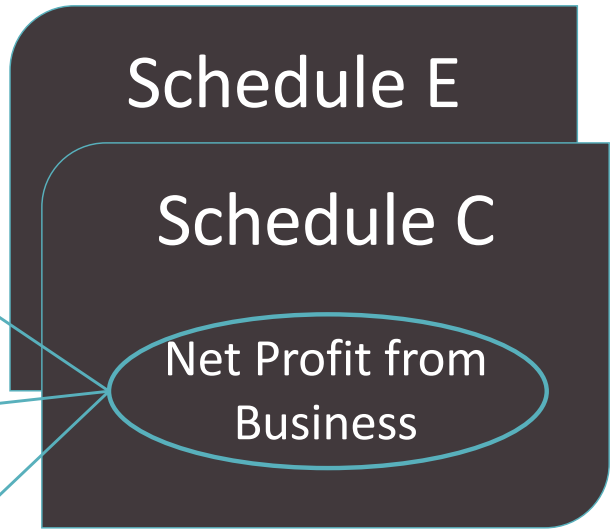
How do I earn money?

W-2: No 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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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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SIDEBAR:
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.

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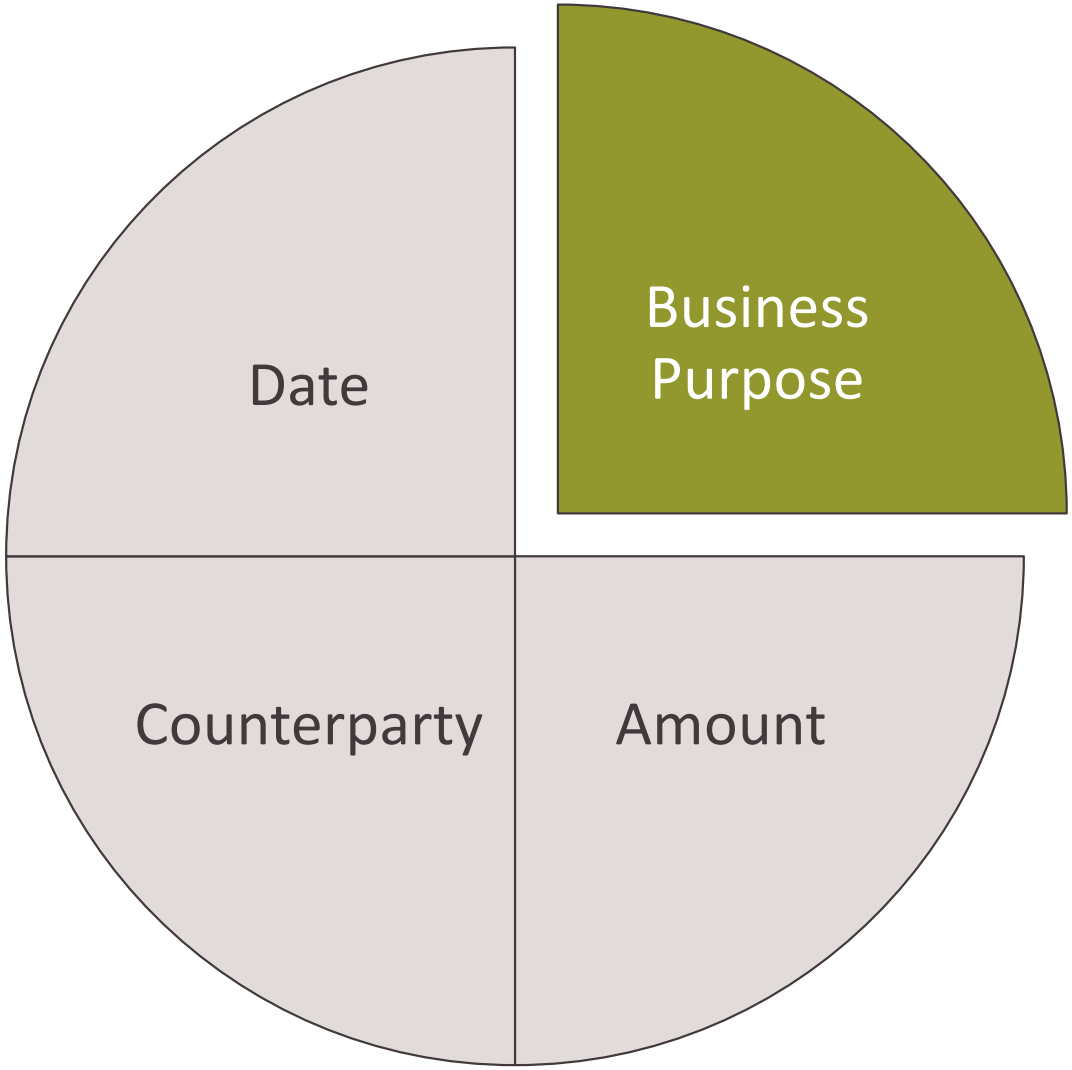

For Further Reading…

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

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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 ordniary, necessary, and effectively connected to your trade or business

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OPTION 2: SOFTWARE

Software System

QuickBooks
FreshBooks
Xero
Wave

Mint
YNAB
Mvelopes
Personal Capital

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STATUTE OF LIMITATIONS

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
1/5/22 $100 Expense	4/12/23 File Tax Return			4/15/26 3-Year Statute Ends			4/15/29 6-Year Statute Ends
|--------- SEVEN YEARS --------- |							

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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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END SIDEBAR:
AM I RUNNING A BUSINESS?

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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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FORM 1040, SCHEDULE C

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

OMB No. 1545-0074

2022

Attachment Sequence No. **09**

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see instructions)

B Enter code from instructions

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.)

City, town or post office, state, and ZIP code

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FORM 1040, SCHEDULE C

SIC	Description
711510	Independent artists, writers & performers
512100	Motion picture & video industries
541400	Specialized design services (interior, industrial, graphic & fashion)
541920	Photographic services

Key Point

The last few pages of the instructions to Schedule C list the options. If you've registered your business with your state, you may have already chosen one.

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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.)

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ARE CAR-RELATED COSTS DEDUCTIBLE?

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EXAMPLE

Car & Truck Expenses

I drove my personal vehicle 10 miles to and from an event and spent $25 on gas during the trip.

I also paid $3.85 for a toll en route, plus $15 to park at the destination.

ARE THESE DEDUCTIBLE ON SCHEDULE C?

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CAR & TRUCK EXPENSES

Part II	Expenses. Enter expenses for business use of your		
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	
28	**Total expenses** before expenses for business use of home. Add li		

Probably Deductible.

Examples: Purchasing a vehicle, business miles driven, public transportation swipes

Document the business purpose of the miles driven or trip taken in a *written* log (or track actual expenses).

Pro Tip: The standard mileage rate is updated annually (ish). For 2022 it was $0.585 through 6/30 and $0.625 after that.

Tax Form Alert

Use Line 20a if you are renting a vehicle to move artwork.

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EXAMPLE

Car & Truck Expenses

I accidentally let my parking meter expire at the event, so I had to pay a $65 parking ticket.

IS THIS DEDUCTIBLE ON SCHEDULE C?

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ARE TRAVEL COSTS DEDUCTIBLE?

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EXAMPLE

Travel & Lodging
I was invited to participate in an event several states away. I paid $495 for airfare to get to the event. I ended up checking my luggage for $35 and paid $45 to upgrade my seat on the plane.
I stayed for three nights and paid $1,200 to the hotel for lodging and the taxes.
While I was there, I did some sightseeing, including checking out a really cool exhibition. I paid $20 to see the exhibition.

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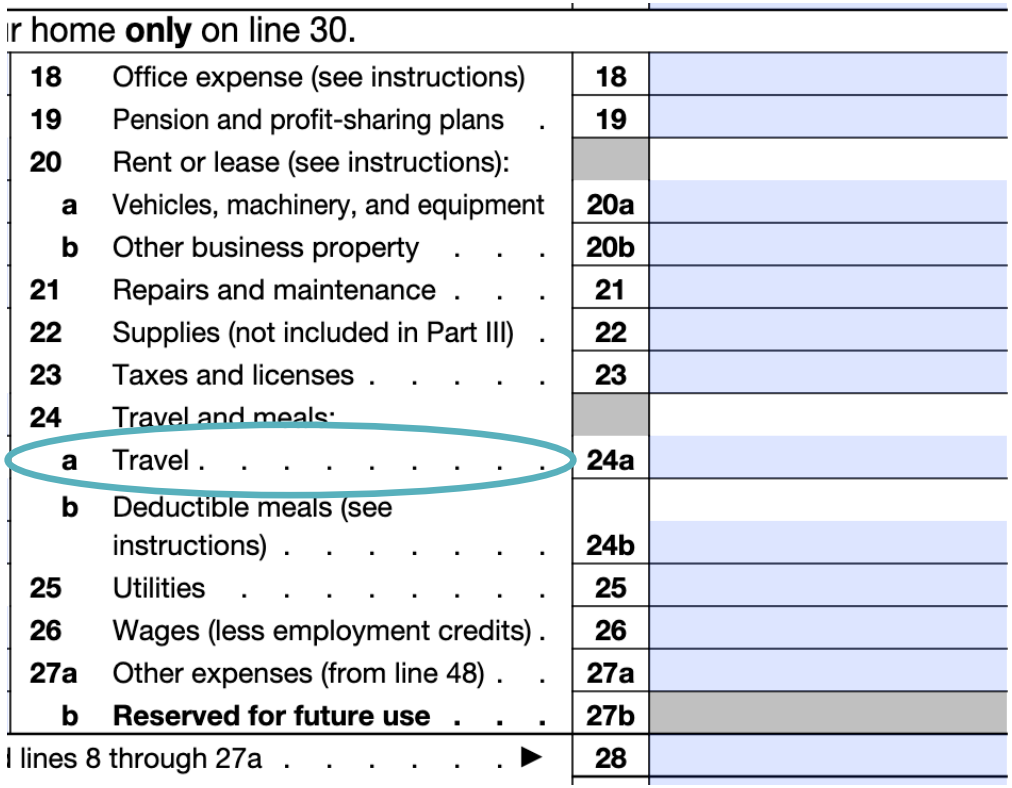
TRAVEL & LODGING



r home **only** on line 30.			
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	**Reserved for future use . . .**	**27b**	
l lines 8 through 27a . . . . . ▶		**28**	

Probably Deductible.

Examples: Airfare, lodging

"Travel" in the eyes of the IRS includes an overnight stay away from home.

The primary purpose must be business related. Document it.

Pro Tip: Check per diem rates (www.gsa.gov) to see if they are higher than your actual expenses.

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IS FOOD DEDUCTIBLE?

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EXAMPLE

Meals
While I was out of town, I had six meals by myself: Dinner on the night I arrived, breakfast and dinner on the next two full days, and breakfast on the day I left.
I had lunch on each full day with business contacts: People I hope to collaborate with in the future.
One night I also met my best friend from college for drinks.
When I got back home, I went straight to work and ordered Door Dash while I worked.

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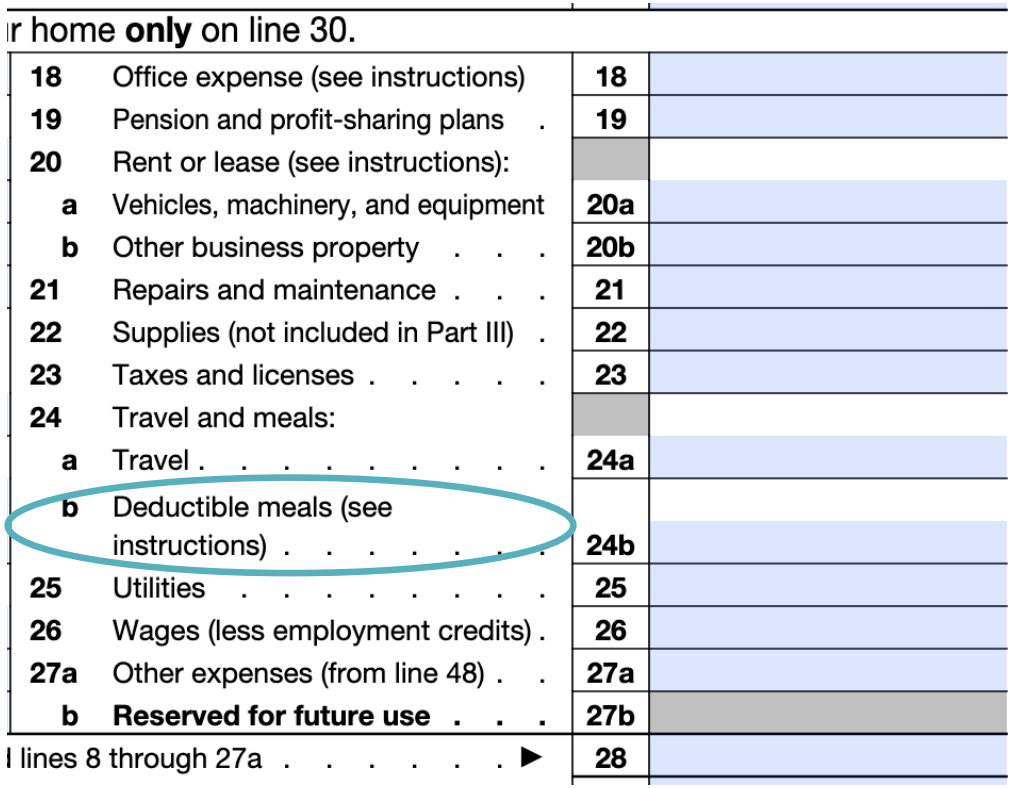
MEALS – TRAVEL & OTHERWISE



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b	Deductible meals (see instructions)	**24b**	
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26	Wages (less employment credits) .	**26**	
27a	Other expenses (from line 48) . .	**27a**	
b	**Reserved for future use** . . .	**27b**	
l lines 8 through 27a . . . . . ▶		**28**	

Probably Deductible – But Limited.

Examples: Meals away from home, meals to discuss something business-related

Document the business purpose of the meal and the attendees.

100% deductible in 2022.

Pro Tip: Check per diem rates (www.gsa.gov) to see if they are higher than your actual expenses.

Tax Change Alert

Legislation in December of 2020 (Consolidated Appropriations Act, 2021, P.L. 116-260) allows 100% of business meals to be deducted in 2021 and 2022.

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WHAT ABOUT PEOPLE COSTS?

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EXAMPLE

Contract Labor
I am the most responsible member of the band, so I am the one who receives the money for each gig (usually $2,500). I pay the other three performers ($625 each).
I sometimes need help installing shows, so I pay three students $200 each for their support.
I am a terrible writer, so whenever I am applying for grants, I hire my friend to edit the application. I pay her $75.

ARE THESE DEDUCTIBLE ON SCHEDULE C?

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CONTRACT LABOR

Part II	Expenses. Enter expenses for business use of your		
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	
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a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	
28	**Total expenses** before expenses for business use of home. Add li		

Tax Form Alert

Employee wages go on Line 26.

Probably Deductible.

Examples: Studio assistants, installers, copywriters

Document the business purpose of the labor and collect invoices and W9s.

Pro Tip: Be clear on if you are hiring professional support in a *contractor* capacity or an *employee* capacity. In either case, make sure everyone understands the relationship.

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WHAT ABOUT CREATIVE STUFF I NEED?

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EXAMPLE

Inventory & Supplies
I received 50% of a commission fee up front and spent all of it on supplies for the commission.
I make work on a regular basis and sell it to customers. I am regularly buying a variety of materials. At the end of the year, I can estimate my inventory.
I make work on a regular basis, but my materials are too small to measure or count at the end of the year.
I purchase a product that I sell to customers at a mark-up.

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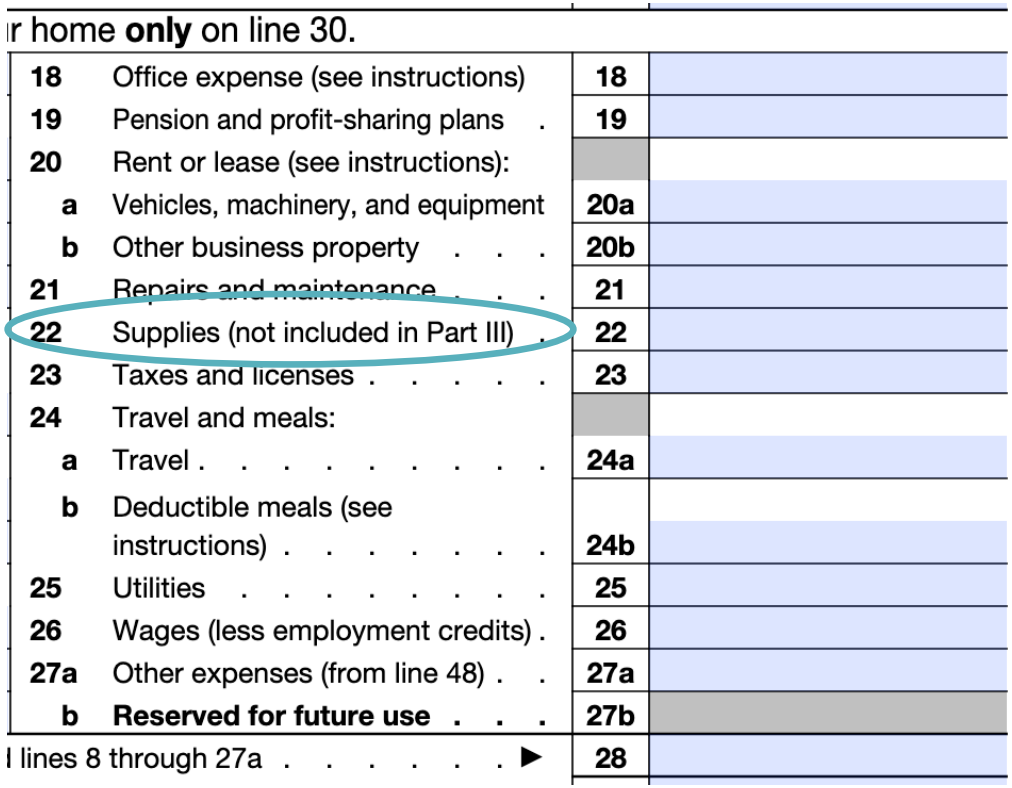
SUPPLIES



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l lines 8 through 27a . . . . . ▶		**28**	

Tax Form Alert

Cost of Sales goes on Line 4.

Probably Deductible – Watch Timing.

Examples: Raw materials that cannot be tracked

Before you sell the work, your creative supplies and your merchandise is part of your inventory. After you sell it, those costs become deductible cost of sales (Line 4). Unless it is impracticable to track materials.

Pro Tip: The COGS Formula is actually pretty easy to use: Starting + Purchases - Ending = COGS.

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ARE MY CLOTHES DEDUCTIBLE?

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EXAMPLE

Attire
I bought a new outfit to wear to an artist talk I was giving where I also got an award.
I have a jacket I use for performances. It is specially tailored so I would have enough elbow room to play my instrument.
I purchase performance-only shoes that I change into when I'm on marley.
I use goggles, aprons, gloves, and steel-toe boots for safety purposes in my studio.

ARE THESE DEDUCTIBLE ON SCHEDULE C?

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PERFORMANCE GEAR

Part V **Other Expenses.** List below business expenses

Performance Gear

Safety Equipment

48 **Total other expenses.** Enter here and on line 27a . . . . .

Probably Deductible.

Examples: Special shoes, costumes, safety gear, dry cleaning, reference materials

Document the business purpose of the attire and why it is not suitable for everyday use.

Pro Tip: Attire that is suitable for streetwear is not deductible.

Tax Form Alert

Safety gear could also go on Line 18 Office Expenses.

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IS MY RESEARCH DEDUCTIBLE?

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EXAMPLE

Research
I attend events, exhibitions, or shows to take note of trends, venues, production details, or certain individuals involved.
I subscribe to streaming services to keep current on industry trends.
I purchase books on topics that connect to my body of work.
I attend sporting events because I'd really like to do something in the sports field one day.

ARE THESE DEDUCTIBLE ON SCHEDULE C?

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RESEARCH

Part V **Other Expenses.** List below business expenses

Research

48 **Total other expenses.** Enter here and on line 27a . . . . .

Probably Deductible.

Examples: Reference materials, books, admissions

Document the business purpose really well. (Seriously.)

Pro Tip: Make sure the research is connected to a body of work – ideally one that earns money .

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WHAT ABOUT NON-CREATIVE STUFF I NEED?

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EXAMPLE

Software & Subscriptions
I pay to subscribe to my local independent newspaper, which covers local arts events.
I pay for Gramerly because my writing is awful, Zoom for meetings, and LinkTree to convert customers from Instagram.
I subscribe to software I need for my work (Adobe Suite, Final Draft, Microsoft Office 365, etc.).
I really like listening to music while I work so I subscribe to Spotify.
I use Spotify to research repertoire for upcoming shows.

ARE THESE DEDUCTIBLE ON SCHEDULE C?

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SOFTWARE & SUBSCRIPTIONS

Part V **Other Expenses.** List below business expenses

Subscriptions

Software

48 **Total other expenses.** Enter here and on line 27a . . . . .

Probably Deductible.

Examples: News, software, Link Tree, Spotify (maybe), streaming (maybe)

Bifurcate personal use out of subscriptions.

Pro Tip: Document the business purpose effectively.

Tax Form Alert

If something like Link Tree makes more sense under Line 8 Advertising, or if something like Office 365 makes more sense as an office expense. that's fine too.

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ARE MY EDUCATION COSTS DEDUCTIBLE?

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EXAMPLE

Professional Development
I take master classes with experts who help develop my technique.
I attend a weekly Improv class to help with public speaking.
I use Skill Share anytime I need to learn a new software platform.
I have a personal therapist to maintain my mental health.

ARE THESE DEDUCTIBLE ON SCHEDULE C?

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PROFESSIONAL DEVELOPMENT

Part V **Other Expenses.** List below business expenses

Professional Development

48 **Total other expenses.** Enter here and on line 27a . . . . .

Probably Deductible.

Examples: Classes, support, continuing education

Document the business purpose.

Pro Tip: Education and professional development should be connected to your *current industry.*

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WHAT ABOUT DONATING WORK?

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EXAMPLES

Donating Work
I was asked to donate a painting to a charity's auction. The cost of the materials was $175. I would have sold the painting for $1,000. They auctioned it for $1,800.
I was asked to perform at a charity event. Normally I would charge $2,500 for this performance. (I still had to pay for transportation, parking, and to dry clean my attire.)
I was asked to donate copies of my book to a community center. I can buy copies for $6 each, but they retail for $19.

ARE THESE DEDUCTIBLE ON SCHEDULE C?

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DONATING WORK

r home **only** on line 30.

18	Office expense (see instructions)	18	
19	Pension and profit-sharing plans .	19	
20	Rent or lease (see instructions):		
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b	Other business property . . .	20b	
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27a	Other expenses (from line 48) . .	27a	
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l lines 8 through 27a . . . . . ▶		28	

Tax Form Alert

Cost of Sales goes on Line 4.

Probably Deductible – But Only at Cost

Examples: Cost of the work, album, or book you donated

Remember, your time is not deductible… Nor is the fair value of what you donate. It is only the cost of the item.

Pro Tip: Determine what you are getting from this exchange. Is it worth it?

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WHAT ABOUT MY HOME?

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EXAMPLES

Business Use of Home
I have a separate room of my house that I only use as a studio. It is about 100 square feet, and my total home is 1,000 square feet.
I have a separate room of my house that I use as a studio. I am also an adjunct instructor at a local college, and I teach from my home studio each week.
My partner and I share an office in our home. They use half of the space for their work, and I use the other half for my work. The whole space is about 80 square feet, and our apartment is 1,000 square feet.

ARE THESE DEDUCTIBLE ON SCHEDULE C?

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BUSINESS USE OF HOME

30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions.
Simplified method filers only: Enter the total square footage of (a) your home: _____
and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30 . . . . . **30**

Probably Deductible – But Be Very Diligent.

Examples: Percentage of rent or mortgage, utilities, association fees

Special Rules:

- Principal place of business.
- Use the space **exclusively** and **regularly** for your business.
- Have no other place to conduct administrative tasks.

Pro Tip: Spend the time needed to track this deduction accurately. It will be scrutinized. After all, it's on its own line.

For Further Reading
IRS Publication 583, *Starting a Business and Keeping Records,* has a great discussion of business use of your home.

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WHAT OTHER DEDUCTIONS ARE YOU CURIOUS ABOUT?

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HOW DO I CALCULATE SELF-EMPLOYMENT TAX?

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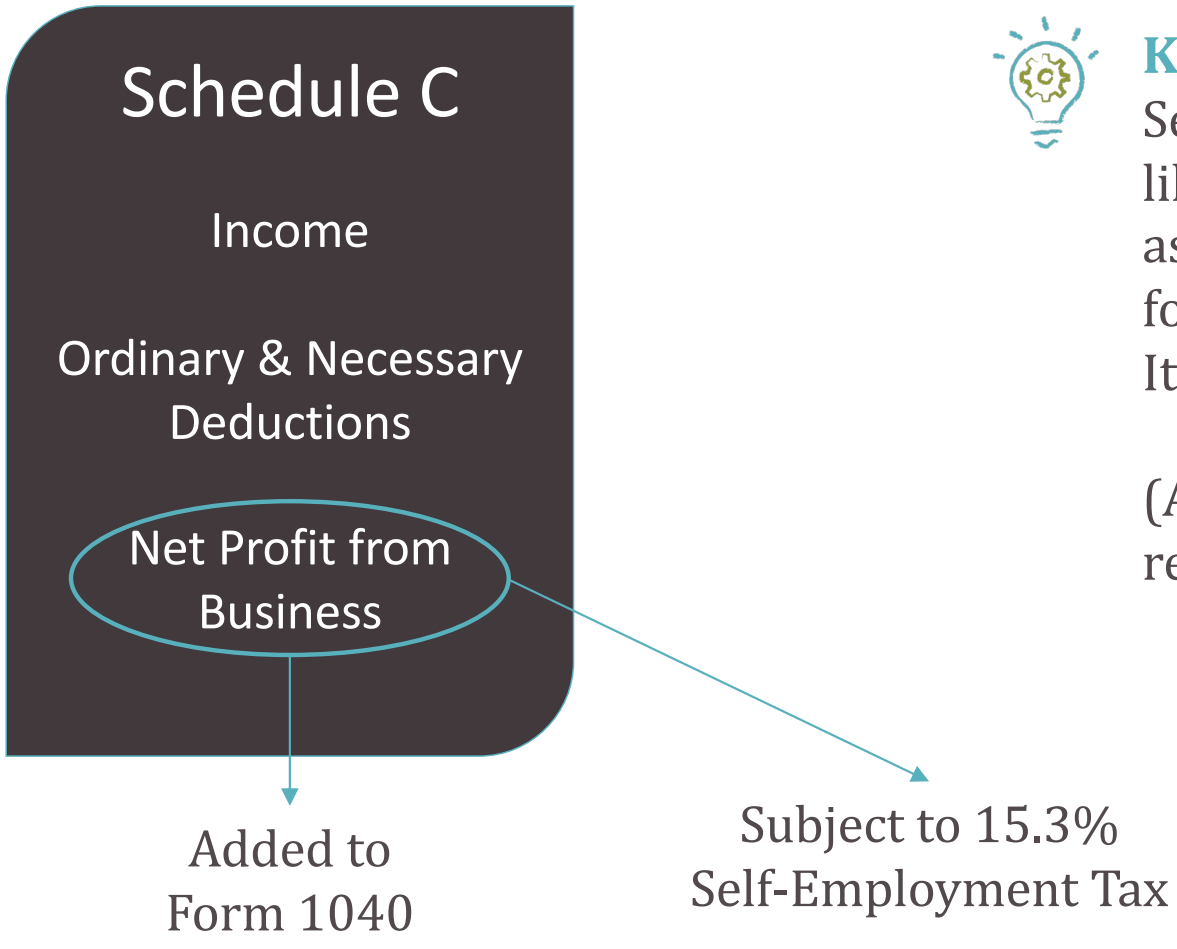
SELF-EMPLOYMENT TAX



Key Point

Self-employment tax may feel like the bane of your existence as an artist. This is often why folks are surprised at tax time. It's high. Really high.

(And by the way – It should be reflected in your prices.)

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SELF-EMPLOYMENT TAX

Example

Let's pretend you are an artist who earns $50,000 from your business during the year. You have $15,000 of ordinary and necessary business deductions, for net business income of $35,000.

Your self-employment tax is $5,355, calculated as 15.3% of net business income ($35,000):

15.3% * $35,000 = $5,355

Take Note

Setting aside 30% of *gross* business income will help cover this (plus your income taxes, which we'll calculate in a bit).

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WHAT ABOUT PERSONAL TAX BENEFITS?

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PERSONAL EXPENSES

- General rule: Personal expenses are not deductible
- First exception: Business use of personal item (phone, home, car)
- Second exception: Adjustments

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Form 1040

Human Info

\+ W-2 Income
\+ Investment Income
\+ Other Income
\- Adjustments

\- Standard Deduction

= Taxable Income

% Total Tax

\- Credits
\- Paid In During Year

= Due or (Refund)

Schedule 1

Part II:
Adjustments to Income

Take Note

The adjustments to income section has some opportunities for personal tax benefits you may enjoy.

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FORM 1040, SCHEDULE 1, PART II

Schedule 1 (Form 1040) 2022 Page **2**

Part II Adjustments to Income

11	Educator expenses	**11**	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	**12**	
13	Health savings account deduction. Attach Form 8889	**13**	
14	Moving expenses for members of the Armed Forces. Attach Form 3903	**14**	
15	Deductible part of self-employment tax. Attach Schedule SE	**15**	
16	Self-employed SEP, SIMPLE, and qualified plans	**16**	
17	Self-employed health insurance deduction	**17**	
18	Penalty on early withdrawal of savings	**18**	
19a	Alimony paid	**19a**	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions):		
20	IRA deduction	**20**	
21	Student loan interest deduction	**21**	

Take Note

Remember the self-employment tax you pay? Half of it is deductible. That helps, right?

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SELF-EMPLOYMENT TAX

Example

Let's pretend you are an artist who earns $50,000 from your business during the year. You have $15,000 of ordinary and necessary business deductions, for net business income of $35,000.

Your self-employment tax is $5,355, calculated as 15.3% of net business income ($35,000):

15.3% * $35,000 = $5,355

Self-Employment Tax	$ 5,355
½ of Tax	$ 2,677

Tax Form Alert

Deductible on Part II of Schedule 1, Line 15 (plus, you'll fill out Schedule SE as well).

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FORM 1040, SCHEDULE 1, PART II

Schedule 1 (Form 1040) 2022 Page **2**

Part II Adjustments to Income

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b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions):		
20	IRA deduction	**20**	
21	Student loan interest deduction	**21**	

For Further Reading

- IRS Publication 970, *Tax Benefits for Education*
- Loan Simulator/Repayment Calculator: https://studentaid.gov/loan-simulator/

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FORM 1040, SCHEDULE 1, PART II

Schedule 1 (Form 1040) 2022 Page **2**

Part II Adjustments to Income

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20	IRA deduction	**20**	
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For Further Reading

IRS Publication 560, *Retirement Plans for Small Businesses*

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WHAT ABOUT OTHER DEDUCTIONS?

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Form 1040

Human Info

\+ W-2 Income
\+ Investment Income
\+ Other Income
\- Adjustments

\- Standard Deduction

= Taxable Income

% Total Tax

\- Credits
\- Paid In During Year

= Due or (Refund)

2022 Standard Deductions	
Single	$12,950
Married (Joint)	$25,900
Head of Household	$19,400

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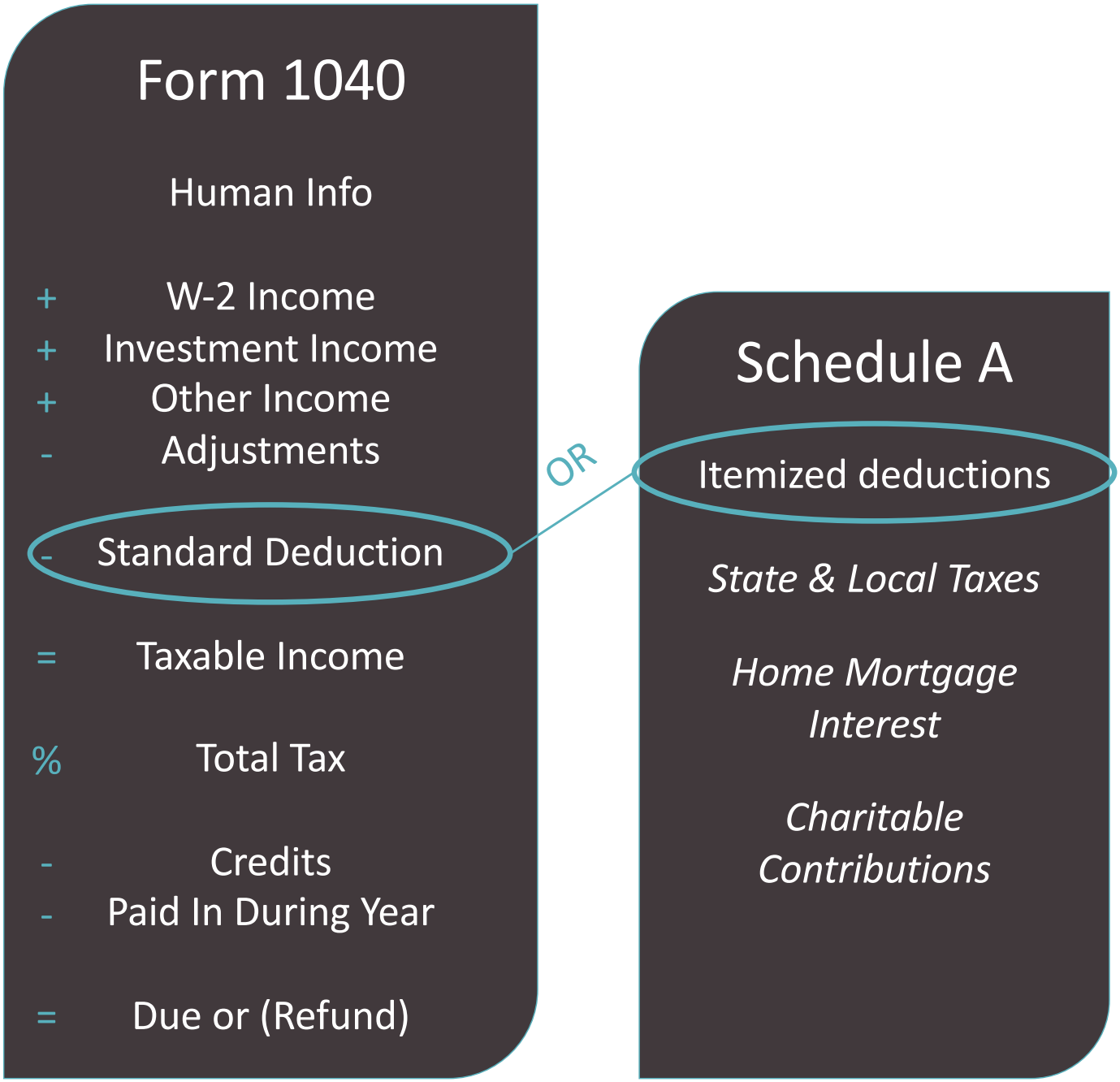

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HOW DO I CALCULATE TAX?

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Form 1040

Human Info

\+ W-2 Income
\+ Investment Income
\+ Other Income
\- Adjustments

\- Standard Deduction

= Taxable Income

% Total Tax

\- Credits
\- Paid In During Year

= Due or (Refund)

Key Point

Remember, these rates are multiplied by layers of your *taxable income,* not your gross income.

2022 Tax Brackets (Single)	
10%	Up to $10,275
12%	$10,276 - $41,775
22%	$41,776 - $89,075
24%	$89,076 - $170,050
32%	$170,051 - $215,950
35%	$215,951 – $539,900
37%	$539,901 or More

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FEDERAL INCOME TAX

Example

In our example, the self-employed artist earned $35,000 from their business, with no other income.

Let's pretend they contributed $3,000 to an IRA and took the standard deduction for a single taxpayer ($12,950 in 2022). They also had the deduction for half of their self-employment tax.

Simplified Tax Calculation	
Business Income	$ 35,000
½ SE Tax	$ 2,677
IRA Contribution	$ 3,000
Standard Deduction	$ 12,950
Taxable Income	**$ 16,373**

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FEDERAL INCOME TAX

For taxable income of $16,373, the tax obligation is $1,760, calculated as follows:

2022 Tax Brackets (Single)		Taxable Income	Tax Owed
10%	Up to $10,275	$ 10,275	$ 1,028
12%	$10,276 - $41,775	$ 6,098	$ 732
Totals		**$ 16,373**	**$ 1,760**

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TOTAL FEDERAL TAX

Add this to self-employment tax of $5,355 for a total Federal tax of $7,115.

2022 Tax Brackets (Single)		Taxable Income	Tax Owed
10%	Up to $10,275	$ 10,275	$ 1,028
12%	$10,276 - $41,775	$ 6,098	$ 732
Totals		$ 16,373	**$ 1,760**
Self-Employment Tax			$5,355
Total Tax			**$ 7,115**

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TOTAL STATE & LOCAL TAXES

2022 Tax Brackets (Single)		Taxable Income	Tax Owed
10%	Up to $10,275	$ 10,275	$ 1,028
12%	$10,276 - $41,775	$ 6,098	$ 732
Totals		$ 16,373	**$ 1,760**
Self-Employment Tax			$5,355
Total Federal Tax			**$ 7,115**
State Tax (estimate)		5% of $16,373	$ 819
Local Tax (estimate)		2% of $16,373	$ 327
Total Taxes			**$ 8,261**

Take Note

State and local taxes usually start with taxable income and make state-specific adjustments before imposing the appropriate tax rate.

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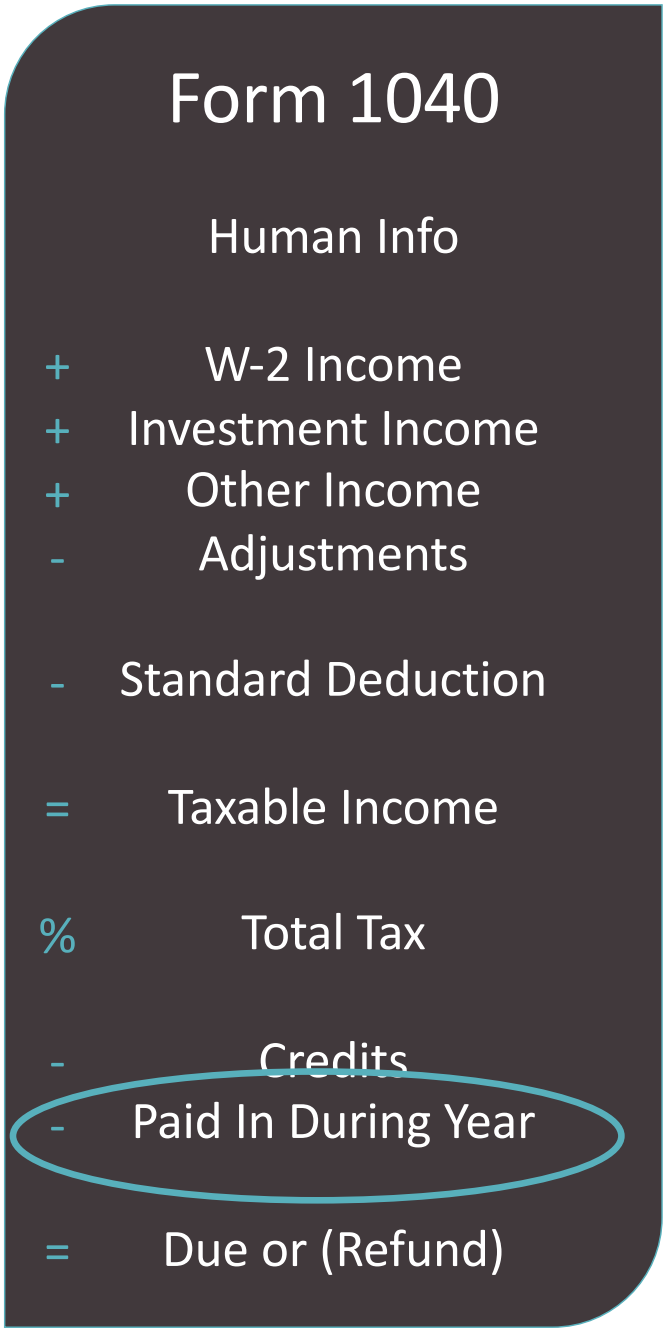
CALCULATING TAX

Once you know the total tax amount, subtract anything you paid in during the year:

- Withholdings from a W-2 job.
- Quarterly estimated tax payments.



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CALCULATING TAX

The difference is the amount you owe or the refund you receive.

Take Note
If you owe more than $1,000 you may have to pay a penalty (and you should start making quarterly payments next year).

Key Point
Even without making quarterly payments, setting aside 30% of *gross* income is usually enough to cover tax obligations (up to about $100k).

Form 1040

Human Info

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

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BUT WHAT DO I DO TO PLAN?

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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.

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WRAPPING UP

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RECAP

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

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THANKS!

Elaine Grogan Luttrull, CPA-PFS, AFC®