

Welcome



ART STUDENTS LEAGUE
OF DENVER



CLYFFORD STILL | MUSEUM



Tax Prep For Artists

3-23-21

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Baruch College – Lead Faculty



***Skody Scot & Co., CPAs* - Co-Founder & Co-Managing Partner**

“30+ Years Servicing and Helping NFPs!”

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Tax Prep For Artists

General Introduction

- Laurence Scot, MBA, CPA
 - Accountant – 40 years
 - Co-founder/Co-Managing Partner SS&CO
 - Boutique NYC CPA Firm-Specializing in **helping** NFPs 30+ yrs.
 - Providing Consulting/Advisory services to Local, National & Int'l Orgs
 - Audits (120+), Returns (650+)
 - Teaching, Seminars, Lectures & Continuing Education (30y)
 - Undergraduate & Graduate Courses
 - CPE for CPAs (ACE Seminars, NYSSCPA NFP Conference)
 - Panelist (Chase, Investors, Morgan Stanley, First Republic, NPCC, BCC)
 - Created Certificate programs at several schools
 - Advanced NFP Acctng; Form 990 (**Manhattan College– 2019-Present**)
 - NFP Fin'l Mgmt & Reporting & NFP Bookkeeping – (**Fordham – 2018**)
 - NFP Financial Mgmt & Reporting – (**Baruch – 2014-2018**)
 - NFP Acctg & Gov't Reporting (**NYU – 2008-2014**)
 - Board Member (Chair, Treasurer, etc.)



Tax Prep For Artists

TOPICS

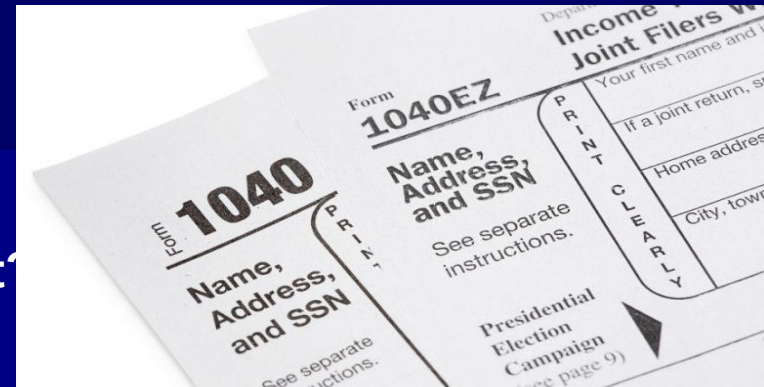
1. Introduction to Income Taxes, business structure & types of returns
2. Employee/independent contractor classification
3. Tax concepts & deductions
4. Managing your financial records, software & tax preparers
5. Introduction to and working with Not-For-Profit organizations
6. **Answers** to your tax related **questions** (some to be covered) and similar to:
 - What is the best way to track expenses (paper, Excel, S/W?)
 - Is it better to file a Schedule C as an individual or as a LLC?
 - What are typical deductible expenses for musicians/artists (dual function)?
 - If a Not-for-Profit, what needs to be filed before receiving tax exemption?

Introduction to Income Taxes

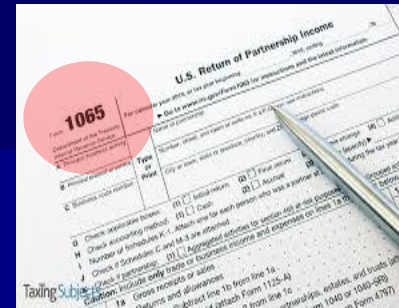
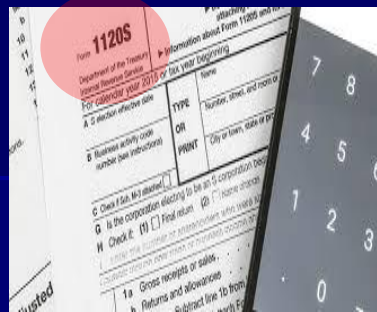
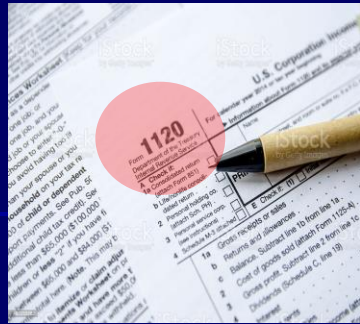
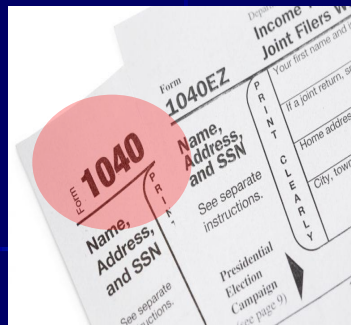
- There is an old saying (Benjamin Franklin)
“In this world, nothing is certain except

Death & taxes

- The very word “Taxes” send **shivers** down most people’s spines
- It’s no secret that certain groups of people try to ignore the subject of taxes a little more than others. In my experience:
 - Salespeople (rather talk & sell)
 - Tradesmen (carpenters, plumbers, electricians, etc. (rather build or fix)
 - Creative people (artist, musicians, fashion designers, etc.)
 - To a lesser extent everyone else
- Since you can’t avoid it, should at least prepare for it to make it less painful
- Due date for filing individual income tax returns (Forms 1040, 1040A, 1040EZ)
 - Now **May 17th** (instead of April 15th)



Business Structure & Tax Returns



- There are several different types of business structures:
 - Individual (Sole Proprietorship) – **Form 1040, Schedule C**
 - No protection from debt Due date **4/15/xx**, NOW **5/17/xx**
 - Corporation “C” (one or more shareholders) – **Form 1120**
 - Protection from Corporate debt Due date **4/15/xx**
 - Subchapter “S” Corp. (1+ shareholders, passthrough entity) – **Form 1120-S**
 - Protection from Corporate debt Due date **3/15/xx**
 - Partnership (two or more partners)
 - **NO** Protection from Partnership debt Due date **3/15/xx**
 - Limited Liability Corporation (LLC) (1+ owners) – **Schedule C or Form 1065**
 - Protection from Corporate debt Due date **3/15/xx** or **4/15/xx** (Single)
 - Exempt Organization (Public Charities/Fdtns, Civic, Membshp..) – **Form 990**
 - Due date **5/15/xx**

Employee vs. Independent Contractor (I/C)

■ Misconception – Classification is optional (not true)

- IRS uses a 20 point test, Department of Labor uses other criteria
- NO Single set of criteria
 - Rather based on Characteristics of relationship
- Basically if someone can control the behavior of another person (employee)
- Many creative people are given general job parameters (so independent)
- If told how & when to do something, can quit or be fired at whim (employee)

■ If an Employee

- Must give employer W-4 – Employee Withholding Certificate
- At year-end employer must issue an employee a W-2 wage statement

■ If an Independent Contractor

- Must give payer W-9 – Request for Taxpayer Identification # (TIN or SS#)
- At year-end payer must issue to the I/C a 1099-NEC statement
 - Cannot say at year-end, I/C didn't give me their information
 - Payer can be liable for tax I/C doesn't pay if 1099-NEC is not issued

■ If misclassify Employee as I/S & they go down to Unemployment Bureau..

Tax Concepts

- **Must file return on time or file a six-month extension**
 - ↳ If not an W-2 employee, must make **quarterly estimates** during year
 - ↳ Many I/Cs get penalize for not making proper quarterly estimates
- **If you are I/C, no Corp. or sole member LLC, prepare Schedule C on Form 1040**
 - ↳ Report all income & expenses
- **Question? Is it better to file a Schedule C as an individual or as a LLC?**
 - ↳ If only one person, **Sole Member LLC**, report on **Schedule C** (disregarded)
 - ↳ If two or more members LLC, report on **Form 1065**, Partnership return
- **There are benefits & drawbacks to being certain type of entity (beyond scope)**

Tax Deductions

- What are typical deductible expenses for musicians/artists (dual function)?
 - ↳ Any legal expense directly attributable to generating business (pay ~~bookie~~)
 - ↳ Dual function expenses are not deductible
 - ↳ Clothing that can be worn for business and pleasure (e.g. suits)
 - ↳ Typical expenses can include:
 - ↳ Salaries & related costs & payments to independent contractors
 - ↳ Transportation to different gigs (not to your main place of business)
 - ↳ Business meals & entertainment – reasonable (not weekly groceries)
 - ↳ Travel & hotels out-of-town
 - ↳ Supplies (Artist supplies, sheet music & fabric)
 - ↳ Equipment (computers, printers, etc.)
 - ↳ Instruments & Repairs
 - ↳ Some education & training courses
 - ↳ Interest on business debt
 - ↳ Office rental
- What can't you deduct
 - ↳ Part of your apartment (unless separate room)
 - ↳ Expensive trips and meals

Managing Your Financial Records, Software & Tax Preparers

- Receipts/Documentation of all expenses
 - Must retain supporting documentation (physical or digital) for 3 years
 - If no appropriate support, expenses will be denied
 - Guilty until proven innocent
- Simplest way to maintain physical tax record for individual or small business
 - Keep one or more folders in a easily accessible spot for tax documents
 - W-2s, 1099s, mortgage statements
- Question – What is a best practice for tracking expenses (mileage, materials, meetings) that is more organized than spreadsheets but not too expensive?
 - Quicken or QuickBooks Online

Managing Your Financial Records, Software & Tax Preparers (con't)

■ **Question** - Have the laws changed recently in terms of what you can write off as an artist in terms of expenses?

➤ Yes, as of 2017, can't deduct unreimbursed employee expenses >2% of AGI

EXCEPTION

■ **Qualified performing artist.** You are a qualified performing artist if you:

- Performed services as employee for at least 2 employers during tax year,
 - Received from at least 2 of the employers, wages of \$200 or more per employer,
 - Had allowable business expenses attributable to the performing arts of more than 10% of gross income from the performing arts, and
 - Had adjusted gross income of \$16,000 or less before deducting expenses as a performing artist.
- If you are a qualified performing artist, you can deduct your employee business expenses as an adjustment to income rather than as a miscellaneous itemized deduction. E.G. Musicians and Entertainers can deduct the cost of theatrical clothing and accessories that aren't suitable for everyday wear. If you are an employee, complete Form 2106.

Introduction to and working with Not-For-Profit Organizations

- **Question** - If you are an artist that is trying to become a nonprofit, but have not received your tax determination (i.e., 501c3) what do you need to file?
 - Once you are incorporated as a Public Charity (501(c)(3)) you must file:
 - Form 990, 990-EZ or 990-N at the end of the first year & every year after
 - You must file even if you haven't applied or rec'd your tax exemption
 - You need to check off the box on the 990 that says "pending"
 - You have 27 months to apply for income tax exemption with IRS
 - Operating your Artistic business as a Not-For-Profit is totally different than operating as a for-profit, commercial business.

That is a whole other discussion

THE END

