



January 2016

Taxes

Unless your business is an LLC or a corporation, you will be filing your taxes as a self-employed individual. It's a good idea to have a general idea of the basics on forms you might receive, how your income could be taxed, and deductions that may be available to you.

I received a 1099-MISC form. . .

Each year, anyone that pays a non-employee \$600 or more must deliver a form 1099-MISC to the person they paid and must also file the form with the IRS by January 31st. If you receive a 1099-MISC form, the IRS has a record of the income you received; the same income must be reported on Schedule C of your federal tax return.

Keep in mind that the IRS system is computerized. It is very easy for the computer to identify unreported income on your Schedule C that was reported on a 1099-MISC, determine the amount of tax it believes you should have paid, and send you a notice/bill for the balance due. Best to account for all of the income on those 1099-MISC forms yourself when you file your taxes.

I didn't receive a 1099-MISC form. . .

If revenue that you earned doesn't seem to have been reported to the IRS on a form 1099-MISC, do you still need to report it on your 1099 tax form? Yes. Some venues and clients may not be aware of their requirement to issue 1099-MISC forms. This does not release you from your tax obligations. You are required to report all of the income you earned for the prior year and pay taxes on that income.

Deductions. . .

In our last newsletter, we provided a link to the IRS page that goes over their policies on what you can deduct. The IRS allows you to deduct some of the costs of running your business but they have guidelines that explain which costs may be deducted and of those costs how much of those costs are deductible.

The basic rule is that the costs have to be "both ordinary and necessary" for you to conduct your business. The IRS (not you) decides whether something is "ordinary and necessary." Here are some examples of what the IRS does and doesn't allow you to deduct.

Some touring musicians may find it ordinary and necessary to engage the services of a personal trainer, hair stylist, make-up artist, nail tech, etc. but the IRS does not allow these as deductions.

A touring musician may also find it necessary to put together a wardrobe to wear on stage while touring. The IRS will allow a deduction for “theatrical clothing and accessories that aren't suitable for everyday wear.” Whether this expense is deductible or not is going to depend upon whether what you are wearing on stage could take the place of what you wear when not on stage. The costs for the elaborate costumes frequently worn on stage by performers like Katy Perry, Lady Gaga, Prince or Marilyn Manson would qualify for the deduction. The clothing frequently worn on stage by artists such as Drake, The Weekend or bands like Coldplay or One Direction would not qualify for the deduction because what they wear is also suitable for everyday use.

Travel expenses are an area where many deductions are possible. The key issues here are whether it truly is a business trip (not pleasure) and whether you have travelled so far that returning home that night isn't feasible so an overnight stay is required. For a touring musician, this is easy to meet.

As for what is specifically deductible, the IRS goes into great detail on this topic:
https://www.irs.gov/publications/p463/ch01.html#en_US_2015_publink100033773

This article is offered to provide you with some general information about tax obligations but every situation is unique. We advise you to work with a professional accountant or a tax professional who can look at your specific situation and properly advise you on how to best meet your tax obligations.