

Guide for Taxes

What Exactly Are Taxes, and What Is Being Taxed?

This may seem like a simple question, but when dealing with taxes, it can be easy to get sidetracked or confused by all of the moving parts and the specific questions on forms. It will help to have a good understanding of the whole picture, and to keep that mind throughout the process. There are a few different kinds of taxes, but the tax that self-employed people are most concerned with, and which we have to file at the end of the year, is **Income Tax**.

Income Tax is portion of your income that you pay to the government. The amount that you pay depends on a number of factors, but primarily on how much you make in a year, and how you made it. *It basically all comes down to that.* All of the forms and the specific questions are designed to help the IRS determine whether they need to give you money back, or charge more than you gave them.

You want to be as accurate as possible in filing your tax forms, because if the IRS audits you and decides you are tricking them, you will be guilty of **Tax Fraud** and could be sent to jail and/or have property seized. Because of this, you want to **err on the side of giving a little too much and getting money back**, rather than not paying enough.

This guide is designed to give you some insight into how taxes work and how to prepare to file your tax forms. If you understand how your taxes work, you'll be better prepared to tackle the filing process. Still, it is a good idea to **consult someone with experience**, such as an accountant or family member, at least for your first few years filing. **It's also a great idea to get some software designed to help with filing taxes, such as Turbo Tax, which will lead you through the process.**

Useful Terms

- **Form 1040:** The main form you file (submit) to determine your taxes. Many of the other forms are essentially extensions for this one.
- **W-2 Income/Form:** Income you are paid by an employer. Taxes will be deducted by your employer for you, and they will have informed the IRS about how much they paid you. You still have to report what you received, though, on a **W-4 Form**.
- **W-4 Form:** The form where you report your W-2 income to the IRS.
- **Independent Contractor Income:** Income that you make as an Independent Contractor, hired for specific projects. This is your "self-employed" income. You have to pay taxes on it.
- **1099 Form:** The form to report untaxed income (income from which taxes have not already been taken). Anyone who pays you more than \$600 in a given year must fill one of these out and give it to you, for you to submit with your taxes. As an independent contractor, though, you will likely make income from some sources that does not amount to at least \$600 over the year, so may have to fill one of these out for yourself as well. You will file a **W-9 Form** to report your independently-earned income.
- **Schedule C:** This form determines how much of your independently earned income is taxable or deductible. This is where you list business expenses that you want to deduct from your taxes.
- **Tax Deduction:** If something you bought should not be subject to taxes (including expenses incurred to produce income, called business expenses), you *deduct* that from your taxable income, reducing the amount that the government requires of you. These deductions are subject to limitations or conditions (see below).

- **Adjusted gross income (AGI):** An individual's total gross income minus specific reductions. Taxable income is AGI minus allowances for personal exemptions and itemized deductions.

Reporting Taxes as a Musician

As a musician, you will likely be operating as both an employee of one or more organizations as well as a self-run business. This means that you receive some of your income from miscellaneous jobs you take, like gigging at a wedding, or writing a commission, or even teaching students in your studio (if you run your own studio and are not connected to a larger organization). **You'll file these sources of income separately**, reporting income you receive from your employer(s) on your **W-4** form, and reporting the independently-earned income on a **1099** form.

If you're not sure whether someone is an "employer" or just a contract job, your tax forms will help you; if you filled out a **W-2** form and gave it to them when you started working (required of employees at most places of work so that employers can deduct taxes from your income and give you benefits), then **they are your employer**, and you should report the money they pay you on your **W-4**. If they just gave you the money without getting you to fill out tax forms for employment, or if they gave you a **1099 form** (required if they paid you more than \$600 in one year), then that money should be reported in your **independently earned income**.

Deductions

As explained in the terms section, **tax deductions are ways you spent your money that reduce the amount of your income that can be taxed, thereby reducing the amount you have to pay in taxes.** The rules about what can be deducted from your taxes are pretty strict, however. Further down are examples of what you can deduct as a musician, as well as tips for keeping track of these over the course of the year.

Business Expenses

One of the most common kinds of deductions is for **business expenses**: things you buy that are explicitly for your business, which for musicians is usually the activity of getting **independently-earned income**. This includes all kinds of things, from instrument costs and repair, to gas money you spend driving to and from gigs, etc.

It's important to remember that in order to be recognized by the IRS as a business, you have to make a profit for three out of any given five years. This means that your business expenses cannot be consistently greater than the amount you made through *independently-earned income*! This does not include money you make as a musician through your employer, such as pay for an orchestra position. You do, however, have a few years when you start filing taxes as a musician-business to grow as a start-up, so the IRS will be forgiving for the first few years when it comes to expenses vs. income.

To deduct business expenses, fill out a **Schedule C form** and file it with your **Federal Form 1040**. If you're self-employed and earned more than \$400, you will probably have to also file a **Schedule SE**. On Schedule C, Line A, you'll need to know your principal business code. It's listed in TurboTax under "Services: Personal, Professional & Business," then under "Amusement & Recreational Services." (So that's what the IRS thinks musicians are!) **Code 9811** is for musicians - as well as theatrical performers, agents, producers and those in related fields.

What Can Musicians Deduct?

Here are some examples of things that musicians commonly deduct from their taxes:

- Instruments (purchase and repair)
- Equipment/gear & accessories (amps, pedals, effects, straps, carrying cases)
- Consumable supplies (such as drum skins & sticks, guitar strings & picks)
- Music business books, record company directories, venue directories
- Subscriptions to trade magazines (such as Billboard and CMJ)
- Sheet music and "How-To" books and manuals
- Promotional: CD/tape duplication (for demos), photos, bios
- Office supplies: paper, envelopes, photocopies, stamps
- Fees related to maintaining your website and email access for your music-related activities
- Rent for storing your gear and for your practice space
- Membership in professional organizations, associations & unions
- Professional fees (attorney, manager, agent, accountant)
- Copyright and registration fees
- Lessons & instruction
- Educational You may be able to deduct work-related educational expenses paid during the year as an itemized deduction
- Travel expenses
 - You can figure out the amount of your deductible car expense using one of two methods: the standard mileage rate method or the actual expense method. For the current standard mileage rate, refer to Publication 463, Travel, Entertainment, Gift and Car Expenses, or search standard mileage rates on [IRS.gov](https://www.irs.gov). If you use the standard mileage rate, you can add to your deduction any parking fees and tolls incurred for business purposes.
- Losses by theft
 - Some of these expenses can be deducted in full, while others must be depreciated. See IRS Publication 946 ("How To Depreciate Property") for more information.
- Charitable non-cash contributions (get a receipt!)
 - Clothes or household goods must be in good or better condition to get a deduction.
 - You have to choose between using your donations or the “standard deduction” that everyone has access to (with some variations depending on age and marriage). For single taxpayers this is \$6,200, so it’s not worth counting your donations unless they total more than this for the year.
- Health insurance premiums
 - If you are self-employed and not covered by an employer-paid plan, you can deduct **all** of your health insurance premiums (without making your net income negative, of course).
- Investment and tax expenses
 - Total must exceed 2% of your adjusted gross income
- Retirement tax credit
 - Designed to give moderate- and low-income taxpayers an incentive to save for retirement. If you make a contribution to your retirement account, that money isn’t taxed, so you get a deduction off of your income. You also gain a credit of up to 50% of the first \$2,000 invested.
 - The tax credit disappears as your adjusted gross income increases. But singles with adjusted gross incomes up to \$28,250 qualify. Contributions to 401k's, 403b's, Simplified Employee Pension plans, traditional and even Roth IRAs qualify.

Visit the [IRS's website](https://www.irs.gov) for more details on what you can and cannot get deductions on.

Keeping Track and Preparing Documentation

- **Track** your expenses in a spreadsheet or some other accounting software (TurboTax is a good one). This will guarantee that you have all of your expenses in one place so that you can reference them when filing your taxes. If you're working with an accountant, this will also make it easy for them to see what expenses you've incurred that can help offset the income.
- **Keep credit card statements and cancelled checks.** These will provide proof of purchase further down the line if you're asked for it. It is very likely that you'll lose one or two receipts somewhere along the line, so keeping credit card statements can provide that proof of purchase that your receipts would have otherwise provided.
- **Scan and save your documentation.** This will allow you to keep receipts, invoices, contracts, etc., in one place, making them easy to find if you're ever asked to provide them. There shouldn't be any reason that you need to keep paper copies of these items if you have them scanned and saved.
- **Get signed contracts or invoices** if you're paying employees or artists. Like receipts, this will show what services were rendered as well as the amount due so that there is no question of why you paid this person. Signed contracts and invoices are required for releasing funds raised for your fiscally sponsored projects. Payroll stubs can also work for this purpose if you use a payroll service for your employees.
- **Back up everything!** Make sure to save all of your files in several places. It would be a shame if your hard drive crashed and you lost all of your hard work because the files weren't saved elsewhere.
- **Save everything for several years.** Not only will this help you budget for upcoming projects and operations, but you never know when you might be audited. The IRS has been known to perform audits several years after the end of the year being audited, sometimes even up to six years later. If you organize your files well, this will allow you to keep track more easily.

Some of these items might seem redundant, but **you can never have too much proof when it comes to the IRS!**

Easy Ways to Keep Track of Expenses

Six financial apps recommended by PCMag; the complete article is here:

<http://www.pcmag.com/article2/0,2817,2407617,00.asp>

1. **Mint.com** – Free and Online. Automatically monitors all your accounts. Also includes articles, advice, and information about banks, loans, IRAs, and investment.
2. **Officetime** - \$47. Keeps track of your billable hours & generates invoices for you. Good for freelancers.
3. **Check.me** (pageonce) - Free. Keep track of bills, & lets you pay them through the app.
4. **Shoboxed** - Free. Scan & keep receipts.
5. **YNAB** - Free financial literacy classes; software available but doesn't sync with other devices. <http://www.youneedabudget.com/support/training-and-education>
6. **Bankrate.com** – Free. Compare rates for mortgages, credit cards, etc.