

artist _{AS} bookkeeper

VLAA
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Artist as Bookkeeper provides an overview of record keeping and tax matters frequently encountered by artists. This guide is not intended to serve as a substitute for professional tax advice and is being distributed with the understanding that VLAA is not rendering legal or accounting services. Readers are encouraged to consult a competent professional for advice concerning specific matters.

St. Louis Volunteer Lawyers and Accountants for the Arts (VLAA) provides free legal and accounting assistance to income-eligible artists and arts organizations. VLAA also offers arts-related mediation and a wide variety of educational programs in arts law and business including seminars, speakers, a resource library, website and publications.



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Preface

Artist as Bookkeeper complements two other St. Louis Volunteer Lawyers and Accountants for the Arts publications for individual artists, *Guide to Copyright Basics* and *Anatomy of a Contract*.

To prepare *Artist as Bookkeeper*, we relied on, and even borrowed verbatim from, several free and surprisingly lucid Internal Revenue Service publications. We refer to them throughout and also to the forms artists use most often when filing their tax returns. Those forms are reproduced in the Appendix.

This publication is designed to provide an overview of simple record keeping practices and tax preparation for a “typical” artist. How do we define “typical” artist? Our artist could be a painter, dancer, actor, musician, composer, poet, designer, photographer, potter, or filmmaker. Our artist has several sources of income, some of which may come from freelance jobs. Our artist keeps receipts, but they are may be stored in a shoebox. Like every taxpayer, our artist files a return on (or even before) April 15 and wants to pay the IRS what is owed, but not a penny more. Most of all, our artist would rather be making art or performing on a stage than thinking about the financial information discussed in this publication.

If you are one of our typical artists, we hope that the focus, content, and organization of this publication make you a little less reluctant to face and address these taxing matters. More importantly, we hope *Artist as Bookkeeper* gives you the peace of mind to concentrate on dancing your dance.

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Financial Records

Why should you keep records?

There are two reasons. First, a complete set of records will help you keep track of your income, expenses, and business-related property. They can explain your cash flow or why buying in bulk may save you money. Records (including how you spend your time) are among the most effective tools for assessing how you are doing (financially), for setting priorities, and planning for the future. Second, without complete and well-organized records, you will be unable to prepare and support your federal and state tax returns. Even worse, you may be paying more taxes than you really owe if you miss an estimated tax payment or misplace a receipt that could translate into a deduction.

How do you keep them?

Although the IRS does not require a specific bookkeeping system, you will be expected to prove that your records reflect all of your income and expenses (typically on a calendar-year basis).

Expenses. Your business records should include who was paid, for what, when, and why (i.e. the business purpose for the expense). Sales receipts (Hint: scan or copy those fast-fading thermal paper receipts.), credit card slips, and cancelled checks are good primary records. So are regular entries in your calendar or an automobile business-mileage log. See Publication 463, *Travel, Entertainment, Gift, and Car Expenses* for a detailed discussion of expenses you can deduct for local business transportation.

APPOINTMENTS

October 18 Monday	October 19 Tuesday
10:00 AM T. Jones	3:00 PM Gallery 1010
1:00 PM Art STL (hang show)	7:00 PM Art STL opening
5:00 PM Figure Drawing Class	

AUTOMOBILE LOG

Date	Destination	Mileage			Other Expenses (gas, oil, etc.)	
		Begin	End	Total Miles	Amount	Description
1/2/15	ArtMart	32,333	32,340	7		
1/3/15	CityPhoto	32,365	32,375	10		
1/4/15	Gallery 1010	32,381	32,396	15		
1/4/15					\$10.00	Gas

You may be able to deduct certain expenses connected with the business use of your home. To do so, you'll have to keep records that show the part of your home that you use for business and the expenses related to that use. See Publication 587, *Business Use of Your Home*.

Do you have employees or subcontract work to someone else? You must keep all records including their Social Security numbers, W-4, W-2, W-9, and 1099 Forms, I-9s, employment tax deposit slips, FICA, unemployment tax you paid, and state and local withholding. See Publication 583, *Starting a Business and Keeping Records* and Publication 15, *Employer's Tax Guide* (Circular E).

Assets. Your business assets are the property and equipment you use for your business. Keep a complete and detailed record of these assets, showing when you acquired them, how much they cost, and how much you use them in your business. These records will allow you to properly depreciate the assets and report the correct gain or loss if you ever dispose of them.

Income. Invoices, contracts, copies of checks, receipts you give customers, bank deposit slips, W-2 Forms, and 1099 Forms will make up your income paper trail.

Copies of tax returns. You should keep copies of your tax returns as part of your records. They will help you prepare future returns. If you file a Schedule C, *Profit or Loss from a Business*, you must pay self-employment tax on that income instead of the FICA tax that employees pay. This tax provides your Social Security benefits when you retire or should you become disabled. The amount of the benefits you receive will depend on how much you earn and contribute to the system. Your permanent records should show how much self-employment tax you have paid during your working years, so you can back up your retirement benefits claim.

Computerize or not. Most small businesses do their bookkeeping on computers using software packages such as Quicken or QuickBooks. For many artists, a simple handwritten system consisting of organized primary records (filed in labeled envelopes) and a separate business checkbook may suffice. Keeping secondary records that summarize and classify your primary records may be appropriate in some circumstances.

SALES AND CASH RECEIPTS

Date	From	Amount Due	Amount Received	Art Sales	Portfolio Photography
1/5/15	Art STL	\$200	\$200	\$200	
1/16/15	T. Jones	\$150	\$75		\$75
1/22/15	Gallery 1010	\$420	\$420	\$420	

CASH DISBURSEMENTS

Date	Payee	Amount	Check No.	Credit Card	Photos/ Resumes	Studio Rental	Voice Lessons
1/10/15	S. Moore	\$75.00	121				\$75.00
1/15/15	PhotoAd	\$202.22		Visa	\$202.22		
1/16/15	HiTec	\$46.71	122		\$46.21		
1/18/15	Conte	\$65.00	123			\$65.00	
1/19/15	S. Moore	\$75.00	124				\$75.00
Total					\$248.43	\$65.00	\$150.00

For best results, your record keeping system should be maintained on a regular basis and be simple enough for you to take care of by yourself. It also should be designed to easily generate information for both tax and general operating purposes.

In addition, you must select an accounting method (which is reported on line F on Schedule C). There are three accounting methods:

1. *Cash method.* Most artists use the cash method. With the cash method, you include income actually received during the year and deduct expenses in the tax year in which you actually pay them.
2. *Accrual method.* Under the more complicated accrual method of accounting, you report income in the year earned and deduct or capitalize expenses when you become liable for them, whether you pay them in the same year or not. This will likely apply to large businesses or some businesses with inventories.
3. *Hybrid method.* This method is often used by small businesses that want to use the accrual method for inventory and the cash method for all other income and expense items.

If you think you should be using the accrual or hybrid method, consult an accountant.

Once you have set up your accounting method, you must get IRS approval before changing to another method. See Publication 538, *Accounting Periods and Methods*.

How long should you keep your records?

Generally, the IRS has three years to audit your return, so you should keep all relevant documents at least that long. When your records are no longer needed for tax purposes, don't pitch them. Your insurance company or creditors may require you to keep records longer than the IRS does.

Employee or independent contractor?

Set designers are usually independent contractors; actors working on the same production are almost always employees. A composer commissioned to write a new symphony will probably be an independent contractor, but the conductor who selected him is probably an employee. Staff photographers are employees; freelance photographers are typically independent contractors. Being characterized as either an employee or an independent contractor can affect the copyright ownership in the work¹, the way income taxes are paid, Social Security tax liability, and the right to employee benefits.

THE EMPLOYER-EMPLOYEE RELATIONSHIP

Taxes and Benefits. Employers must withhold and pay taxes on wages paid to their employees. A staff photographer at a magazine, for example, receives daily assignments from her editor, film from the supply cabinet, and weekly checks from the payroll department. Federal, state, local, and her share of her Social Security taxes (FICA) are deducted from those checks. Her employer is required to pay an additional FICA and provide coverage for worker's compensation and unemployment insurance. Many employers also offer fringe benefits such as health insurance and retirement plans.

Employees receive a W-2, Wage and Tax Statement from their employer(s) in January.

Copyright. Because the photographer is an employee, the magazine automatically owns the exclusive rights of authorship including copyright for work she created within the regular scope of her job. If she wants to make any other reproductions or use of her photographs, such as inclusion of her work in a book, she must obtain permission from the magazine.

THE EMPLOYER-INDEPENDENT CONTRACTOR RELATIONSHIP

Taxes and Benefits. Employers do not have to withhold or pay any taxes on payments made to independent contractors. But they must file a Form 1099-MISC with the IRS if they pay an independent contractor \$600 or more during the year.

A freelance photographer hired to shoot a special cover for an art museum annual report works as an independent contractor. He uses his own camera, studio, sets his own hours, and is paid a flat fee for his work. The photographer is responsible for paying quarterly taxes on self-employment income and what amounts to both the employee and employer's share of Social Security taxes. He is not entitled to fringe benefits or unemployment. He may not be covered by worker's compensation.

Copyright. Unlike an employee, the freelancer automatically owns the copyright, unless a written agreement transfers that ownership. That ownership, which is separate from the physical possession of the work itself, gives the photographer reproduction, adaptation, distribution, sale, and display rights. He may simply assign the right to print the cover photograph to the museum for one-time use, or for any other agreed upon number of times.

¹ For more information, see VLAA's *Guide to Copyright Basics*, www.vlaa.org.

22222		a Employee's social security number		OMB No. 1545-0008	
b Employer identification number (EIN)		1 Wages, tips, other compensation 25,000		2 Federal income tax withheld 3,215	
c Employer's name, address, and ZIP code		3 Social security wages 25,000		4 Social security tax withheld 1,581	
		5 Medicare wages and tips 25,000		6 Medicare tax withheld 369	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial Last name Suff.		11 Nonqualified plans		12a	
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code					
15 State Employer's state ID number	16 State wages, tips, etc. 25,000	17 State income tax 960	18 Local wages, tips, etc. 25,000	19 Local income tax 250	20 Locality name STL

Form **W-2** Wage and Tax Statement
Copy 1—For State, City, or Local Tax Department

2015

Department of the Treasury—Internal Revenue Service

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents \$		OMB No. 1545-0115 2015 Form 1099-MISC		Miscellaneous Income
		2 Royalties \$		3 Other income \$		
PAYER'S federal identification number	RECIPIENT'S identification number	5 Fishing boat proceeds \$		4 Federal income tax withheld \$		Copy 1 For State Tax Department
		6 Medical and health care payments \$				
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		7 Nonemployee compensation \$ 3,500		8 Substitute payments in lieu of dividends or interest \$		
		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>		10 Crop insurance proceeds \$		
		11		12		
Account number (see instructions)		FATCA filing requirement <input type="checkbox"/>	13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$		
15a Section 409A deferrals \$	15b Section 409A income \$	16 State tax withheld \$		17 State/Payer's state no.		18 State income \$

Form 1099-MISC

www.irs.gov/form1099misc

Department of the Treasury - Internal Revenue Service

DETERMINING THE CORRECT STATUS

Sometime around 1884, poet James Whitcomb Riley used humor to explain inductive reasoning with the observation, “When I see a bird that walks like a duck and swims like a duck, and quacks like a duck, then it probably is a duck.” His duck test is a good place to begin if you’re trying to decide whether a worker should be classified as an independent contractor or as an employee. In most cases, the distinction is clear: employees look like employees.

But when it’s unclear the IRS looks at criteria that became known as the “20 Factor” test. In an attempt to simplify and refine that test, it has organized the factors into three main groups: behavioral control, financial control and the type of relationship of the parties.

Behavioral Control

Facts that show whether the business has a right to direct and control how the worker does the task for which the worker is hired include the type and degree of:

Instructions the business gives the worker. An employee is generally subject to the business' instructions about when, where, and how to work. All of the following are examples of types of instructions about how to do work: when and where to do the work; what tools or equipment to use; what workers to hire or to assist with the work; where to purchase supplies and services; what work must be performed by a specified individual; and what order or sequence to follow. The amount of instruction needed varies among different jobs. Even if no instructions are given, sufficient behavioral control may exist if the employer has the right to control how the work results are achieved.

Training the business gives the worker. An employee may be trained to perform services in a particular manner. Independent contractors ordinarily use their own methods.

Financial Control

Facts that show whether the business has a right to control the business aspects of the worker's job include:

The extent to which the worker has unreimbursed business expenses. Independent contractors are more likely to have unreimbursed expenses than are employees. Fixed ongoing costs that are incurred regardless of whether work is currently being performed are especially important. However, employees may also incur unreimbursed expenses in connection with the services they perform for their business.

The extent of the worker's investment. An employee usually has no investment in the work other than his or her own time. An independent contractor often has a significant investment in the facilities he or she uses in performing services for someone else. However, a significant investment is not necessary for independent contractor status.

The extent to which the worker makes services available to the relevant market. An independent contractor is generally free to seek out business opportunities. Independent contractors often advertise, maintain a visible business location, and are available to work in the relevant market.

How the business pays the worker. An employee is generally guaranteed a regular wage amount for an hourly, weekly or other period of time. An independent contractor is usually paid by a flat fee for the job.

The extent to which the worker can realize a profit or loss. Since an employer usually provides employees a workplace, tools, materials, equipment, and supplies needed for the work, and generally pays the costs of doing business, employees do not have an opportunity to make a profit or loss. An independent contractor can make a profit or loss.

Type of Relationship

Facts that show the parties' type of relationship include:

Written contracts describing the relationship the parties intended to create. This is probably the least important of the criteria, since what really matters is the nature of the underlying work relationship, not what the parties choose to call it. However, in close cases, the written contract can make a difference.

Whether the business provides the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay. The power to grant benefits carries with it the power to take them away, which is a power generally exercised by employers over employees.

The permanency of the relationship. If the company engages a worker with the expectation that the relationship will continue indefinitely, rather than for a specific project or period, this is generally considered evidence that the intent was to create an employer-employee relationship.

The extent to which services performed by the worker are a key aspect of the regular business of the company. If a worker provides services that are a key aspect of the company's regular business activity, it is more likely that the company will have the right to direct and control his or her activities.

See Publication 15A *Employer's Supplemental Tax Guide*. For information about particular circumstances, consult a lawyer or an accountant.

Hobby or business?

For tax purposes, activities earning profits in three of five years are normally presumed to be businesses rather than hobbies. Artists who meet the requirement are allowed to deduct their business expenses when they file their Schedule C, *Profit or Loss from Business*, with the IRS. If your business deductions exceed your income for the tax year, you can claim a loss, up to the amount of your taxable income from other sources.

What happens if you do not meet the three out of five-year test? Will an IRS auditor automatically consider your artistic endeavor a hobby (no deductions allowed) instead of a business? No! That's assuming you can prove that you're conducting your arts-related business with the clear intent of making a profit.

To help artists make a convincing case with the auditor (taxpayers bare the burden of proving profit motive), experts point to the nine factors the IRS considers in distinguishing hobbyists from professionals. Here is the IRS's list of "objective" non-exclusive factors with some tips that will not only help you make your case but also help your business grow:

- *Whether you carry on your activity in a business-like manner.* Maintain complete and accurate records. Keep a separate bank account and credit card for your business. Avoid co-mingling of assets, which involves using business resources for personal purposes, or the business using the owner's personal resources for business purposes. Letterhead, business cards, your website, invoices, budgets, accurate books, insurance, reasonable goals, and membership in professional associations also are construed as business-like behavior. Like a non-arts business, you should periodically review your sales or promotion strategies and make changes needed to improve profitability.
- *Whether you (or your advisors) have the knowledge needed to carry on the activity as a successful business.* Document your professional training, practices, and accomplishments. Consult with experts, especially about profit potential, when appropriate.
- *Whether the time and effort you spend on the activity indicates that you intend to make it profitable.* Keep a log or journal to document your working time and attempts to grow the business. If, over a period of time, you are devoting more time to your artwork, you can demonstrate your sincerity even if you are not currently a full-time artist. In fact, nothing requires an activity to be the taxpayer's sole or principal occupation.
- *Whether you can expect to make a future profit from the appreciation of the assets used in the activity.* Again, documentation is critical. If your sales and selling prices or fees have increased, then you can demonstrate a reasonable expectation of future profits. Because an artist's reputation typically grows over time, your unsold work should also appreciate in value.
- *Whether the assets used in the activity may appreciate.* While this factor may not apply to most arts businesses, it's important to document any expected asset appreciation.
- *Whether you have been successful in making a profit in similar activities in the past.* Cite teaching, jurying, curating, and writing as well as the activities covered above. Start-up losses or losses sustained due to circumstances beyond your control (such as fire, theft or depressed market conditions) will not indicate that you lack a profit motive.
- *Whether the activity is profitable in some years, and how much profit it makes.* A long history of losses or small profits could hurt your case. Profitable years that appear artificially created could raise a red flag. So could a loss that results in a large tax benefit.

- *Whether you depend on income from the activity for your livelihood.* An apparent need for the arts-related income will support your case. Conversely, wealth in itself will not necessarily indicate lack of profit motive.
- *Whether you derive personal pleasure from the activity or use it for recreational purpose.* You are not required to suffer to produce your art, but you should carefully document all claims, particularly entertainment and travel expenses.

If you're audited, take a look at *Churchman v. Commissioner* [68 TC 696, 1977], a case that established a precedent for acceptance of artists as being in business without making a profit. Despite a history of losses, the artist was allowed to deduct her sufficiently documented expenses.

More recently, *Crile v. Commissioner* [T.C. Memo 2014-202, October 2, 2014] is being viewed as a victory for artists who teach. Susan Crile is a painter and a tenured professor of studio art. She attracted the IRS's attention because of the large amount of deductions she was taking for her art business. Crile has sold hundreds of pieces during the last 40 years and has work in 25 museum collections. But the IRS argued that teaching is her actual profession. The court ruled for Crile, noting that her day job was clearly a supplement to her main vocation of painting, not the other way around. Crile's detailed recordkeeping, the time she devoted to producing and marketing her work and a clear profit motive helped persuade the court.

St. Louis Volunteer Lawyers and Accountants for the Arts maintains a file of other hobby loss cases, which is available on request, vlaa@stlrac.org.

Should you incorporate?

If you are performing, selling artwork or otherwise making money as an artist, you are engaged in business. There are several other ways to structure a business, each having advantages and disadvantages to be weighed against practical needs and goals.

In making a choice, you should consider the following variables:

- Your vision for the business;
- The level of control you want to have;
- How many people will own the business;
- The level of “structure” with which you are comfortable;
- Financing;
- Risk and liability²;
- Tax implications; and
- Continuity.

There is no right or wrong structure, and it is possible to change the structure at a later date if your business grows or the risks of personal liability increase.

What follows is a general overview of the basic forms of business entities and the requirements for their formation in Missouri and Illinois. VLAA encourages you to obtain the assistance of a qualified attorney and/or accountant before finalizing your choice of legal entity.

Sole Proprietorship

For simplicity, most artists operate as sole proprietors. If you are working on your own and making money from your art on a freelance basis, you are automatically a sole proprietorship (even if you also have a regular day job).

Sole proprietorships are owned by one person, usually the individual who has day-to-day responsibility for running the business. Sole proprietors have total control over all their business decisions.

As sole owner of the assets, the sole proprietor is entitled to all of the profits of the business but also is personally responsible for all of its liabilities and obligations. There is no shield from liability other than insurance coverage. In other words, business creditors can go after both the business’s assets and your personal assets, including your bank account, car or house. The reverse also is true: your personal creditors can make claims against your business’s assets.

The income generated by the business is considered personal income and is taxed accordingly by adding Schedule C to IRS Form 1040 to calculate the business's profit or loss and then completing Schedule SE to figure self-employment tax (see page 27-29).

No legal steps are required to form a sole proprietorship. However, when the business name is substantially different from the owner’s full legal name, registration is required. In Illinois, file with your local county clerk’s office. In Missouri, the “fictitious name” of the business should be registered with the

² In simple terms, limited liability means that creditors of the business cannot normally go after the owner’s personal assets to pay for business debts and claims arising from lawsuits.

Secretary of State (www.sos.mo.gov) by filing a short form and paying a nominal fee. Registering a Fictitious Business Name or Assumed Business Name does not guarantee exclusive use of that name. Name registration simply provides a vehicle for checking the ownership of a business. Essentially, it notifies the public that you are “doing business as” someone other than yourself and allows creditors to know who is responsible for the activities of the business. To protect the name, you should do a thorough online search to make sure that no other business that is offering a similar product or service is using the name you have selected. You may also want to ask an attorney to perform a trademark search.

In addition to name registration, some cities and counties require businesses to register or obtain licenses.

Many artists initially operate as sole proprietors and graduate to a different type of business entity, when appropriate.

Advantages

- Easiest and least expensive form of ownership to organize
- No lawyer needed
- Simple to operate; few administrative burdens
- Sole proprietors are in complete control and, within the parameters of the law, may make decisions as they see fit.
- Sole proprietors receive all income generated by the business to keep or reinvest.
- Profits from the business flow through directly to the owner's personal tax return.
- Self-employment income is subject to federal self-employment taxes.
- Easy to dissolve

Disadvantages

- Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their personal assets are at risk.
- No continuity past proprietor, although the assets will be transferred as provided in the proprietor's will.
- Securing a small business bank loan may be difficult.
- Owners are not defined by law as employees and consequently are not eligible for unemployment benefits.
- All net income subject to self-employment tax
- For some artists, forming a LLC may be a better choice.

Partnership

A partnership is essentially the same as a sole proprietorship, except there is more than one owner. Each partner contributes money, property, labor, and/or skill and expects to share in the profits and losses of the business. Generally, this form of business organization is created by a formal agreement, but a partnership may simply be based on an oral agreement or may even be implied by the conduct of the parties.

Generally, the term “partnership” refers to a general partnership. Under a general partnership structure, the partners share decision-making, profits and losses. They also are personally liable for the business and its debt, regardless of which partner incurred the liability.

You don't have to do anything formal to create a general partnership. When two or more people contribute towards a business and share in the profits without having any other agreement about the form of the business, the business is automatically classified as a partnership. Partners divide responsibility for management and liability, as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states otherwise. Similarly, in the absence of a written agreement, any partner can bind the partnership and the individual partners to contracts or other legal obligations without the approval of the other partners.

Although the partnership can be formed by a handshake, it is strongly recommended that an attorney prepare a written partnership agreement. Typically, the agreement sets forth the capital – money, services, supplies or equipment – contributed by each partner; how much time each partner will devote and what his or her functions will be, including who has primary responsibility for accounting and the preparation of financial documents; how decisions will be made; how profits (or losses) and copyright interests will be shared; provisions for taking profits out of the company; how disputes will be resolved; how future partners will be admitted; how partners can be bought out and what steps will be taken to dissolve the partnership, if needed. The most compelling reasons for preparing this agreement are to avoid misunderstandings and to guarantee the continued existence of the partnership in the event one member leaves the business; without an agreement, the departure of that partner automatically ends the partnership.

Missouri and Illinois also permit the formation of limited liability partnerships. Under this structure, most of the partners have limited liability (to the extent of their investment) as well as limited input regarding management decisions. Forming a limited partnership is more complex and formal than forming a general partnership and requires the assistance of a lawyer.

A partnership itself generally does not pay income taxes. A partnership files an annual information tax return with the IRS, Form 1065, stating all items of taxable income and tax deductions. Included is Schedule K-1, which details each partner's share of taxable income and tax deductions. The partnership income is considered personal income and is taxed as such. Partners are not employees and should not be issued a Form W-2.

A partnership with a business name other than the name(s) of the partners must also register the name with the Missouri Secretary of State. In Illinois, assumed business names are registered with the county clerk (see explanation under Sole Proprietorship).

Partnerships should keep separate bank accounts and financial records for the business.

Advantages

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
- Less administration than corporations
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly through to the partners' personal tax returns.
- The business usually will benefit from partners who have complementary skills.

Disadvantages

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared.
- Since decisions are shared, disagreements can occur.
- Partners are not defined by law as employees and consequently are not eligible for unemployment benefits.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.
- Upon dissolution, partners remain liable for the firm's existing obligations.

Limited Liability Companies

A limited liability company (LLC), an increasingly popular form of business structure, is an unincorporated business that provides owners with limited liability, flow-through tax treatment and operating flexibility. Many lawyers encourage artists and other sole proprietors to seriously consider this option.

As the name implies, this model provides limited liability. If the business defaults on a lease or mortgage, personal assets, such as your home, car, and other collateral are protected unless you personally guarantee a loan or lease for the business or fail to run the LLC in a financially responsible manner

Owners of an LLC are called members. Members may include individuals, corporations or other LLCs. There is no maximum number of members. Missouri and Illinois permit “single member” LLCs — those having only one owner.

An LLC may be managed by its members or by a manager, who may or may not be a member of the LLC. If a manager is selected to run the LLC, the members often are more like passive investors, similar to partners in a limited partnership or shareholders in a corporation.

For federal and state income tax purposes, the profits or losses of the business pass directly through to the member's personal income tax return, Form 1040. If the LLC has only one member (who is an individual), the LLC will be treated as a sole proprietor for tax purposes. The LLC does not file a return, and the sole member reports all profits or losses on Schedule C using his or her Social Security number. (In some instances, a separate tax identification number may be required, such as when the LLC has employees.) Because the LLC is a pass-through entity, the sole member of a single member LLC must report all the profits (or losses) generated by the LLC each year and pay tax on all profits, even if some of the profits are left in the LLC's bank account.

If the LLC has two or more members, the LLC will be treated as a partnership for tax purposes, unless the members elect to be treated as a corporation (rarely the case). A multi-member LLC is required to obtain its own federal tax identification number and must file an annual partnership informational return (Form 1065). The return includes Schedule K-1, which is provided to each member. The member then reports his or her “distribution share” on Schedule E of his or her individual tax return.

Members are not considered employees of the LLC, so distributions are not considered wages; income taxes or Social Security/Medicare taxes are not withheld. But members who are actively engaged in the LLC's activities may be responsible for paying estimated income taxes.

An LLC cannot be established in Missouri or Illinois until Articles of Organization are filed with the Secretary of State. In Missouri, the filing fee is \$50 online and \$105 by mail; in Illinois the fee is \$500. The short form requires such information as the firm's name, its purpose, the name and address of its registered agent in Missouri, the names and addresses of each organizer, dissolution parameters and its management form. The management structure is described in a document called the Operating Agreement, which sets out the internal rules of the business. It is very important to have an Operating Agreement if your LLC has two or more members.

Before choosing a name for your LLC, you should do a thorough online search to make sure that no other business that is offering a similar product or service is using the name, and may want to ask an attorney to perform a trademark search.

A lawyer should form a LLC. In Missouri, once the formation paperwork is filed with the Secretary of State and the LLC is established, no additional documents or annual reports are required. Annual registration, including a modest fee, is required in Illinois.

Advantages

- Combines tax advantages of partnership with liability protection of a corporation
- Because of its liability protection, the LLC is becoming a popular business model for small business owners.

- Compared to corporations, LLCs are inexpensive to establish and not as complex to operate.
- Flexibility
- Members are compensated using either distributions of profit or guaranteed payments. As a member of an LLC, you are not allowed to pay yourself wages.
- Members can contribute capital or other assets to the LLC. They can take money out by taking a repayment of the loan (plus interest), a distribution of profit or a guaranteed payment.
- An LLC is a pass-through entity unless it selects otherwise.
- If any of the members die, the LLC can continue to exist – subject to the unanimous positive vote on the part of all remaining members.

Disadvantages

- Unlike a sole proprietorship, you must file the correct paperwork to gain (and in Illinois, maintain) LLC status. Working with a lawyer is strongly recommended.
- Each member's share of profits represents taxable income whether or not a member's share is distributed to him or her.
- The managing member's share of the bottom-line profit of the LLC is considered earned income, and therefore is subject to self-employment tax.
- LLC laws vary from state to state.
- Members who have management authority, debt responsibility or who materially participate are exposed to self-employment tax.
- Operating in other states on a regular basis may require registration and associated fees.

Corporations

Corporations, the most complex form of organization, are entities with lives separate from their owners and are subject to considerable government regulation and reporting requirements.

Corporations have shareholders that enjoy limited liability (provided the appropriate corporate formalities are observed). Depending on its structure, a corporation either files a tax return and pays all taxes or, if it is an S-Corporation, it transfers profits and/or losses the individual shareholders' tax return in proportion to stock ownership. Consult a lawyer and an accountant before forming a corporation.

A *nonprofit corporation* is the organizational form used by most arts organizations. It has most of the same advantages as a for-profit corporation. Under this structure, however, the corporation does not issue stock or pay dividends. Arts organizations typically incorporate as nonprofit corporations to provide continuity and structure, qualify for tax-exempt status, apply for grants, and protect officers and directors against personal liability. For more information, request a copy of VLAA's *Nonprofit Incorporation Workbook*.

Tax Returns

Who needs to file?

You must file a return if you are a citizen or resident of the United States. Consult the table below for filing requirements based on marital status and gross income.

Same-Sex Couples

The 2015 Supreme Court decision requires all legally-married same-sex couples to file as married (either jointly or separately).

2015 Filing Requirements for Most Taxpayers

Marital Status	Filing Status	Age	Gross Income
Single (including divorced and legally separated)	Single	under 65	\$10,300
		65 or older	\$11,850
	Head of household	under 65	\$13,250
		65 or older	\$14,800
Married, living with your spouse at end of 2015	Married, joint return	both under 65	\$20,600
		one 65 or older	\$21,850
		both 65 or older	\$23,100
	Married, separate return	any age	\$4,100

Source: Publication 17, *Your Federal Income Tax*

Self-employed persons (sole proprietors, independent contractors, and anyone receiving fees for services rendered) are required to file a return if net earnings from self-employment are \$400 or more. If you are not required to file, you may want to do so if you had income taxes withheld from your pay.

e-File and Free Fillable Forms

If your adjusted gross income was \$62,000 or less in 2015, you can file your return electronically at no cost by using Free File (www.irs.gov). Among the benefits of filing electronically are faster refunds and helping the environment by saving paper. You can find free federal fillable forms, which perform basic math calculations automatically, on the IRS site.

Extensions

If you cannot file on or before the April 18 (2016) deadline, you may be able to get an automatic 6-month extension by filing Form 4868, *Application for Automatic Extension*. However, an extension of time to file is not an extension of time to pay taxes owed. You must make an accurate estimate of taxes owed and send any necessary payment with your Form 4868. Otherwise you'll pay interest and may even be charged a penalty.

Commonly Used Forms

Your employment status and income will, to a large extent, determine the amount of time and energy you will need to devote to record keeping and tax return preparation.

If you are employed full-time by one employer and don't have a complicated investment portfolio or other itemized deductions, chances are you can file an easy Form 1040EZ or 1040A. However, if you are performing artist who wants to claim business expenses for working on the road or a visual artist who wants to deduct the cost of supplies, or a freelance writer who wants to claim business expenses, you'll have to file Form 1040 in addition to several other forms.

Our typical artists file Form 1040, known as the "long form." In addition to filing the front and back of that form, they complete some or all of the following (copies of the bolded forms, which are used most often, are included in the Appendix):

Schedule A	Itemized Deductions
Schedule B	Interest and Dividend Income
Schedule C	Profit or Loss from Business
Schedule C-EZ	Net Profit from Business (Simplified)
Schedule SE	Self-Employment Tax
Form 2106	Employee Business Expenses
Form 4562	Depreciation and Amortization
Form 8829	Expenses for Business Use of Your Home
Form 8962	Premium Tax Credit
Form 8965	Health Coverage Exemptions

Form 1040 includes 77 lines detailing your filing status, exemptions, income (including unemployment compensation), adjusted gross income, tax computation, credits, other taxes, refund or amount due. Some figures, such as wages (line 7), only appear on Form 1040, while some, such as business income (line 12) are carried over from other forms.

Form 1040 Tips

- *Royalty income* (line 17) from your copyrights in literary, musical or artistic works is money paid to you for the right to use your work during a specific period of time. These should be reported on Schedule C, not on Part I of Schedule E.
- *Unemployment compensation* (line 19). Generally, unemployment income you received in 2015 is taxable. You can choose to have federal income tax withheld from your payments. If you do not choose to have taxes withheld, you may be liable for estimated taxes. See page 30.
- *Educator expenses* (line 23). If you are an eligible educator (K-12), you may be able to deduct up to \$250 of expenses you paid for purchases of books and classroom supplies. This is an above-the-line deduction, so it's available even if the teacher does not itemize. See Publication 970, *Tax Benefits for Education*.
- *Self-employment tax deduction* (line 27). You may deduct one-half of your self-employment tax from Schedule SE, line 6.
- *Retirement plans* (line 28 and 32). Depending on your income and coverage in a pension plan, you may be eligible for significant deductions for a regular IRA, the Roth IRA, a Keogh or a SEP (Simplified Employee Pension). In 2015, the deductible contribution to IRAs is \$5,500 per person for age 49 and below and \$6,500 for age 50 and above. See Publication 590, *Individual Retirement Arrangements*.

- *Self-employment health insurance deduction* (line 29). Most self-employed individuals can deduct 100 percent of the premiums they pay for health insurance. You may be able to deduct any premiums you paid to cover your child who was under age 27, even if the child was not your dependent. See Publication 535, *Business Expenses*.
- *Interest on student loans* (line 33). You may be able to claim an above-the-line (the taxpayer does not need to itemize in order to benefit) deduction for interest on a qualified student loan. Recent rule changes will allow you to deduct student loan interest even after the end of the 60-month period that began when you were first required to make a payment. Also, the income level at which your deduction will be reduced or eliminated has been increased. See Publication 970, *Tax Benefits for Higher Education*.
- *Standard deduction*. Most taxpayers can find their standard deduction by looking at line 40. If total itemized deductions such as mortgage interest, medical expenses, and charitable contributions are greater than the standard deduction, you should file Schedule A, Itemized Deductions.
- *Child and dependent care expenses* (line 49). You may be able to claim a credit if you pay someone to care for your dependent child who is under age 13 or for another dependent who is unable to care for himself or herself. The credit is calculated as a percentage of childcare expenses; the higher your income, the lower the percentage you can claim. See Publication 17, *Your Federal Income Tax*.
- *Education credits* (line 50). For 2015, there are two credits available for higher education. They are the American opportunity credit (up to \$2,500 per eligible student) and the lifetime learning credit (up to \$2,000 credit per return). See Publication 970, *Tax Benefits for Higher Education*.
- *Residential Energy Credits* (line 53). There are a number of “green” tax credits for making qualified improvements to your home like energy-efficient windows. See Form 5695.
- *Earned Income Credit* (line 66a). This credit is available to certain taxpayers who work and have low incomes. To claim the EIC, you must meet several requirements, which are explained in Publication 596, *Earned Income Credit*.

Income Notes

- *Cash in and Cash out*. Cash transactions are taxable and must be reported.
- *Bartering*. When you exchange goods or services without money exchanging hands, the IRS says fair market value must be included in the income of both parties. Traders are responsible for issuing and filing a Form 1099-B, *Proceeds from Broker and Barter Exchange*.
- *Grants, Fellowships, and Scholarships*. Sorry, unless you are a candidate for a degree at an educational institution and the grant, fellowship, or scholarship is being used for tuition or course-related expenses, the money is taxable. See Publication 52, *Scholarships and Fellowships*.

Itemizing using Schedule A

In most cases, your federal income tax will be less if you take the larger of your itemized deductions or your standard deduction. If you itemize, you may be able to deduct a part of your medical and dental expenses. Other deductions include unreimbursed employee business expenses, amounts paid for certain taxes, home mortgage interest, charitable contributions, and certain casualty and theft losses.

- *Medical and Dental Expenses* (lines 1-4). These can only be deducted if they exceed 10 percent of your adjusted gross income (or 7.5% if you or your spouse is 65 or older.)
- *Home Mortgage Interest Deduction* (line 10). In most cases, you can deduct all of your home mortgage interest. Generally, home mortgage interest is any interest you pay on a loan secured by your home (main home or a second home). The loan may be a mortgage to buy your home, a second mortgage, a line of credit, or a home equity loan. See Publication 936 *Home Mortgage Interest Deduction*.
- *Gifts to Charity* (lines 16 and 17). Deductible contributions can be in cash, property or out-of-pocket expenses you paid to do volunteer work (not the value of your volunteer time). You can deduct a gift of \$250 or more only if you have a written statement from the charitable organization. Donations of household goods or clothes must be in “good used condition” and require a receipt from the organization. There also are special requirements for donating cars to charity. See the IRS brochure, *A Donor's Guide to Car Donations*. For information about donating artwork to charitable organizations, see page 34.

Translating Business Expenses into Deductions

If you are a performing artist, particularly one who generally works under a union contract, chances are most of your income came from salaries and wages. To deduct your business expenses, you will complete Form 2106, *Employee Business Expenses*, or Form 2106-EZ, *Unreimbursed Employee Business Expenses*. You can use Form 2106 if you were not reimbursed for your expenses or if you were reimbursed and the reimbursement was included in your income (box 1 of your W-2).

If you are a self-employed visual artist, composer, writer, filmmaker or a performing artist who was paid in fees, you will report that income and your business expenses by filing Schedule C, *Profit or Loss from Business*, or Schedule C-EZ, *Net Profit from Business*.

If you are both self-employed and an employee, you must keep separate records for each business activity and report on both Form 2106/Form 2106-EZ and Schedule C/Schedule C-EZ. Because business expenses reported on Form 2106 are “below-the-line” deductions that are generally limited to the excess over 2 percent of adjusted gross income (and can trigger the Alternative Minimum Tax), it is usually desirable to attribute business expenses to self-employment income rather than to wage income.

Form 2106 Employee Business Expenses

A few examples of unreimbursed deductible employee expenses are listed below:

- Education that is related to employment. See Publication 508, *Educational Expenses*.
- Home office or part of home used regularly and exclusively in work. See Publication 587, *Business Use of Your Home*.
- Job search expenses in your *present* occupation (such as printing and mailing resumes and head shots and travel expenses to and from and while in the area if the trip is primarily to look for a new job and if you are seeking employment for the first time).
- Tools used in your work. Generally, you can deduct amounts you spend for tools in your work if the tools wear out and are thrown away with one year from the date of purchase. You can depreciate the cost of tools expected to last more than a year. See Publication 946, *How to Depreciate Property*.
- Subscriptions to professional journals and trade magazines related to your work
- Telephone. Long distance for business, a second line dedicated to business use and answering service charges.
- Travel, transportation, entertainment, and gift (limited to \$25 per recipient per year) expenses related to work. See Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.
- Union dues and initiation fees.
- Work clothes and accessories (if required as a condition of your employment) that are not suitable for ordinary wear. Members of several rock bands have tangled with the IRS over deducting onstage clothing. In a recent case, summarized by the *Wall Street Journal*, a musician touring with Rod Stewart was only allowed to deduct \$200 of \$695 in “stage clothing,” because the IRS said most of the items were “adaptable for general and personal wear.”

What about per diem?

A per diem, Latin for “by the day,” is an allowance for daily expenses. As defined by the IRS, per diem includes food, lodging, and incidental expenses such as tips, and change for coin-operated laundry. It does not cover car rental, taxi fares, or phone calls.

Most performing artists are given per diem under *nonaccountable* plans. That means a) the employer does not require an accounting and b) the employee keeps any funds not spent.

Under the nonaccountable plan, the employer is supposed to combine the amount of your per diem (or other expense allowances paid to you) with your wages, salary or other pay. The employer also should withhold taxes if the per diem exceeds the guidelines set by the federal government See Publication 1542, *Per Diem Rates* or www.gsa.gov for domestic rates, which vary from month to month.

Example 1 An actor who is working in Chicago receives a \$76 per diem. The producer provides housing at no cost to the actor. Because the federal food allowance is \$74, \$2 of the per diem is taxable.

Example 2 The actor receives a \$76 per diem, but is responsible for his own housing. The daily hotel allowance in Chicago is \$200. Therefore, no taxes are withheld.

At the end of the year, per diem payments should appear as part of the total in Box 1 of your W-2. When you complete Form 2106, your allowable deduction for lodging (line 3) is your actual cost. For meals (line 5), you can use either the actual cost (backed up with receipts) or a standard amount set by the federal government. On travel days, you can claim 75 percent of the standard meal allowance. But remember, when you complete the form, only 50 percent of what you spent will be deductible.

Qualified Performing Artists

Normally, all employee business expenses, other than those reimbursed by the employer, are deductible only as itemized deductions. Itemized deductions are only deductible to the extent they exceed 2 percent of the employee's Adjusted Gross Income. The Qualified Performing Artist (QPA) Tax Adjustment, however, allows low-income performers to deduct their business expenses, even if they do not have sufficient expenses to itemize on Schedule A. In fact, those who meet the requirements can subtract their expenses off the top of their incomes.

The advantage of the QPA adjustment can be seen in the following example. Performer A earns \$10,000 and spends 15 percent, or \$1,500, of his earnings on business expenses. Under the QPA Adjustment, he can deduct the full amount from his income. Performer B earns \$20,000 (which is over the allowable limit) and also spends 15 percent of his income, or \$3,000, on business expenses. He must take the normal business deduction for itemized business expenses. The tax code only allows deductions for expenses that exceed 2 percent of income, or \$400. Performer B can therefore only deduct \$2,600 of his expenses.

You will qualify for the QPA tax break if you meet *all* of the following requirements:

1. You performed services in the performing arts for at least two employers during the tax year.
2. You received at least \$200 each from any two of these employers.
3. Your related performing-arts business expenses were more than 10 percent of your gross income.
4. Your adjusted gross income was not more than \$16,000 before deducting these expenses.
5. You must file a joint return if you are married, unless you lived apart from your spouse during the entire tax year. If you file a joint return, you must figure requirements one, two, and three separately for both you and your spouse. However, requirement four applies to you and your spouse's combined adjusted gross income.

If you meet all of the requirements for the QPA Adjustment, complete Form 2106, Employee Business Expenses, or Form 2106-EZ. Enter performing arts-related expenses from line 10 on Form 2106 (or from line 6 on Form 2106-EZ) on line 24 of Form 1040.

If you do not meet all of these requirements, you must complete Form 2106 or 2106-EZ and deduct your employee business expenses as an itemized deduction on line 21 of Schedule A.

The QPA was enacted in 1986. According to U.S. Sen. Charles E. Schumer (D-NY), "the tax code is so outdated, it's more appropriate for court jesters from the Middle Ages than for today's performing artists." In 2008, Sen. Schumer and Sen. Dianne Feinstein (D-CA) proposed legislation to raise the annual income cap from \$16,000 to \$30,000 (with an index for inflation). That would have allowed many more performing artists to take advantage of the above-the-line deduction. But the bill died and hasn't come up since. Write your Congressperson!

Schedule C: Profit or Loss from Business

Along with Form 1040, sole proprietors and independent contractors generally file a Schedule C, which determines the annual profit or loss from a business run by a sole proprietor.

You may use Schedule C-EZ instead of Schedule C if you:

- 1) had business expenses of \$5,000 or less;
- 2) use the cash method of accounting;
- 3) did not have an inventory at any time during the year;
- 4) did not have a net loss from your business;
- 5) had only one business as a sole proprietor;
- 6) did not have employees;
- 7) are not required to file Form 4562, *Depreciation and Amortization*, for your business; and
- 8) do not deduct expenses for the business use of your home.

For everyone else, Schedule C is broken down into several sections asking for general information, accounting method (cash or accrual), income received, business expenses, inventory (Part III Cost of Goods Sold), and information about vehicle expenses. (The latter is completed only if you claim car or truck expenses on line 10 and are not required to file Form 4562, *Depreciation and Amortization*, for the business.)

The net income from your business on Schedule C becomes part of your gross income on Form 1040, line 12. If your business has a net loss, it can generally be deducted from other income when figuring your gross income of Form 1040.

Income

Part 1 is used to report business income. This will include what was reported on your 1099 Forms, other fees that were less than \$600, and the cost of goods sold. If you do not report all your self-employment income you are committing tax fraud and could cause your Social Security benefits to be lower when you retire.

Expenses

The general rule is that a business expense may be deducted if it is ordinary, necessary, and directly connected with the business and reasonable in amount. An expense is considered “ordinary” if it is normal, usual or customary and if it is the kind of expense commonly incurred in your line of work. An expense is “necessary” if it is appropriate or helpful to your business; it does not have to be essential.

Congress has exempted most artists from the capitalization (the process of treating certain expenses as capital assets) requirement. However, the exemption does not apply to most video artists and filmmakers who are required to capitalize qualified creative costs. These provisions are complex. For assistance, please consult an accountant who is familiar with capitalization.

Examples of Deductible Schedule C Expenses

Line 8 Advertising. Advertising expenses may include the cost of creating and producing an advertisement for newspapers, magazines, billboard, or electronic media. The cost of business cards, yellow pages advertising, signs and display racks, brochures, and giveaway items also are deductible expenses.

Line 9 Car and truck expenses. You are allowed a deduction for the business use of your car or truck when you own the vehicle and when you keep a written record of its business-related use. Deductions for local transportation (but not the cost of driving from home to a regular workplace — that's commuting) and traveling away from home overnight on business are allowed. You generally can deduct actual expenses or you can use the standard mileage rate, which was 57.5 cents (23 cents a mile for moving) in 2015. See Publication 463, *Travel, Entertainment, Gift, and Car Expenses*. To claim the deduction, most taxpayers use Form 4562, *Depreciation and Amortization*.

Line 10 and 11 Commissions, fees and contract labor. If you pay someone a commission to sell your product or service, the expense is deductible. Fees usually consist of payments made to independent contractors such as agents or other non-employees. The commission or fee must be an ordinary and necessary cost of doing business and must be reasonable in amount. If you pay \$600 or more to another independent contractor, you will be required to issue a 1099 Form.

Line 13 Depreciation. There are two ways a small business can write off its equipment purchases. The first is through depreciation, the annual deduction allowed to recover the cost of business or income-producing property with a useful life of more than one year. When you buy tangible assets such as a car, computer, or kiln that will serve your business for a number of years, the asset is generally expensed the cost over time. Amortization is similar to depreciation except that it is used to recover the cost of intangible business assets such as research and development expenses and business start-up expenditures. Depreciation and amortization expenses are deducted by using IRS Form 4562, *Depreciation and Amortization*. See Publication 946, *How to Depreciate Property*. For depreciation of musical instruments, see www.polyphonic.org/article.php?id=30&page=3.

Under some circumstances, you can opt for the second “expensing” method, which is known as Section 179 deduction. It allows you to deduct the cost of certain depreciable property in the year you purchase it for use in your business. Businesses can expense up to \$500,000 of capital acquisitions of new and used equipment. See Publication 946, *How to Depreciate Property*.

Line 15 Insurance. The premiums on many types of insurance are deductible as business expenses. Deductible business loss insurance includes casualty, merchandise and inventory, credit, business interruption, use and occupancy, overhead, and car insurance. As long as the insurance is obtained for the protection of the business, it is deductible. For cash-basis taxpayers, insurance premiums are deductible in the year when you pay them if the policy covers one year or less.

Line 16 Interest. You may be able to deduct interest payments on credit cards, lines of credit, certain borrowings on life insurance, real estate mortgage, equipment loans, and car loans. To be deductible the proceeds of the loan or line of credit must be used for business purposes. If the money is used for personal purposes, then that portion of the interest payments is not deductible. The IRS may charge you interest on any back taxes you may owe that is considered a non-deductible personal expense.

Line 17 Legal and professional services. These types of services are deductible when the services are for the business. The services that qualify for a deduction include: accounting, legal, bookkeeping, consulting, engineering, photography, and appraisals. In order to be deductible the fee must be incurred in a transaction directly connected with the business to produce income, manage or maintain business property, or determine or dispute a tax on your business.

Line 18 Office expenses. The cost of office supplies is deductible when the expense is ordinary, necessary, and reasonable in cost. The office supplies must be short-lived (under a year), consumable, and not worth depreciating. Some items that may be expensed include: business forms, file folders, stationery, staplers, express package delivery, messenger service, and postage.

Line 20 Rent or leases. Generally, if you rent business property, the rent is deductible. This applies for rental of studios, stores, offices, real estate, cars, computers, machinery, or other personal property. The only requirement is that the agreement results in a true lease and title is not to be transferred at the end of the lease. An agreement is probably not a true lease, but a disguised sale if: 1) you pay a large part of the cost of the property in a short time; 2) you pay more than the current fair rental value for the property; 3) you have an option to buy the property at a nominal price at the end of the lease; 4) or part of the purported rent can be designated as interest payments. This type of an agreement is really an installment contract to buy rather than lease and, therefore, is not deductible.

Line 21 Repairs and maintenance. The cost of any repairs or maintenance for business property also may be deducted. There is an important distinction between repairs/maintenance and improvements. A repair keeps property in efficient operating condition. A capital expenditure or improvement, on the other hand, is a replacement, alteration, improvement, or additions, which prolongs the life of the property or adapts it to a different use. These types of improvements to business property cannot be expensed all at once, but must be depreciated over time. A deductible repair would be patching floors, repainting the inside/outside of a building, repairing the roof, and mending leaks. Repair costs include the cost of labor (not your own) and supplies. If you repair and upgrade at the same time, you cannot expense the cost all at once because it would be considered a capital improvement.

Line 22 Supplies. The cost of incidental materials and supplies that are used in the business can be deducted. For example, professional supplies such as books, tools, and equipment are deductible if they have a short useful life. The deduction can be taken in the year that the materials are purchased.

Line 23 Taxes and licenses. Most taxes that are incurred in the course of doing business are deductible as business expenses. The deductible taxes include real estate, personal property, sales taxes on property you buy, sales taxes that you collect if you included them as income, fuel tax, and state unemployment taxes. Employment taxes are deductible as part of the wages that are paid to employees. Assessments and license fees paid to state governments also qualify.

Line 24 Travel, meals, and entertainment. These expenses may be deducted on Schedule C if they are for business purposes. However, only 50 percent of all meals and entertainment is deductible. You need to record actual spending, dates, and how the money was spent, on whom, and the business purpose of the expense. Without this information, the expenses will be assumed to be personal expenditures. A meal may be deductible as a travel expense (if you are on an out of town trip) or as an entertainment expense (if you meet with clients over dinner). Entertainment expenses can also include shows, sporting events, parties, and other forms of entertainment. In order to claim a deduction the entertainment must be either directly related to your business or “associated” with your business (a ball game following a day of business with clients). Entertainment expenses may be deducted for events involving customers, clients, suppliers, employees, agents, professional advisors, and prospective clients/customers.

Line 25 Utilities. You may deduct utility expenses for your business. Heat, lights, power, and telephone services are deductible utilities.

Line 26 Wages. You may deduct wages paid to employees. Don’t include wages you paid to yourself or money you withdrew from the business for your own use.

Line 27 Other Expenses. Some other deductible expenses are bank charges and casualty losses. Clothing (i.e. uniforms and theatrical costumes) may be deducted as long as they are required in employment and are not suitable or worn for general or personal wear. For example, a clown costume would be deductible but a tuxedo would probably not be. Education expenses are deductible if they are related to your present business. Fines and penalties for violating the law are not deductible. Gifts for clients are deductible up to \$25/year per recipient. Political contributions are not deductible.

Business Use of Your Home

If you do not claim a loss for the year and use part of your home as a studio or office you may deduct the expenses for the space used for business. To take the deduction, complete Form 8829, *Expenses for Business Use of Your Home*. Your home office or studio must be regularly and exclusively used for essential administrative or management activities and taxpayers cannot have other fixed locations where they are able to conduct those functions. Warning: If you sell your home for a profit, you may have to recapture the depreciation you took on the home office and pay taxes on it.

You may find a new optional safe harbor method less burdensome, although experts say sticking with the actual-expense method could increase your deduction and reduce your self-employment tax. The safe harbor method allows qualifying taxpayers to use a prescribed rate of \$5 per square foot of the portion of the home used for business (up to a maximum of 300 square feet) to compute the business use of home deduction. Under this safe harbor method, depreciation is treated as zero and the deduction is claimed directly on Form 1040, Schedule C; Form 8829 is not used. Instead, you'll make two entries on the Schedule C for the square footage of the home and square footage of the office.

See Publication 587, *Business Use of Your Home*.

The Affordable Care Act and Tax Returns

The Affordable Care Act is making health insurance available and affordable for many artists. Low- and middle-income people can get tax credits and subsidies to help pay their premiums, unless they have access to affordable coverage from an employer or are covered by a government-run program, such as Medicaid or Medicare. Most young adults can stay on their parents' health insurance up to age 26, regardless of marital status, financial dependency, residence or enrollment in school. For more information: Every Artist Insured on VLAA's website and www.HealthCare.gov.

The Affordable Care Act includes the individual mandate, which requires you and your dependents to have qualifying health insurance coverage (also known as minimum essential coverage), qualify for a coverage exemption or pay a penalty when filing your federal income tax return.

If you (or someone in your family) had health insurance coverage for all of 2015 — either an individual plan purchased directly from an insurance company (not on HealthCare.gov or a state-operated Marketplace), or were covered by an employer, union or government-sponsored plan, like Medicare or Medicaid, you should receive Form 1095-A, 1095-B or 1095-C. You don't have to attach these forms to your returns. You'll simply need to check a box on your Form 1040 (line 61), 1040A (line 38) or 1040EZ (line 11). No further action is required.

If you weren't covered, you'll be grappling with forms to claim an exemption or to make the shared responsibility payment.

If you purchased insurance on HealthCare.gov (or a state Marketplace), you'll need to reconcile your premium subsidies and tax credits with your actual 2015 earnings by filing Form 8962 with your tax return.

Exemptions

If you did not have coverage, you may not be required to make a shared responsibility payment. Among other reasons, the fee will be waived if:

- You were uninsured for less than 3 consecutive months.
- The lowest-priced coverage available to you would have cost more than 8 percent of your household income.
- You don't have to file a tax return because your income is too low.
- You were ineligible for Medicaid solely because your state, which includes Missouri, has not participated Medicaid expansion.
- You're a member of a recognized religious sect with objections to insurance, including Social Security and Medicare.
- You're not lawfully present in the U.S.
- A qualifying hardship prevented you from getting insured. Hardships include foreclosure, the death of a family member, unpaid medical bills and eviction. Being unemployed will not allow you to claim a hardship exemption.

You can apply for some of the exemptions by filing an application with the US Department of Health and Human Services, which operates HealthCare.gov. Others can be claimed when you complete your federal income tax return. Some you can apply for either way. TurboTax has a free tool that can help you determine if you qualify and then help you apply for an exemption.

To get the hardship exemption, you'll need to file a paper application and supporting documents with HealthCare.gov, so allow at least several weeks for processing. Navigators and other in-person assisters can help consumers answer questions and apply for exemptions from HealthCare.gov.

If you qualify for an exemption, file Form 8965, Health Coverage Exemptions, with your federal tax return. The form will ask for your "exemption certificate number," which you'll receive if you get your exemption from HealthCare.gov.

Paying Penalties

If you or any of your dependents did not have qualifying coverage and you don't qualify for an exemption, you'll need to send an individual shared responsibility payment with your 2015 return. The annual payment amount is the *greater* of:

- 2 percent of your household income that is above the tax return filing threshold for your filing status, capped at the cost of the lowest cost HealthCare.gov bronze plan or
- Your family's flat dollar amount, which is \$325 per adult and \$162.50 per child under 18, limited to a maximum of \$975.

The penalty will be pro-rated to the number of months without coverage (e.g. 6 months without coverage = 50% of penalty). A coverage gap of less than three consecutive months will not trigger the penalty.

Using tax preparation software (several free versions are available) is the easiest way to calculate the amount due. Or you can use the worksheets included in the instructions to Form 8965. The shared responsibility payment is reported on Form 1040 (line 61), Form 1040A (line 38) or Form 1040EZ (line 11).

Note that the penalties will be rising sharply. In 2016, these figures increase to 2.5 percent of household income and \$695 per adult and \$347.50 per child under 18.

Based on current law, the IRS has no enforcement mechanisms (such as attaching a lien to your wages) for collecting the shared responsibility payment other than reducing the taxpayer's refund. Or, if the taxpayer isn't getting a refund, the amount due will roll over into future tax years — with interest.

Reconciliation

If you purchased subsidized health insurance on HealthCare.gov (or a state-operated Marketplace), you must file the new Form 8962 (Premium Tax Credit). This filing requirement applies whether or not you would otherwise be required to file a return. Under the Affordable Care Act, people whose income falls below 400 percent of the poverty level are eligible for federal financial assistance when buying insurance on HealthCare.gov or a state-based exchange. When you shopped for your insurance coverage, you provided a good faith estimate of your 2015 income, which was used to price your plan and issue "advanced tax credits." The purpose of Form 8962 is to reconcile the tax credits with your actual income.

In January, you should receive a Form 1095-A in the mail from HealthCare.gov (or your state Marketplace). It will show details of your insurance coverage, such as the effective date, amount of the premium and the advance premium tax credit or subsidy. This information will be used to complete your Form 8962. Again, using tax preparation software is recommended.

If your subsidy was too small because you overestimated your income, that amount will be added to your refund — if you're receiving one — or subtracted from your balance due. If your subsidy was too large because you underestimated your income, the difference, subject to certain caps, will be subtracted from your refund or added to your balance due. To reduce your taxable income, you can contribute to a retirement account. IRA contributions for 2015 can be made until April 18, 2016. (See page 43.)

Self-Employment Tax

Self-employed people do not have Social Security (FICA) taxes withheld by persons hiring them for a particular job. If you have self-employment income net earnings of \$400 or more, you must report your earnings on Schedule SE, *Self-Employment Tax*. The tax rate is 15.3 percent. The rate consists of two parts: 12.4 percent for Social Security and 2.9 percent for Medicare of the first \$118,500 (2015). There is also a Medicare surtax that applies to higher income taxpayers. Don't forget to deduct half your self-employment tax as a business expense when you figure your adjusted gross income. This deduction is reported on line 27 of your Form 1040.

State Income Taxes

Because they often work for many employers in many different locations, artists frequently have multiple state filing responsibilities. In some states, performing artists are subject to a special out-of-state entertainer tax that is generally withheld from fees. Your resident state will generally allow an interstate tax credit for taxes paid in nonresident states (but not for taxes paid to nonresident municipalities).

St. Louis City Graduated Business License

To conduct business in the city, St. Louis requires most businesses to have a graduated business license. But most artists need only pay the city's one percent earnings tax and file Schedule G for persons they pay. No business license is required. For more information, see St. Louis City Revised Code Chapter 8.07.041D.

Paying Estimated Taxes

You are self-employed if you engage in a trade, business or profession, either by yourself or with a partner. Self-employed people must pay estimated federal income taxes quarterly, on the fifteenth day of April, June, September, and January. File Form 1040-ES. Your estimated tax payment is just that – an estimate of how much tax you need to pay for a given year. You can calculate this figure two different ways. The first way requires you to calculate your tax liability for each quarter of the tax year. This way involves more work, a strong grasp of tax law, and is risky in that you are more likely to be penalized for underpayment of taxes.

The other method is more certain but may result in an overpayment to the IRS. This safer way requires you to calculate your estimated tax based on your previous year's tax return. Each quarter, simply pay one-fourth of the previous year's liability as the current estimated tax payment. Taxpayers who have income from self-employment on which no taxes are withheld are generally required to make quarterly payments of estimated taxes. This includes both estimated income taxes and self-employment tax.

If you have a steady job and receive a W-2 but also earn money from your artist endeavors, should you be paying quarterly taxes to the IRS? Estimated tax payments will likely be necessary if you have significant income from sources other than wages.

For those with adjusted gross income of \$500,000 or less, the “required annual payment” of estimated taxes is the lesser of (1) 90 percent of the current year's tax or (2) 100 percent of the prior year's tax. Generally, you will not owe an estimated tax penalty if your total tax is less than \$1,000 or you had no tax liability last year. See Publication 505, *Tax Withholding and Estimated Tax*.

You must also pay estimated state taxes on a quarterly basis, using the Missouri or Illinois 1040-ES form. These forms are available from the Missouri Department of Revenue, P.O. Box 3022, Jefferson City, Missouri 65105-3022; (517) 751-5337; www.dor.mo.gov; and the Illinois Department of Revenue, Springfield, Illinois 62736-0001; (217) 782-3336; www.revenue.state.il.us.

The City of St. Louis requires you to file a tax return only once a year. Use Form E-234, which can be obtained from the Collector of Revenue's office at City Hall; 314/622-3291; www.stlouis.missouri.org/citygov/collector.

Unemployment Benefits

Unemployment insurance is a “safety net” program jointly financed through federal and state employer payroll taxes. The program provides benefits to workers who are unemployed through no fault of their own and who meet other eligibility requirements as determined by each state. If you meet your state’s requirements, you are entitled to this money and should not feel embarrassed about receiving it.

Eligibility

In order to collect unemployment, you must have sufficient wages from eligible employment during an established period of time, known as a “base period.” In most states, this period is the first four out of the last five completed calendar quarters prior to the time that your claim is filed. For example, if you file your claim during April, May or June, your base period is the four quarters of the previous year. (A few states also have an alternative base period. It is based on the last four completed calendar quarters prior to a job loss, and may be used when you don’t have enough wages for a claim in the standard base period.)

Wages paid during your base period are used to calculate both your eligibility and your weekly benefit. The formulas aren’t simple: In Missouri, for example, you must make \$2,250 — at least \$1,500 during one of the calendar quarters and at least \$750 during the remainder of the base period, and your total base period wages must be at least 1.5 times your highest quarter wages. Or you must make at least \$19,500 during two of the four base period quarters. So, if you worked just a few hours a week or your only wages were from a seasonal job, it’s likely that you won’t qualify.

Some artists form loan-out companies (such as LLCs), which provide corporate entity protection and may provide tax advantages. Typically, the artist is then an “employee” of his own corporation and the corporation “loans out” the services of that performer to the production company. If you’re working through a loan-out company, be sure to consult your attorney or accountant so you understand if and when you’ll be eligible for unemployment benefits.

Individuals who are self-employed (in business as sole proprietors) cannot access the unemployment insurance system, though some states provide limited disaster-related assistance.

Filing a Claim

Apply as soon as you become unemployed. File your claim with the state where you worked. If you worked in a state other than the one where you reside or if you worked in multiple states, the state unemployment agency where you now live can provide information about how to file your claim with other states.

In most states, you can file online or by using the automated phone service. If you have questions, you can seek assistance from a live person during business hours. To file, you’ll need your mailing address, phone number and Social Security number. You’ll also need employer information for the past 18 months (not just your most recent employer): Name, address, phone number, Employer Identification Number also known as a Federal Tax Identification Number or FEIN (from your W-2 form or pay stub), the date(s) employment started and ended, and how much you earned. To make sure your claim is not delayed, provide complete information.

Review the determination letter you receive from the unemployment office for accuracy. If you suspect that your employer has under-reported your earnings or if you notice any other errors, notify the department so your benefits can be recalculated.

Don't give up if your claim is denied; you have the right to file an appeal (usually within 30 days). The appeal process and procedures vary in complexity from state to state, so do your research. Seeking assistance from an attorney, your union or a social service agency is recommended. Employers may also appeal a determination.

What happens when you were paid a fee, rather than wages? You may be out of luck because, as a rule, independent contractors are not eligible for unemployment compensation benefits. That said, the line between an employee and a contractor, which revolves around whether the employer has the right to control how the worker performs his or her tasks (see page 9), can be very blurry. Your unemployment agency (or the court) may rule in your favor, characterizing the relationship as employer-employee, even when there is a written contract stating otherwise. If this happens, you'll qualify for benefits.

Benefits

As noted above, benefits are based on a percentage of your earnings. Each state caps the maximum weekly benefit at a different amount, ranging from a low of \$235 (Mississippi) to a high of \$674 (Massachusetts). Most states provide maximum benefits in the range of \$300 to \$500.

States usually require a one-week waiting period. So, the second week claimed will be your first week of payment. According to federal guidelines, benefits can be paid for a maximum of 26 weeks; some states opt to pay fewer weeks. Additional benefit weeks may be available during times of high unemployment. If you run out of regular benefits, check with your unemployment office to see if you qualify for an extension.

State-issued debit cards are the primary method for disbursing unemployment benefits. The cards can be used at ATMs and financial institutions. If you prefer direct deposit into your savings or checking account, it is available.

Unfortunately, unemployment benefits are subject to federal taxes and are taxed in some states, too. Tax advisers encourage people collecting unemployment to have those taxes withheld, rather than settling up when you file your tax returns.

Continued Eligibility

Remember to file weekly. Most states allow you to report online or by phone. To maintain eligibility for benefits, you must be ready, willing and able to work. You should be actively looking for employment and keeping track of your efforts. Be prepared to answer questions about your job search and to report any earnings (even cash payments) from temporary jobs or residuals. Don't lie; you'll get caught, and unemployment insurance fraud is a felony.

Tips

- Keep complete records, including every pay stub, W-2 forms, contracts, copies of residual checks and detailed job search records noting any auditions or interviews.
- Filing quickly is in your best interest.
- Provide complete and accurate information, including any changes in your address or phone number.
- Cooperate with the unemployment office. If you fail to report weekly or don't keep an appointment, your benefits may be denied.

Illinois Department of Employment Security
www.ides.illinois.gov/default.aspx

Missouri Department of Labor & Industrial Relations
www.labor.mo.gov/DES/Claims/

Sales Tax

Missouri and Illinois collect a sales tax on all tangible personal property sold at retail. The tax also applies to leases of such property and some services. Use tax is, in most respects, identical to the sales tax, except that it applies to property purchased from out of state — for example, through a mail-order catalogue.

In Missouri, senior citizens selling handicrafts do not have to collect sales tax. This exemption applies to sales of items made by the seller or spouse if either of them is at least 65 years old and if the gross proceeds from the sales do not constitute the “majority of the annual gross income of the seller.”

Unfortunately, some Illinois and Missouri artists must collect sales tax on the services rendered to create tangible personal property. While numerous rulings address specific artistic and craft disciplines, the sales tax policy is generally based on the rationale that labor and materials are merged into a final taxable product.

It is your responsibility to collect the tax from your customers, and in turn, to remit it to the Missouri Department of Revenue or the Illinois Department of Revenue. The first step is to obtain a retail sales license and a retail exemption certificate from your state department of revenue. In Missouri (800/877-6881), file Form 2643, *Missouri Tax Registration Application*. A bond in an amount equal to three times the estimated monthly tax liability must accompany the application. It may be a corporate surety bond or cash. In lieu of a bond, the taxpayer may provide an irrevocable letter of credit from his bank or he may pledge a certificate of deposit. There is no exception to either the license or bond requirements for an individual who makes only a few taxable sales each year. If you’ll be showing work at an art fair, be sure to take care of your paperwork well in advance.

In Illinois, contact the Department of Revenue (217/785-3707 or www.Iltax.com) for a REG-1 application form and registration materials. The department will issue an Illinois Business Tax Number (IBT) which will be the identification used on most of the forms. It also enables the retailer to collect the tax and when possible, to buy supplies without paying the sales tax. For more information, consult Publication 113 Retailer’s Overview of Sales and Use Tax.

Sales tax must be remitted to the state on a monthly, quarterly or annual basis, depending on your sales volume. The tax is submitted along with a return showing the total gross receipts from all sales, the location of the sales, and the amount of any tax-exempt sales. The sale location is important since local sales taxes are imposed at different rates by nearly every city and county. The department of revenue collects both the state tax and any applicable local taxes.

If you are selling CDs, artwork or other merchandise on your website, you should remember that sales tax on e-commerce is a complex and looming issue. A 1992 decision by the U.S. Supreme Court said states can require only those sellers that have a physical presence or “nexus” in the same state as the consumer to collect so-called use taxes. The biggest challenge facing the eventual imposition of sales taxes on e-commerce is the hodgepodge of tax laws in the 50 states. Presently, 45 states impose sales taxes while 5 do not, and the laws vary significantly among the 45 that do.

Donating Artwork to Charity

When artists donate their work to charitable organizations, are their gifts tax-deductible? The answer is "yes" and "no." This section explains how the Missouri tax rules concerning donations of art differ from the Internal Revenue Service (IRS) regulations.

Sorry. The IRS has bad news for artists (although Congress is considering changing the law). Generally, the deductible amount of a charitable contribution is the fair market value of the property donated. However, there are exceptions, some of which pertain to artwork, letters, and other similar properties. Such items are considered ordinary income property if held by the creator. They would generate ordinary income (not long-term capital gain) if they were sold at their fair market value rather than contributed to charity. The IRS Code does not allow the creator to include in his or her charitable deductions the amount donated as ordinary income, or rather, the value by which the artist has enhanced the canvas. Therefore, when the creator contributes a piece of art, the gift is equal only to his or her actual costs in making the work of art.

The amount of an artist's charitable deduction may only include the material costs (not the value of the labor) that are associated with the production of the contributed work, such as the purchase of canvas or paint. In addition, charitable deductions are allowed for costs associated with the transportation of the work or other travel expenses. There is no significant element of personal pleasure, recreation, or vacation for the donor. (See Publication 17, *Your Federal Income Tax*.)

Unlike the IRS, Missouri allows artists to deduct the market value of literary, musical, scholarly, and artistic compositions that they donate to charity. The guidelines for claiming Cultural Contributions (see 12 Code of State Regulations 10-2.125) are: the taxpayer must itemize deductions on his or her federal return; the taxpayer must be the creator of the artistic work; the contribution must be made to a nonprofit, tax-exempt organization; the artwork must be appraised by a qualified appraiser if the fair market value is greater than \$500; the appraisal must be made within one year of the date donated; and the appraisal must be attached to the state return and be accompanied by a sworn statement from the donor and the recipient that indicates acceptance by both parties of the fair market value fixed by the appraiser. (The statement also must show the date of the gift and the address where it may be viewed.)

For more information, contact the State of Missouri Department of Revenue, Tax Administration Bureau, P.O. Box 220, Jefferson City, MO 65105-2200; (573) 751-3505.

Hiring an Accountant

Like many taxpayers, many artists want a professional to prepare their tax return. Don't wait until April 14 to decide whether you need help. Your decision should be based on the complexity of your tax situation, not the level of your income.

According to the Illinois Society of Certified Public Accountants, you may want to hire a tax preparer if you have experienced a major lifestyle change, such as a divorce; or if you own a home-based business, claim substantial itemized deductions, need to claim a major casualty loss, account for a change in child custody, or deduct investment-related expenses.

To find an accountant, you may want to contact the St. Louis Volunteer Lawyers and Accountants for the Arts. Low-income artists seeking free help are only referred to volunteers between May and December (not during the busy tax preparation season). Artists who can afford to pay for professional services are given a list of accountants who are willing to accept fee-generating clients. Alternatively, you may want to get a suggestion from a friend, particularly an artist, or a reference from another professional, such as an attorney. Ask about the quality of the accountant's work, responsiveness to questions, and ability to complete a return in a timely manner.

Before you hire someone else to prepare your taxes, ask the following questions:

- Are you a CPA? (Not all accountants are CPAs. To be licensed, certified public accountants pass a rigorous exam, work for a year on the professional staff of a public accounting firm or the IRS, and complete annual continuing education requirements.)
- Are you familiar with my profession?
- What is your fee structure (hourly, by number of forms completed or fixed price)? Beware of accountants who base their fees on a percentage of your refund or those who guarantee a refund or refuse to sign your return.
- What is your billing procedure?
- Who will be preparing my return?
- By what date will my return be completed?
- Will you reimburse me for mistakes that result in penalties or interest charges?
- If my return is audited, will you represent me before the IRS?

Finally, select someone with whom you feel comfortable.

Establishing Credit & Debt Management

Building a good credit history is essential if you expect to make major purchases or start a business. This can be especially challenging for recent college graduates, who often face substantial college loan obligations.

According to Sallie Mae, a provider of college loans, more than 84 percent of undergraduates attending four-year institutions own at least one credit card. Their average credit card debt is more than \$3,000, and 19 percent have balances greater than \$7,000. The cost to a recent graduate a \$7,000 balance can be alarming when you look at the total interest paid by a cardholder making only the minimum monthly payment at an interest rate of 18.9 percent. Without charging anything else to the account, it would take more than 16 years (and \$7,173 in interest) to get out of debt.

The Credit Card Accountability, Responsibility and Disclosure Act of 2009, sweeping legislation that protects consumers from excess fees and interest hikes, contains a provision that specifically concerns college students and other young people. Under the new law, no one under age 21 can get a credit card without a co-signer, such as parents or other adults, who must take on joint liability for any card debts that are incurred. If young adults want to apply independently, they must show evidence that they can repay the credit card charges on their own. In addition, credit card companies are prohibited from offering free pizza and other freebies at application sites on or near college campuses, and there are new restrictions on college and university affinity cards. Companies also are restricted from making pre-screened offers of credit to those under 21 unless the consumer consents to receive them,

Here are some common sense tips to avoid overwhelming credit card debt:

- Shop for the best interest rate;
- Read the fine print regarding annual fees and grace periods;
- Pay your bill(s) on time;
- Try to pay in full each month;
- Avoid cash advances;
- Request a low credit limit; and
- Limit yourself to one credit card.

If you don't have credit history, here are some ways to get started:

- Open checking and savings accounts in your own name. Although not a credit indicator, the accounts will demonstrate that you know how to manage money. Avoid bouncing checks, and add to your savings monthly.
- Apply for a charge card from a department store or get a gasoline card. Always verify the interest rate. If the rates are high, try to pay in full when the bill comes.
- Secure a small loan (e.g., for a car) from a credit union or bank and pay installments on time. Interest rates from car dealers are notoriously high; they should be avoided.

If you find yourself stretched beyond your financial limits, not knowing how you got into such a mess and how to begin to pull yourself out of it, the answer probably is better money management. (See Resources for list of cash management apps.) Debt management involves simple steps designed to bring your finances under control. These steps include analyzing what you owe, what the payments are and what you need to earn to cover expenses, establishing a budget (and sticking to it), avoiding immense interest charges and late fees, and consolidating your debt, both credit card and student loan, into a manageable form.

Business Planning & Financing

Money to start or expand a business can come from a variety of sources, including commercial loans. But before you investigate your financing options, you may want to develop a business plan. A written plan won't guarantee that your arts business will prosper, but it could help reduce the risk of failure.

A business plan is a roadmap and a calling card. Conventional plans summarize the operational and financial objectives of a business and show how the objectives will be realized. At minimum, they include an executive summary, a description of the business, an analysis of the competition, a marketing plan, bios of key personnel, and financial statements and projections.

For many artists, a less formal career plan may be more appropriate. The plan would allow you to measure your artistic activities against established objectives, either on a single project or long-term basis, and help you determine what resources will be needed to achieve your professional goals.

Here are some reasons why your arts business should have a plan:

- *Reality Check.* Creating a plan forces you to do your homework, see what critical information or skills you're missing, tweak your ideas, and help you to evaluate the potential of the arts business. Once you think about your project or potential business in detail, you may realize that the market is too small, the competition too fierce, or the investment required too great.
- *Money.* A plan will help you determine how much money you need to get started and how much you will need to operate in the black (assuming you use realistic financial projections).
- *Priorities.* A plan will provide a structure for making the hard choices about where to spend time and money. You will not be able to pursue every marketing idea or business opportunity that comes along. You also cannot afford to run out of money or short on time part way through a project, when you're on the road, or when the rent is due. Creating a plan will help you establish a coherent list of priorities.
- *Focus.* A plan will help you focus on the tasks required for success. It is one thing to have an idea or vision. It is another to run a profitable business. Writing out a plan will force you to focus on what you will need to do to convert your ideas into reality, and will increase the likelihood that you will focus on those tasks.
- *Confidence.* Having a plan will give you confidence. Going through the planning process will make you feel more in control of your business. You'll know where your business stands and have a better idea of where your business is going.
- *Support.* A plan will show your family, friends, and colleagues that you are serious about your arts business. This will help you to enlist their support and cooperation.
- *Financing.* If you want to apply for a loan or approach for investors, a plan will give you a structured, professional format for explaining your goals and strategies. Your carefully crafted written plan will go a long way toward persuading them of the viability of your enterprise.

There are many ways to create a business plan, and you'll want to look at several examples before writing your own. You can find conventional business-plan templates and examples all over the Internet and in scores of business books for entrepreneurs. Before you buy the books, check out the free examples provided by the U.S. Small Business Administration. If you will not be using your plan to approach a banker or investor, you will have more latitude. For example, you could use an unconventional technique, like mind mapping, a graphic arrangement of related ideas with a core concept at the heart of the diagram. Or may want to check out the lean canvas model (see Resources, page 44).

No matter what method you use, expect to produce many different drafts, showing them to people you respect. You don't have to accept all their suggestions, but it's helpful to get constructive feedback.

If you live in Missouri or Southwestern Illinois, and you need assistance with the financial portion of your plan, download an application for assistance from VLAA's website, www.vlaa.org.

Where will the money come from to start your business or finance a new project? There are several options. They are not mutually exclusive:

- Use your own money ("day job" wages, savings, or home-equity loan)
- Borrow money from family or friends. Of course, this approach can come with emotional costs. One way to minimize the potential of resentment (or worse!) is treat the loan as a business transaction by preparing a promissory note and repaying the loan with market rate interest.
- Grants, fellowships, and residencies. Because most private funding is awarded to nonprofit organizations, rather than to individuals, artists should expect to encounter few grant opportunities and stiff competition. To research prospects on the Internet, start with Foundation Center and the New York Foundation for the Arts.
- Apply for a commercial loan. You will need a conventional business plan to qualify for a bank loan, and the loan will need to be secured with some type of collateral.
- Find private "angel" investors. Investors generally want an equity stake in the enterprise, rather than repayment. Be prepared to explain, in detail, what sort of return they should expect on their investment and when they should expect it. And be sure to consult an attorney before you finalize the arrangement.

Retirement Planning

Financial insecurity is a common concern among artists, most of whom do not have the safety net of corporate pension plans. And the national debate about the solvency of the Social Security system may be increasing your anxiety. Unfortunately, Social Security does not provide, and was not meant to provide, satisfactory retirement on its own. The average stipend for a 65-year-old-retiree today is approximately \$1,335 a month, or about \$16,020 a year.

So, what can you do to plan for your retirement? When should you start? Experts always say “the sooner, the better.” Of course, there are many ways to build your assets. Here are two of the easiest:

- *Open a savings account.* Saving even \$10 dollars a week can contribute to your financial security. You may remember that there are two kinds of interest: simple interest and compound interest. Simple interest is what you earn on the principal — the amount in your account. Compound interest is what you earn on the principal *and* the interest. Think of it as interest on the interest. If you leave the money in the account over a long period of time, the compound interest will allow your investment to grow. For example, if a 20-year-old saves \$10 per week and the bank pays .5 percent interest, at age 50 the account holder would have \$16,828.
- *Set up an IRA with a bank, mutual fund, or brokerage firm.* Individual Retirement Accountants (IRAs) are tax-deferred retirement plans. Anyone earning money can open an IRA, though the maximum annual contribution is limited. And, if you meet certain guidelines, you’ll be able to deduct all or part of your IRA contribution from your taxable income. Like savings accounts, your investment will grow over time, and you will owe no taxes on the money until you withdraw the money from the account. Admittedly, the rules governing IRAs are complex, so get some financial advice before you decide to open an account.

Estate Planning

Many people don’t like the thought of planning for the eventual disposal of their assets. But when people fail to make estate-planning decisions, the impact on their heirs can be costly and stressful.

For artists, estate planning involves more than writing a will. Visual artists need to make an inventory and plan for the disposal of their artwork. If you’re a composer, writer, choreographer, or visual artist, you may have another valuable asset — the copyright in your works. In most cases, the works will be protected for 70 years after your death. For more information about copyright, download VLAA’s *Guide to Copyright Basics* (www.vlaa.org).

Creating a Living Legacy (CALL) is an initiative of the Joan Mitchell Foundation that provides a range of support to visual artists in organizing, inventorying, archiving and creating a comprehensive documentation of their artworks and careers. The site includes excellent tools, including the *CALL Career Documentation Guide* and the *CALL Estate Planning Workbook*, which was written by our colleagues at Volunteer Lawyers for the Arts of Massachusetts (<http://callresources.org/about-call/>).

For a brief introduction to wills, visit the Nolo Press (www.nolo.com).

Resources

IRS Forms & Publications

www.irs.gov

Tax forms and *free* publications can be downloaded from the Internal Revenue Service website or at most libraries and post offices during the tax season. Highly recommended is the *Guide to Free Tax Services* (Publication 910). It identifies many IRS tax materials and services including phone numbers for recorded tax information and a very helpful index to topics and their related publications. Also recommended are *Your Federal Income Tax* (Publication 17) and *Tax Guide for Small Businesses* (Publication 334).

State Forms

Illinois www.revenue.state.il.us/taxforms

Missouri www.dor.mo.gov/tax/forms

Books

Daily, Frederick. *Stand Up to the IRS* (2015)

Daily, Frederick. *Tax Savvy for Small Business* (2015)

Dunn, Elizabeth. *Happy Money: the Science of Smart Spending* (2014)

Mancuso, Anthony. *Form Your Own Limited Liability Company* (2015)

McKeever, Mike. *How to Write a Business Plan* (2014)

Osterwalder, Alexander. *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers* (2010)

Platt, Harvey J. *Your Living Will and Estate Plan* (2013)

Reis, Eric. *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses* (2011)

Tax Preparation Software

You may be able to prepare your own return using free or inexpensive online programs such as My Free Taxes (myfreetaxes.com), CCH Inc.'s CompleteTax (www.completetax.com) or the more expensive TurboTax (quicken.com/taxes) or H&R Block (www.hrblock.com). These programs do a good job, but are not recommended for unusual or complicated situations.

Inventory/Business Software

ArtTracker www.xanadugallery.com/arttracker

eArtist www.artscope.net

GYST www.gyst-ink.com/products

WorkingArtist www.workingartist.com

Financial Apps

Billguard

Level Money

Mint

Helpful Websites

Nolo Press www.nolo.com

State Revenue and Tax Departments www.aicpa.org/yellow/yptsgus.htm

St. Louis Volunteer Lawyers and Accountants for the Arts www.vlaa.org

U.S. Small Business Administration www.sba.gov/starting_business

Form 1040 <small>Department of the Treasury—Internal Revenue Service (99)</small> U.S. Individual Income Tax Return	2015 <small>OMB No. 1545-0074</small>	<small>IRS Use Only—Do not write or staple in this space.</small>
For the year Jan. 1–Dec. 31, 2015, or other tax year beginning _____, 2015, ending _____, 20		
Your first name and initial _____	Last name _____	See separate instructions. Your social security number _____
If a joint return, spouse's first name and initial _____	Last name _____	Spouse's social security number _____
Home address (number and street). If you have a P.O. box, see instructions. _____		Apt. no. _____
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse
Foreign country name _____	Foreign province/state/county _____	Foreign postal code _____
Filing Status		
1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child		
Exemptions		
6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input type="checkbox"/> Spouse		
c Dependents:		
(1) First name _____ Last name _____	(2) Dependent's social security number _____	(3) Dependent's relationship to you _____
		(4) <input type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)
If more than four dependents, see instructions and check here <input type="checkbox"/>		
d Total number of exemptions claimed _____		
Income		
7 Wages, salaries, tips, etc. Attach Form(s) W-2 _____ 7		
8a Taxable interest. Attach Schedule B if required _____ 8a		
b Tax-exempt interest. Do not include on line 8a _____ 8b		
9a Ordinary dividends. Attach Schedule B if required _____ 9a		
b Qualified dividends _____ 9b		
10 Taxable refunds, credits, or offsets of state and local income taxes _____ 10		
11 Alimony received _____ 11		
12 Business income or (loss). Attach Schedule C or C-EZ _____ 12		
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 13		
14 Other gains or (losses). Attach Form 4797 _____ 14		
15a IRA distributions _____ 15a		
b Taxable amount _____ 15b		
16a Pensions and annuities _____ 16a		
b Taxable amount _____ 16b		
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E _____ 17		
18 Farm income or (loss). Attach Schedule F _____ 18		
19 Unemployment compensation _____ 19		
20a Social security benefits _____ 20a		
b Taxable amount _____ 20b		
21 Other income. List type and amount _____ 21		
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ 22		
Adjusted Gross Income		
23 Educator expenses _____ 23		
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ _____ 24		
25 Health savings account deduction. Attach Form 8889 _____ 25		
26 Moving expenses. Attach Form 3903 _____ 26		
27 Deductible part of self-employment tax. Attach Schedule SE _____ 27		
28 Self-employed SEP, SIMPLE, and qualified plans _____ 28		
29 Self-employed health insurance deduction _____ 29		
30 Penalty on early withdrawal of savings _____ 30		
31a Alimony paid b Recipient's SSN ▶ _____ 31a		
32 IRA deduction _____ 32		
33 Student loan interest deduction _____ 33		
34 Tuition and fees. Attach Form 8917 _____ 34		
35 Domestic production activities deduction. Attach Form 8903 _____ 35		
36 Add lines 23 through 35 _____ 36		
37 Subtract line 36 from line 22. This is your adjusted gross income ▶ 37		

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11320B

Form **1040** (2015)

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38		
	39a	Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. Total boxes checked 39a			
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here 39b			
	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40		
	41	Subtract line 40 from line 38	41		
	42	Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions	42		
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43		
	44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44		
	45	Alternative minimum tax (see instructions). Attach Form 6251	45		
	46	Excess advance premium tax credit repayment. Attach Form 8962	46		
Standard Deduction for — • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,300 Married filing jointly or Qualifying widow(er), \$12,600 Head of household, \$9,250	47	Add lines 44, 45, and 46	47		
	48	Foreign tax credit. Attach Form 1116 if required	48		
	49	Credit for child and dependent care expenses. Attach Form 2441	49		
	50	Education credits from Form 8863, line 19	50		
	51	Retirement savings contributions credit. Attach Form 8880	51		
	52	Child tax credit. Attach Schedule 8812, if required	52		
	53	Residential energy credits. Attach Form 5695	53		
	54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54		
	55	Add lines 48 through 54. These are your total credits	55		
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56		
Other Taxes	57	Self-employment tax. Attach Schedule SE	57		
	58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58		
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59		
	60a	Household employment taxes from Schedule H	60a		
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b		
	61	Health care: individual responsibility (see instructions) Full-year coverage <input type="checkbox"/>	61		
	62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62		
	63	Add lines 56 through 62. This is your total tax	63		
	Payments If you have a qualifying child, attach Schedule EIC.	64	Federal income tax withheld from Forms W-2 and 1099	64	
		65	2015 estimated tax payments and amount applied from 2014 return	65	
66a		Earned income credit (EIC)	66a		
b		Nontaxable combat pay election 66b			
67		Additional child tax credit. Attach Schedule 8812	67		
68		American opportunity credit from Form 8863, line 8	68		
69		Net premium tax credit. Attach Form 8962	69		
70		Amount paid with request for extension to file	70		
71		Excess social security and tier 1 RRTA tax withheld	71		
72		Credit for federal tax on fuels. Attach Form 4136	72		
Refund	73	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73		
	74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74		
	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75		
	76a	Amount of line 75 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	76a		
	b	Routing number <input type="text"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
	d	Account number <input type="text"/>			
	77	Amount of line 75 you want applied to your 2016 estimated tax	77		
	78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions	78		
	79	Estimated tax penalty (see instructions)	79		
	Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No			
Designee's name <input type="text"/>		Phone no. <input type="text"/>	Personal identification number (PIN) <input type="text"/>		
Sign Here Joint return? See instructions. Keep a copy for your records.	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.				
	Your signature <input type="text"/>	Date <input type="text"/>	Your occupation <input type="text"/>	Daytime phone number <input type="text"/>	
	Spouse's signature. If a joint return, both must sign. <input type="text"/>		Date <input type="text"/>	Spouse's occupation <input type="text"/>	
				If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/>	
Paid Preparer Use Only	Print/Type preparer's name <input type="text"/>	Preparer's signature <input type="text"/>	Date <input type="text"/>	Check <input type="checkbox"/> if self-employed PTIN <input type="text"/>	
	Firm's name <input type="text"/>	Firm's EIN <input type="text"/>			
	Firm's address <input type="text"/>	Phone no. <input type="text"/>			

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business
(Sole Proprietorship)

► Information about Schedule C and its separate instructions is at www.irs.gov/schedulec.
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2015
Attachment
Sequence No. **09**

Name of proprietor		Social security number (SSN)	
A Principal business or profession, including product or service (see instructions)		B Enter code from instructions <div style="border: 1px solid black; height: 15px; width: 100%;"></div>	
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN), (see instr.) <div style="border: 1px solid black; height: 15px; width: 100%;"></div>	
E Business address (including suite or room no.) ► City, town or post office, state, and ZIP code			
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ►			
G Did you "materially participate" in the operation of this business during 2015? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No			
H If you started or acquired this business during 2015, check here <input type="checkbox"/>			
I Did you make any payments in 2015 that would require you to file Form(s) 1099? (see instructions) <input type="checkbox"/> Yes <input type="checkbox"/> No			
J If "Yes," did you or will you file required Forms 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No			

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	
2 Returns and allowances	2	
3 Subtract line 2 from line 1	3	
4 Cost of goods sold (from line 42)	4	
5 Gross profit. Subtract line 4 from line 3	5	
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7 Gross income. Add lines 5 and 6 ►	7	

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

8 Advertising	8	18 Office expense (see instructions)	18	
9 Car and truck expenses (see instructions)	9	19 Pension and profit-sharing plans	19	
10 Commissions and fees	10	20 Rent or lease (see instructions):		
11 Contract labor (see instructions)	11	a Vehicles, machinery, and equipment	20a	
12 Depletion	12	b Other business property	20b	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	21 Repairs and maintenance	21	
14 Employee benefit programs (other than on line 19)	14	22 Supplies (not included in Part III)	22	
15 Insurance (other than health)	15	23 Taxes and licenses	23	
16 Interest:		24 Travel, meals, and entertainment:		
a Mortgage (paid to banks, etc.)	16a	a Travel	24a	
b Other	16b	b Deductible meals and entertainment (see instructions)	24b	
17 Legal and professional services	17	25 Utilities	25	
		26 Wages (less employment credits)	26	
		27a Other expenses (from line 48)	27a	
		b Reserved for future use	27b	
28 Total expenses before expenses for business use of home. Add lines 8 through 27a ►		28		
29 Tentative profit or (loss). Subtract line 28 from line 7		29		
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30				
31 Net profit or (loss). Subtract line 30 from line 29.		30		
<ul style="list-style-type: none"> • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32. 		31		
32 If you have a loss, check the box that describes your investment in this activity (see instructions). <ul style="list-style-type: none"> • If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198. Your loss may be limited. 		32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.		

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2015

Part III	Cost of Goods Sold (see instructions)
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33 Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory?
If "Yes," attach explanation ☐ Yes ☐ No

35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35		
36	Purchases less cost of items withdrawn for personal use	36		
37	Cost of labor. Do not include any amounts paid to yourself	37		
38	Materials and supplies	38		
39	Other costs	39		
40	Add lines 35 through 39	40		
41	Inventory at end of year	41		
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42		

Part IV Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ / /

44 Of the total number of miles you drove your vehicle during 2015, enter the number of miles you used your vehicle for:

a Business **b** Commuting (see instructions) **c** Other

45 Was your vehicle available for personal use during off-duty hours? ☐ Yes ☐ No

46 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

47a Do you have evidence to support your deduction? ☐ Yes ☐ No

b If "Yes," is the evidence written? ☐ Yes ☐ No

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

[illegible]

48	Total other expenses. Enter here and on line 27a	48	
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SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

► Information about Schedule SE and its separate instructions is at www.irs.gov/schedulese.
► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

2015
Attachment
Sequence No. **17**

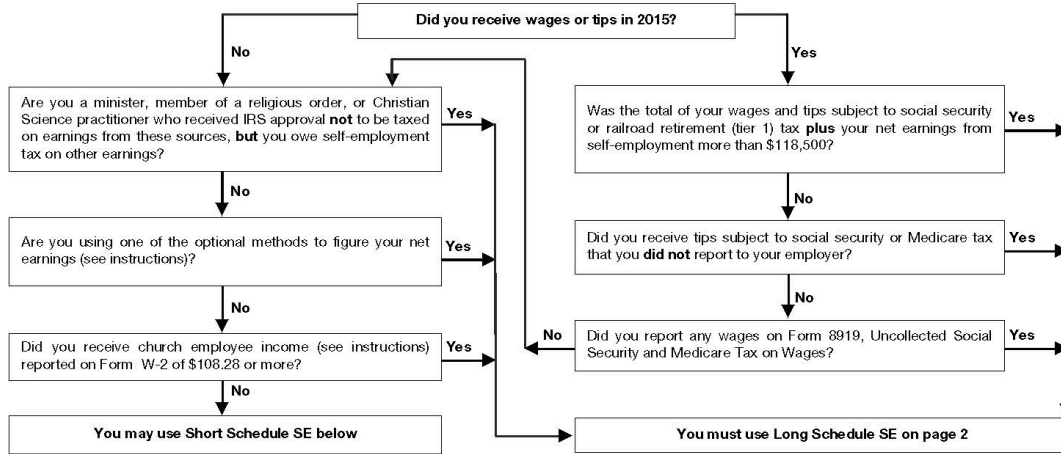
Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)

Social security number of person
with **self-employment** income ►

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart **only** if you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1a	
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b ()
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	
3 Combine lines 1a, 1b, and 2	3	
4 Multiply line 3 by 92.35% (.9235). If less than \$400, you do not owe self-employment tax; do not file this schedule unless you have an amount on line 1b ► Note. If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	4	
5 Self-employment tax. If the amount on line 4 is: • \$118,500 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55 • More than \$118,500, multiply line 4 by 2.9% (.029). Then, add \$14,694 to the result. Enter the total here and on Form 1040, line 57, or Form 1040NR, line 55	5	
6 Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27	6	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11358Z

Schedule SE (Form 1040) 2015

Name of person with **self-employment** income (as shown on Form 1040 or Form 1040NR)Social security number of person
with **self-employment** income ▶**Section B—Long Schedule SE****Part I Self-Employment Tax****Note.** If your only income subject to self-employment tax is **church employee income**, see instructions. Also see instructions for the definition of church employee income.**A** If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had \$400 or more of **other** net earnings from self-employment, check here and continue with Part I ☐**1a** Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. **Note.** Skip lines 1a and 1b if you use the farm optional method (see instructions)**b** If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z**2** Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. **Note.** Skip this line if you use the nonfarm optional method (see instructions)**3** Combine lines 1a, 1b, and 2**4a** If line 3 is more than zero, multiply line 3 by 92.35% (.9235). Otherwise, enter amount from line 3 **Note.** If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.**b** If you elect one or both of the optional methods, enter the total of lines 15 and 17 here**c** Combine lines 4a and 4b. If less than \$400, **stop**; you do not owe self-employment tax.**Exception.** If less than \$400 and you had **church employee income**, enter -0- and continue ▶**5a** Enter your **church employee income** from Form W-2. See

instructions for definition of church employee income

b Multiply line 5a by 92.35% (.9235). If less than \$100, enter -0-**6** Add lines 4c and 5b**7** Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2015**8a** Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation.

If \$118,500 or more, skip lines 8b through 10, and go to line 11

b Unreported tips subject to social security tax (from Form 4137, line 10)**c** Wages subject to social security tax (from Form 8919, line 10)**d** Add lines 8a, 8b, and 8c**9** Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 ▶**10** Multiply the **smaller** of line 6 or line 9 by 12.4% (.124)**11** Multiply line 6 by 2.9% (.029)**12 Self-employment tax.** Add lines 10 and 11. Enter here and on Form 1040, line 57, or Form 1040NR, line 55**13 Deduction for one-half of self-employment tax.**

Multiply line 12 by 50% (.50). Enter the result here and on Form 1040, line 27, or Form 1040NR, line 27

Part II Optional Methods To Figure Net Earnings (see instructions)**Farm Optional Method.** You may use this method **only** if (a) your gross farm income¹ was not more than \$7,320, or (b) your net farm profits² were less than \$5,284.**14** Maximum income for optional methods**15** Enter the **smaller** of: two-thirds ($\frac{2}{3}$) of gross farm income¹ (not less than zero) or \$4,880. Also include this amount on line 4b above**Nonfarm Optional Method.** You may use this method **only** if (a) your net nonfarm profits³ were less than \$5,284 and also less than 72.189% of your gross nonfarm income,⁴ and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. **Caution.** You may use this method no more than five times.**16** Subtract line 15 from line 14**17** Enter the **smaller** of: two-thirds ($\frac{2}{3}$) of gross nonfarm income⁴ (not less than zero) or the amount on line 16. Also include this amount on line 4b above¹ From Sch. F, line 9, and Sch. K-1 (Form 1065), box 14, code B.² From Sch. F, line 34, and Sch. K-1 (Form 1065), box 14, code A—minus the amount you would have entered on line 1b had you not used the optional method.³ From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9, code J1.⁴ From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.

Form **2106**Department of the Treasury
Internal Revenue Service (99)**Employee Business Expenses**

▶ Attach to Form 1040 or Form 1040NR.

▶ Information about Form 2106 and its separate instructions is available at www.irs.gov/form2106.

OMB No. 1545-0074

2015
Attachment
Sequence No. **129**

Your name

Occupation in which you incurred expenses

Social security number

Part I Employee Business Expenses and Reimbursements**Step 1 Enter Your Expenses**

	Column A Other Than Meals and Entertainment	Column B Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1	
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	2	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	3	
4 Business expenses not included on lines 1 through 3. Do not include meals and entertainment	4	
5 Meals and entertainment expenses (see instructions)	5	
6 Total expenses. In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6	

Note. If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.**Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1**

7 Enter reimbursements received from your employer that were not reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions).	7	
--	----------	--

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)

8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 (or on Form 1040NR, line 8)	8	
Note. If both columns of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.		
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.)	9	
10 Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 7). (Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total.) ▶	10	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11700N

Form **2106** (2015)

Part II Vehicle Expenses**Section A—General Information** (You must complete this section if you are claiming vehicle expenses.)

		(a) Vehicle 1	(b) Vehicle 2
11	Enter the date the vehicle was placed in service	11 / /	/ /
12	Total miles the vehicle was driven during 2015	12 miles	miles
13	Business miles included on line 12	13 miles	miles
14	Percent of business use. Divide line 13 by line 12	14 %	%
15	Average daily roundtrip commuting distance	15 miles	miles
16	Commuting miles included on line 12	16 miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12	17 miles	miles
18	Was your vehicle available for personal use during off-duty hours?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
19	Do you (or your spouse) have another vehicle available for personal use?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
20	Do you have evidence to support your deduction?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
21	If "Yes," is the evidence written?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No

Section B—Standard Mileage Rate (See the instructions for Part II to find out whether to complete this section or Section C.)

22	Multiply line 13 by 57.5¢ (.575). Enter the result here and on line 1	22
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Section C—Actual Expenses

		(a) Vehicle 1	(b) Vehicle 2
23	Gasoline, oil, repairs, vehicle insurance, etc.	23	
24a	Vehicle rentals	24a	
b	Inclusion amount (see instructions)	24b	
c	Subtract line 24b from line 24a	24c	
25	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2—see instructions)	25	
26	Add lines 23, 24c, and 25.	26	
27	Multiply line 26 by the percentage on line 14	27	
28	Depreciation (see instructions)	28	
29	Add lines 27 and 28. Enter total here and on line 1	29	

Section D—Depreciation of Vehicles (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)

		(a) Vehicle 1	(b) Vehicle 2
30	Enter cost or other basis (see instructions)	30	
31	Enter section 179 deduction and special allowance (see instructions)	31	
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance).	32	
33	Enter depreciation method and percentage (see instructions)	33	
34	Multiply line 32 by the percentage on line 33 (see instructions)	34	
35	Add lines 31 and 34	35	
36	Enter the applicable limit explained in the line 36 instructions	36	
37	Multiply line 36 by the percentage on line 14	37	
38	Enter the smaller of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above	38	

Form **4562**Department of the Treasury
Internal Revenue Service (99)**Depreciation and Amortization**
(Including Information on Listed Property)

▶ Attach to your tax return.

▶ Information about Form 4562 and its separate instructions is at www.irs.gov/form4562.

OMB No. 1545-0172

2015Attachment
Sequence No. **179**

Name(s) shown on return

Business or activity to which this form relates

Identifying number

Part I Election To Expense Certain Property Under Section 179**Note:** If you have any listed property, complete Part V before you complete Part I.

1 Maximum amount (see instructions)	1
2 Total cost of section 179 property placed in service (see instructions)	2
3 Threshold cost of section 179 property before reduction in limitation (see instructions)	3
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5
6 (a) Description of property	(b) Cost (business use only)
(c) Elected cost	
7 Listed property. Enter the amount from line 29	7
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8
9 Tentative deduction. Enter the smaller of line 5 or line 8	9
10 Carryover of disallowed deduction from line 13 of your 2014 Form 4562	10
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11
12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12
13 Carryover of disallowed deduction to 2016. Add lines 9 and 10, less line 12	13

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)** (See instructions.)

14 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14
15 Property subject to section 168(f)(1) election	15
16 Other depreciation (including ACRS)	16

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**Section A**

17 MACRS deductions for assets placed in service in tax years beginning before 2015	17
18 If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>	

Section B—Assets Placed in Service During 2015 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
i Nonresidential real property			27.5 yrs.	MM	S/L	
			39 yrs.	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation System

20a Class life					S/L
b 12-year			12 yrs.		S/L
c 40-year			40 yrs.	MM	S/L

Part IV Summary (See instructions.)

21 Listed property. Enter amount from line 28	21
22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22
23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 12906N

Form **4562** (2015)

Part V Listed Property (Include automobiles, certain other vehicles, certain aircraft, certain computers, and property used for entertainment, recreation, or amusement.)

Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete **only** 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A—Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed? <input type="checkbox"/> Yes <input type="checkbox"/> No		24b If "Yes," is the evidence written? <input type="checkbox"/> Yes <input type="checkbox"/> No						
(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions) .							25	
26 Property used more than 50% in a qualified business use:								
		%						
		%						
		%						
27 Property used 50% or less in a qualified business use:								
		%				S/L -		
		%				S/L -		
		%				S/L -		
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1 .							28	
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1 .							29	

Section B—Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1	(b) Vehicle 2	(c) Vehicle 3	(d) Vehicle 4	(e) Vehicle 5	(f) Vehicle 6
30 Total business/investment miles driven during the year (do not include commuting miles) .						
31 Total commuting miles driven during the year .						
32 Total other personal (noncommuting) miles driven .						
33 Total miles driven during the year. Add lines 30 through 32 .						
34 Was the vehicle available for personal use during off-duty hours? .	Yes	No	Yes	No	Yes	No
35 Was the vehicle used primarily by a more than 5% owner or related person? .						
36 Is another vehicle available for personal use?						

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see instructions).

37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees? .	Yes	No
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners .		
39 Do you treat all use of vehicles by employees as personal use? .		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received? .		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions.) .		
Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.		

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2015 tax year (see instructions):					
43 Amortization of costs that began before your 2015 tax year .					43
44 Total. Add amounts in column (f). See the instructions for where to report .					44

Expenses for Business Use of Your Home► **File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year.**► **Information about Form 8829 and its separate instructions is at www.irs.gov/form8829.**

OMB No. 1545-0074

2015Attachment
Sequence No. **176**

Name(s) of proprietor(s)

Your social security number

Part I Part of Your Home Used for Business

1	Area used regularly and exclusively for business, regularly for daycare, or for storage of inventory or product samples (see instructions)	1	
2	Total area of home	2	
3	Divide line 1 by line 2. Enter the result as a percentage	3	%
For daycare facilities not used exclusively for business, go to line 4. All others, go to line 7.			
4	Multiply days used for daycare during year by hours used per day	4	hr.
5	Total hours available for use during the year (365 days x 24 hours) (see instructions)	5	8,760 hr.
6	Divide line 4 by line 5. Enter the result as a decimal amount	6	.
7	Business percentage. For daycare facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3	7	%

Part II Figure Your Allowable Deduction

8	Enter the amount from Schedule C, line 29, plus any gain derived from the business use of your home, minus any loss from the trade or business not derived from the business use of your home (see instructions). See instructions for columns (a) and (b) before completing lines 9-21.	8	
		(a) Direct expenses	(b) Indirect expenses
9	Casualty losses (see instructions)	9	
10	Deductible mortgage interest (see instructions)	10	
11	Real estate taxes (see instructions)	11	
12	Add lines 9, 10, and 11	12	
13	Multiply line 12, column (b) by line 7	13	
14	Add line 12, column (a) and line 13	14	
15	Subtract line 14 from line 8. If zero or less, enter -0-	15	
16	Excess mortgage interest (see instructions)	16	
17	Insurance	17	
18	Rent	18	
19	Repairs and maintenance	19	
20	Utilities	20	
21	Other expenses (see instructions)	21	
22	Add lines 16 through 21	22	
23	Multiply line 22, column (b) by line 7	23	
24	Carryover of prior year operating expenses (see instructions)	24	
25	Add line 22, column (a), line 23, and line 24	25	
26	Allowable operating expenses. Enter the smaller of line 15 or line 25	26	
27	Limit on excess casualty losses and depreciation. Subtract line 26 from line 15	27	
28	Excess casualty losses (see instructions)	28	
29	Depreciation of your home from line 41 below	29	
30	Carryover of prior year excess casualty losses and depreciation (see instructions)	30	
31	Add lines 28 through 30	31	
32	Allowable excess casualty losses and depreciation. Enter the smaller of line 27 or line 31	32	
33	Add lines 14, 26, and 32	33	
34	Casualty loss portion, if any, from lines 14 and 32. Carry amount to Form 4684 (see instructions)	34	
35	Allowable expenses for business use of your home. Subtract line 34 from line 33. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions	35	

Part III Depreciation of Your Home

36	Enter the smaller of your home's adjusted basis or its fair market value (see instructions)	36	
37	Value of land included on line 36	37	
38	Basis of building. Subtract line 37 from line 36	38	
39	Business basis of building. Multiply line 38 by line 7	39	
40	Depreciation percentage (see instructions)	40	%
41	Depreciation allowable (see instructions). Multiply line 39 by line 40. Enter here and on line 29 above	41	

Part IV Carryover of Unallowed Expenses to 2016

42	Operating expenses. Subtract line 26 from line 25. If less than zero, enter -0-	42	
43	Excess casualty losses and depreciation. Subtract line 32 from line 31. If less than zero, enter -0-	43	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 13232M

Form **8829** (2015)

Premium Tax Credit (PTC)

► Attach to Form 1040, 1040A, or 1040NR.

► Information about Form 8962 and its separate instructions is at www.irs.gov/form8962.

Name shown on your return

Your social security number

You cannot claim the PTC if your filing status is married filing separately unless you are eligible for an exception (see instructions). If you qualify, check the box. ☐**Part I Annual and Monthly Contribution Amount**

1	Tax family size. Enter the number of exemptions from Form 1040 or Form 1040A, line 6d, or Form 1040NR, line 7d		1	
2a	Modified AGI. Enter your modified AGI (see instructions)	2a	b	Enter the total of your dependents' modified AGI (see instructions)
3	Household income. Add the amounts on lines 2a and 2b		3	
4	Federal poverty line. Enter the federal poverty line amount from Table 1-1, 1-2, or 1-3 (see instructions). Check the appropriate box for the federal poverty table used. a <input type="checkbox"/> Alaska b <input type="checkbox"/> Hawaii c <input type="checkbox"/> Other 48 states and DC		4	
5	Household income as a percentage of federal poverty line (see instructions)		5	%
6	Did you enter 401% on line 5? (See instructions if you entered less than 100%.) <input type="checkbox"/> No. Continue to line 7. <input type="checkbox"/> Yes. You are not eligible to receive PTC. If advance payment of the PTC was made, see the instructions for how to report your excess advance PTC repayment amount.			
7	Applicable Figure. Using your line 5 percentage, locate your "applicable figure" on the table in the instructions		7	
8a	Annual contribution amount. Multiply line 3 by line 7	8a	b	Monthly contribution amount. Divide line 8a by 12. Round to whole dollar amount
			8b	

Part II Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit

- 9** Are you allocating policy amounts with another taxpayer or do you want to use the alternative calculation for year of marriage (see instructions)?
☐ **Yes.** Skip to Part IV, Shared Policy Allocation, or Part V, Alternative Calculation for Year of Marriage. ☐ **No.** Continue to line 10.
- 10** See the instructions to determine if you can use line 11 or must complete lines 12 through 23.
☐ **Yes.** Continue to line 11. Compute your annual PTC. Then skip lines 12–23 and continue to line 24.
☐ **No.** Continue to lines 12–23. Compute your monthly PTC and continue to line 24.

Annual Calculation	(a) Annual enrollment premiums (Form(s) 1095-A, line 33A)	(b) Annual applicable SLSCP premium (Form(s) 1095-A, line 33B)	(c) Annual contribution amount (line 8a)	(d) Annual maximum premium assistance (subtract (c) from (b), if zero or less, enter -0-)	(e) Annual premium tax credit allowed (smaller of (a) or (d))	(f) Annual advance payment of PTC (Form(s) 1095-A, line 33C)
11 Annual Totals						
Monthly Calculation	(a) Monthly enrollment premiums (Form(s) 1095-A, lines 21–32, column A)	(b) Monthly applicable SLSCP premium (Form(s) 1095-A, lines 21–32, column B)	(c) Monthly contribution amount (amount from line 8b or alternative marriage monthly contribution)	(d) Monthly maximum premium assistance (subtract (c) from (b), if zero or less, enter -0-)	(e) Monthly premium tax credit allowed (smaller of (a) or (d))	(f) Monthly advance payment of PTC (Form(s) 1095-A, lines 21–32, column C)
12 January						
13 February						
14 March						
15 April						
16 May						
17 June						
18 July						
19 August						
20 September						
21 October						
22 November						
23 December						

24	Total premium tax credit. Enter the amount from line 11(e) or add lines 12(e) through 23(e) and enter the total here	24	
25	Advance payment of PTC. Enter the amount from line 11(f) or add lines 12(f) through 23(f) and enter the total here	25	
26	Net premium tax credit. If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Form 1040, line 69; Form 1040A, line 45; or Form 1040NR, line 65. If you elected the alternative calculation for marriage, enter zero. If line 24 equals line 25, enter zero. Stop here. If line 25 is greater than line 24, leave this line blank and continue to line 27	26	

Part III Repayment of Excess Advance Payment of the Premium Tax Credit

27	Excess advance payment of PTC. If line 25 is greater than line 24, subtract line 24 from line 25. Enter the difference here	27	
28	Repayment limitation (see instructions)	28	
29	Excess advance premium tax credit repayment. Enter the smaller of line 27 or line 28 here and on Form 1040, line 46; Form 1040A, line 29; or Form 1040NR, line 44	29	

Health Coverage Exemptions

► Attach to Form 1040, Form 1040A, or Form 1040EZ.
► Information about Form 8965 and its separate instructions is at www.irs.gov/form8965.

OMB No. 1545-0074

2015
Attachment
Sequence No. **75**

Name as shown on return

Your social security number

Complete this form if you have a Marketplace-granted coverage exemption or you are claiming a coverage exemption on your return.

Part I **Marketplace-Granted Coverage Exemptions for Individuals.** If you and/or a member of your tax household have an exemption granted by the Marketplace, complete Part I.

	(a) Name of Individual	(b) SSN	(c) Exemption Certificate Number
1			
2			
3			
4			
5			
6			

Part II **Coverage Exemptions Claimed on Your Return for Your Household**

7a Are you claiming an exemption because your household income is below the filing threshold? ☐ Yes ☐ No

b Are you claiming a hardship exemption because your gross income is below the filing threshold? ☐ Yes ☐ No

Part III **Coverage Exemptions Claimed on Your Return for Individuals.** If you and/or a member of your tax household are claiming an exemption on your return, complete Part III.

	(a) Name of Individual	(b) SSN	(c) Exemption Type	(d) Full Year	(e) Jan	(f) Feb	(g) Mar	(h) Apr	(i) May	(j) June	(k) July	(l) Aug	(m) Sept	(n) Oct	(o) Nov	(p) Dec
8																
9																
10																
11																
12																
13																

For Privacy Act and Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 37787G

Form **8965** (2015)