

## **“Tax Information for the Performing Artist”**

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Actors, singers, dancers and other performers in the entertainment industry face many challenges when trying to prepare their tax returns and what qualifies as a deduction. There are many common mistakes actors make when it comes to appropriate tax write offs. Following are general guidelines, but always check with a certified tax preparer because tax codes change frequently. Don't make the mistake of listening to your fellow actors on what you can write off. Unfortunately, the Internal Revenue Service might have a differing opinion—and that opinion prevails at audit time. The reason to keep good records and receipts is in case you are audited you are fully prepared with everything you need to fight for your deductions. Also, keeping good records does a whole lot more for you in an IRS audit: It validates the time, effort, energy and money you put into your career. Auditors tend to think that performing artists will be scattered and unorganized, and when you come in like an efficient business person, their attitude towards you changes in a positive manner.

It is vitally important to keep excellent tax records and do it on a regular basis. This means keeping every receipt you plan on deducting. The reason is, if you are ever audited the absence of records and receipts could potentially cost you thousands of dollars. But, a bigger reason is, that if you do not keep good records, you are very likely to cheat yourself out of income from deductions you could rightfully claim.

The most important thing for you to do is keep track of your income and expenses; you can always hire someone to professionally prepare your tax forms. But, good tax preparation and recordkeeping is crucial. Even the best tax professionals cannot save you money or keep you out of trouble if you don't have good records. Make it a habit of having your records well organized with your receipts and ledgers easily accessible. Create a ledger on your computer as well as keeping a hard copy as a backup. It must show the date of the purchase, the purchase amount, and the business purpose. A business log can be a record of your choosing. There are record-keeping systems which are designed just for actors. Or, you can make notes in your daybook, calendar, and notebook - whatever works best for you.

Go to an office supply store and buy a large accordion-style file box with as many individual slots you will need. Then label the slots by categories listed below under deductible expenses. On a weekly or

monthly basis list your expenses in your ledger and put the written receipts into the appropriate slots. If you are using credit cards, it is a good idea to use one credit card for business use only, so that everything charged to it is business-related. Don't forget to write purchase details on the back of the credit card slips.

You are the CEO of your business and that includes being in charge of the "Accounting Department." Stay on top of your tax records and remember show business is two words. Being a great business person will help you get the most out of your deductions and be prepared in case you are audited by Uncle Sam.

**Independent Contractor vs. Employee**

Independent contractors get paid by cash or check with no withholding of any kind. This means that you are responsible for all of the Social Security and Medicare normally paid or withheld by your employer. Independent contractors will file a "Schedule C" as part of their regular 1040 income tax form (this is where you report all the 1099's you received last year). The performer may also file form 8829 for the home office deduction and will be required to pay self-employment tax (Schedule SE) on their net income (profit) as well as federal income tax. All these forms are part of the year-end 1040 income tax filing. The self-employed performer will also usually be required to pay estimated quarterly taxes on Form 1040-ES (if the tax liability is to exceed \$1,000). The performer may also have W-2 income from union jobs where taxes are taken out of your paycheck. On W-2's you might often have extensive expenses that will be deducted on Federal Form 2106. This means that a performer with BOTH W-2 and self-employment income will have to separate or allocate expenses between the two types of income:

Employment	Self-employment
Income from W-2 Form	Income from Form 1099-MISC
↓↓	
Expenses found on Form 2106, Employee Business Expenses	Expenses found on Schedule C

## **Common Questions**

### **Is my clothing tax-deductible?**

This is one of the first things an IRS auditor will look at and might draw attention to possible other deduction mistakes. The Internal Revenue Code states, "Clothing is considered to be a personal expenditure if it is suitable for street wear." Even though you have purchased clothing for audition purposes only if you can wear it any other time then it is not deductible. Wardrobe deductions are largely limited to true costumes: a police officer's uniform, surgical scrubs, a clown outfit, historical period pieces, etc. Formal wear, for both sexes, is also generally deductible. If you purchase such an outfit take a digital photo of it to document its character and keep the receipt. However, you can deduct the cost of dry cleaning or repairs to clothing you wear to an audition or a performance.

### **Are business gifts deductible?**

You can deduct business gifts in the amount of \$25.00 per person, per year. The law does not limit, of course, the amount of the gift—but only the first \$25.00 for each person is deductible. On your receipt make note including date of purchase, item description, name of the person receiving the gift and the business relationship/reason. Don't forget your agent who works very hard for you and loves to receive gifts!

### **What meals can I deduct?**

Personal business meals which do not involve other people are only deductible when overnight travel is involved, or if you must travel to a different metropolitan area even if you do not stay overnight. If you go from Orlando to Oviedo you cannot deduct your meal. But, if you went from Orlando to Tampa then you can. However, business meals, where you pay for someone else's meal are deductible. Here are some of the reasons on deducting business meals. You must have a receipt showing date and time, who was present, amount of the bill and business purpose. Business MUST be discussed at the meal—not before or after. In addition, the meal must take place in an atmosphere conducive to business—any restaurant or even a night club will suffice. And the expenditure must not be "lavish."

Meals when a group of actors get together and discuss career paths, agents, etc. are far less clear-cut. All business expenditures have to meet the test of being ordinary and necessary, and the tax courts have ruled that business meals shared by colleagues are not necessary. This becomes particularly true if the meeting is regular, and people take turns paying. Limit such "colleague" meals, and always explicitly note the business purpose on the receipt. Remember that only 50% of all meals are deductible.

## **Can I deduct my gym membership?**

Body image is an important and integral part of an a performers image, and staying in good shape is important to a career in the performing arts. Most gym and workout costs are considered to be personal expenditures, and therefore are NOT deductible. In case of a special circumstance where it is required for you to “buff up” for a project and the producers do not pay for this cost then you can deduct the fees paid to a gym and/or personal trainer.

## **What personal grooming costs are deductible?**

Everyday cost for makeup and routine haircuts and/or or color are personal expenses and are not deductible. If you have to change your hair cut and/or color for a specific audition or role then the costs relating to a specific incident is deductible. Theatrical makeup is deductible, because it is not normally used as street wear. If you pay a makeup artist for a headshot session or an audition, that specific set of costs is deductible. Manicures and pedicures are not deductible unless you are a hand model or a foot model with a specific audition or booking that would qualify as a deduction.

## **Can I deduct admission to movies and plays?**

This can be a gray area to the IRS so it is extremely important to keep good records. Always keep a written receipt and/or ticket stubs. Staple them to a sheet of paper, and next to the ticket, put a solid business reason why you saw that particular movie such as observing the director’s dialogue technique or researching current trends. The IRS is not keen on allowing movie or theatre admissions as a deduction, but with good records and good reasons, they will. You need proof you are going to see movies and theater as part of your job and not entertainment. They also are not fond of cable and satellite costs too—but you can argue for taking the deduction. Don’t claim your full bill as a business expense. Take a reasonable percentage as business and the balance as personal. Much more than 50% tends to make auditors not agree with your reason on why you deserve the deduction.

## **What are allowable mileage and transportation deductions?**

Your car is a major source of expense as well as a major source of tax deductions and is probably one of the most common deductions for performers. You do not have to have receipts for mileage, but you must have good records. This means keeping a mileage log. Thanks to technology you can download an App to keep track of your mileage. By keeping a log it will dramatically increase your possible deductions, because you won’t overlook miles driven for business—and you will have the necessary records if you are required to produce them. You cannot deduct personal miles such as driving back and forth to your day job. But, going from your day job to an audition is. Any trip you take to pursue work should be deductible. This includes auditions, call-backs, casting visits, trips to

acting classes, appointments to see agents and managers, to the post office to mail submissions, etc. Keep a record of your total mileage for the year. Make an odometer note on January 1 and again on December 31<sup>st</sup>.

### **What are deductible expenses?**

The goal is first and foremost to lower your taxes! The performing artist has a number of tax deductions that are unique. For the IRS, all deductible business expenses are those that are:

1. Incurred in connection with your trade, business, or profession
2. Must be "ordinary" and "necessary"
3. Must "**NOT** be lavish or extravagant under the circumstances"

### **Business related expenses include:**

- **Advertising and Publicity:** Headshot sessions and reproductions, business cards, stationery, postcards, professional registries (i.e. Actors Access), demo reels, website development and hosting fees.
- **Apparel:** Uniforms, costumes, special shoes ( not suitable for street wear) theatrical makeup and wigs. Cleaning, alterations and repair of work-related apparel.
- **Auto/transportation expenses:** Keep track of your round trip mileage to auditions and receipts for airfare, bus, car rental, lodging, parking, taxi and subway fare.
- **Equipment:** Equipment can include computers, printers, ear prompters, etc. Equipment purchased is generally "depreciated" and written off over five to seven years. These "depreciable lives" are defined in the IRS code. The IRS also allows taxpayers up to a certain amount to write off and depreciate the full cost of the purchase in one tax year instead of a longer time span. Discuss with your tax preparer how much your equipment is used for personal and business use and what is the best way for you to take your deductions.
- **Gifts:** Business related. Only \$25.00 per year per person is deductible.
- **Home Office:** If you use a room (or rooms) in your home **exclusively** for your business you will probably qualify for a home office deduction. The room can be a rehearsal space, teaching space, home recording and/or video studio, record keeping for the business, marketing, etc. The home office deduction utilizes a formula based on the square footage of the business portion (the home office) of your home vs. the total square footage of the house or apartment and applies that percentage to all associated costs. The costs could include apartment rent, mortgage interest, real estate taxes, condo fees, utilities, insurance, repairs, etc.

- **Legal and professional fees:** Commissions to agents and/or managers, attorney fees, tax preparation, required licenses, union and professional dues for organizations.
- **Meals:** Necessary business related meals are 50% deductible. They must include direct business discussions. They can include breakfast, lunch or dinner meetings with agents, fellow actors or performers, directors, film & producers, etc. If a direct business purpose were documented then the deduction would be allowed.
- **Training:** Acting, voice, dance lessons, or other education related to improving or maintaining your performance skills. This also includes rental fees for rehearsal space.
- **Supplies:** Ink cartridges, headshot reproductions, mailing supplies, make-up, fax and photocopy fees, postage and subscriptions to industry publications.