TAX BASICS FOR CREATIVES

South Arts Tax Workshop | January 25, 2023

OUR GOAL:

To make navigating tax season a bit easier.
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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CPA-PFS, AFC®
(she/her)
BRIEF DISCLAIMER

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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

<table>
<thead>
<tr>
<th>2023 Retirement Contribution Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRA</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

2024 CHANGES

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

<table>
<thead>
<tr>
<th>2023 Standard Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
</tr>
<tr>
<td>MFJ</td>
</tr>
<tr>
<td>MFS</td>
</tr>
<tr>
<td>HoH</td>
</tr>
</tbody>
</table>
2024 CHANGES

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

### Standard Mileage Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>$0.655</td>
</tr>
<tr>
<td>2024</td>
<td>$0.67</td>
</tr>
</tbody>
</table>

New Changes
- 1099-K
- FinCEN’s BOI Requirement
WHAT ABOUT 1099-KS?

1099-K RULES

- 1099-K is a form you'll get from payment apps if your activity exceeds a certain level.

- **2023 Limits**
  - 2023 limit is $20k from 20+ transactions
  - $600 threshold does not apply for 2023.

- **2024 Limits**
  - TBD, but the IRS is planning for $5k *(IRS Notice 2023-74)*
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](https://www.irs.gov/1099k)

WHAT IS A BOI? OR A FINCEN?
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](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

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).
HOW DO FEDERAL INCOME TAXES WORK?

<table>
<thead>
<tr>
<th>Form 1040</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Info</td>
</tr>
<tr>
<td>+ W-2 Income</td>
</tr>
<tr>
<td>+ Other Income</td>
</tr>
<tr>
<td>- Adjustments</td>
</tr>
<tr>
<td>- Standard Deduction</td>
</tr>
<tr>
<td>= Taxable Income</td>
</tr>
<tr>
<td>% Total Tax</td>
</tr>
<tr>
<td>- Credits</td>
</tr>
<tr>
<td>- Paid In During Year</td>
</tr>
<tr>
<td>= Due or (Refund)</td>
</tr>
</tbody>
</table>

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

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?
**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

**TAXES ON W-2 INCOME**

> Geography: Reported as “wages” on Form 1040

**Calculation Details**
Your employer is splitting employment taxes with you (7.65% each) and withholding Federal, State, and Local taxes from your paychecks.
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

Form 1040

Human Info

W-2 Income

Other Income

Adjustments

Standard Deduction

= Taxable Income

% Total Tax

- Credits

- Paid In During Year

= Due or (Refund)

Schedule E

Net Profit from Business

Schedule C

Net Profit from Business

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
TAXES ON BUSINESS INCOME

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

<table>
<thead>
<tr>
<th>Part</th>
<th>Additional Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Taxable refunds, credits, or offsets of state and local income taxes</td>
<td>1</td>
</tr>
<tr>
<td>2a</td>
<td>Alimony received</td>
<td>2a</td>
</tr>
<tr>
<td>3</td>
<td>Date of original divorce or separation agreement (see instructions)</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Business income or (loss). Attach Schedule C</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Other gains or (losses). Attach Form 4797</td>
<td>5</td>
</tr>
</tbody>
</table>

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

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.
AM I RUNNING A BUSINESS?

- Approach it professionally and keep books & records
  
  (For example: Have a business plan, track income/expenses/customers)

WHAT ARE BOOKS & RECORDS?
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*
OPTION 1: DATABASE

Database System

Export the data
Add categories and business purpose
Planning scenarios

DATABASE SET-UP

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Vendor/Client</th>
<th>Amount</th>
<th>Category</th>
<th>Business Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of the transaction</td>
<td>Who you paid or who paid you</td>
<td>$5,000.00</td>
<td>Match this to your tax form</td>
<td>Describe how this is ordinary, necessary, and effectively connected to your trade or business</td>
</tr>
</tbody>
</table>
DATABASE SET-UP

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Miles</th>
<th>Business Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>IRS Rate (2023)</td>
<td>$ 0.655</td>
<td></td>
</tr>
<tr>
<td>Deduction</td>
<td>$ -</td>
<td></td>
</tr>
</tbody>
</table>

OPTION 2: SOFTWARE

Key Point
Mint is no longer an option!
**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?)
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)*

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.)*
WHAT BUSINESS EXPENSES ARE DEDUCTIBLE?

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.
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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**SCHEDULE C**

**Part II** Expenses. Enter expenses for business use of your home only on line 30.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Advertising</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>Car and truck expenses (see instructions)</td>
<td>9</td>
</tr>
<tr>
<td>10</td>
<td>Commissions and fees</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Contract labor (see instructions)</td>
<td>11</td>
</tr>
<tr>
<td>12</td>
<td>Depreciation and section 179 expense deduction (not included in Part II) (see instructions)</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>Employee benefit programs (other than on line 19)</td>
<td>13</td>
</tr>
<tr>
<td>14</td>
<td>Insurance (other than health)</td>
<td>14</td>
</tr>
<tr>
<td>15</td>
<td>Interest (see instructions):</td>
<td>15</td>
</tr>
<tr>
<td>16</td>
<td>Mortgage (paid to banks, etc.)</td>
<td>16</td>
</tr>
<tr>
<td>17</td>
<td>Other</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Legal and professional services</td>
<td>17</td>
</tr>
<tr>
<td>16</td>
<td>Office expense (see instructions)</td>
<td>16</td>
</tr>
<tr>
<td>19</td>
<td>Pension and profit-sharing plans</td>
<td>19</td>
</tr>
<tr>
<td>20</td>
<td>Rent or lease (see instructions):</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>a Vehicles, machinery, and equipment</td>
<td>20a</td>
</tr>
<tr>
<td></td>
<td>b Other business property</td>
<td>20b</td>
</tr>
<tr>
<td>21</td>
<td>Repairs and maintenance</td>
<td>21</td>
</tr>
<tr>
<td>22</td>
<td>Supplies (not included in Part II)</td>
<td>22</td>
</tr>
<tr>
<td>23</td>
<td>Taxes and licenses</td>
<td>23</td>
</tr>
<tr>
<td>24</td>
<td>Travel and meals:</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>a Travel</td>
<td>24a</td>
</tr>
<tr>
<td></td>
<td>b Deductible meals (see instructions)</td>
<td>24b</td>
</tr>
<tr>
<td>25</td>
<td>Utilities</td>
<td>25</td>
</tr>
<tr>
<td>26</td>
<td>Wages (less employment credits)</td>
<td>26</td>
</tr>
<tr>
<td>27a</td>
<td>Other expenses (from line 48)</td>
<td>27a</td>
</tr>
<tr>
<td></td>
<td>b Energy efficient commercial lighthouse deduction (attach Form 7004)</td>
<td>27b</td>
</tr>
</tbody>
</table>

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

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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?
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)

<table>
<thead>
<tr>
<th>Date</th>
<th>Mileage</th>
<th>Business Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/24/23</td>
<td>10.0</td>
<td>To and from gig at Amazing Club</td>
</tr>
</tbody>
</table>

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

• Business meals: $75

Key Point
Document the business purpose of the meal!
### 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)

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**Key Point**

Don’t forget to send out 1099s by January 31! (Track1099.com is a great option to use.)
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
**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.
### 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.) |
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.)
WHAT OTHER DEDUCTIONS ARE YOU CURIOUS ABOUT?

WHAT SHOULD I SAVE FOR TAXES?
### SIMPLIFIED TAX EXAMPLE

#### Artist A

<table>
<thead>
<tr>
<th>Records</th>
<th>Taxes</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$65,000</td>
<td>$4,550 7.0% sales tax collected</td>
</tr>
<tr>
<td>Business Deductions</td>
<td>(18,700)</td>
<td></td>
</tr>
<tr>
<td>Net Business Income</td>
<td>$46,300</td>
<td>$7,084 15.3% SE tax</td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>(13,850)</td>
<td></td>
</tr>
<tr>
<td>½ of Self-Employment Tax</td>
<td>(3,542)</td>
<td></td>
</tr>
<tr>
<td>IRA Contribution</td>
<td>(3,000)</td>
<td></td>
</tr>
</tbody>
</table>

#### Taxable Income

| Taxable Income | $25,908 | 2,889 Federal Income Tax (11.2%) |
|               |        | 1,036 State Tax (4.0%) |
|               |        | 259 Local Tax (1.0%) |

**Tax** $11,268

#### Artist B

<table>
<thead>
<tr>
<th>Records</th>
<th>Taxes</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gigging Income</td>
<td>$35,000</td>
<td></td>
</tr>
<tr>
<td>Business Deductions</td>
<td>(8,000)</td>
<td></td>
</tr>
<tr>
<td>Net Business Income</td>
<td>$27,000</td>
<td>$4,131 15.3% SE tax</td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>(13,850)</td>
<td></td>
</tr>
<tr>
<td>½ of Self-Employment Tax</td>
<td>(2,066)</td>
<td></td>
</tr>
<tr>
<td>IRA Contribution</td>
<td>n/a</td>
<td></td>
</tr>
</tbody>
</table>

#### Taxable Income

| Taxable Income | $11,084 | 1,109 Federal Income Tax (10.1%) |
|               |        | 222 State Tax (2.0%) |
|               |        | 0 Local Tax (0.0%) |

**Tax** $5,462

15.6% of Gross

| 20.2% of Net Bus. Income |

123

124
SIMPLIFIED TAX EXAMPLE

<table>
<thead>
<tr>
<th>Artist C</th>
<th>Records</th>
<th>Taxes</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freelance Income</td>
<td>$145,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Deductions</td>
<td>(25,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Business Income</td>
<td>$120,000</td>
<td>$18,360</td>
<td>15.3% SE tax</td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>(13,850)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>½ of Self-Employment Tax</td>
<td>(9,180)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IRA Contribution</td>
<td>(6,500)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable Income</td>
<td>$90,470</td>
<td>14,383</td>
<td>Federal Income Tax (15.9%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,619</td>
<td>State Tax (4.0%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,809</td>
<td>Local Tax (2.0%)</td>
</tr>
<tr>
<td></td>
<td>Tax</td>
<td>$38,171</td>
<td>26.3% of Gross</td>
</tr>
</tbody>
</table>

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
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)

RECAP

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

Elaine Grogen Luttrull, CPA-PFS, AFC®