

# business essentials

**VLA**  
Volunteer  
Lawyers and  
Accountants  
for the Arts

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*This publication 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 financially eligible artists, arts workers, small creative businesses and nonprofit cultural organizations. VLAA also offers a wide variety of educational programs.



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# Preface

*Business Essentials* 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 *Business Essentials*, we relied on and even borrowed verbatim from, several free and surprisingly lucid Internal Revenue Service publications. We refer to them throughout and 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 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 *Business Essentials* gives you the peace of mind to concentrate on dancing your dance.



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Form 1040	Federal Individual Income Tax Return
Schedule C	Profit or Loss from Business
Schedule SE	Self-Employment Tax
Form 8829	Expenses for Business Use of Your Home
Form 8962	Premium Tax Credit

# What's new and noteworthy?

- Due date of return. In observance of the Emancipation Day holiday in Washington, DC, the filing deadline is **April 18**, instead of April 15. Most states, including Illinois and Missouri, are using the extended deadline.
- Unfortunately, CARES Act **above-the-line deduction for charitable giving was not extended**. So, non-itemizers can't deduct \$300 or \$600 for couples filing jointly.
- For 2022, the **standard deduction** is \$12,950 for individuals and \$25,900 for married couples filing jointly. Many taxpayers who once itemized their deductions using Schedule A now take the standard deduction.
- Non-employee (independent contractor) compensation of more than \$600 is reported on **1099-NEC** form (Box 1), instead of on the 1099-MISC form (Box 7). Note that Form 1099-MISC is still being used to report other payments that are often made to creatives, including royalties (Box 2) and prizes and awards that are not for services performed (Box 3). If you need to issue 1099s, Track1099.com is an affordable online service.
- **The credits for sick and family leave for certain self-employed individuals were not extended.**
- **Unemployment compensation is taxable** and is reported on Schedule 1, line 7. Your Form 1099-G details unemployment benefits and taxes withheld during 2022. If you did not receive the form, you should be able to log into your unemployment claim account to access it online. If you repaid unemployment compensation you received in 2022, subtract the amount you repaid from the total amount you received and enter the difference on Schedule 1 (Form 1040), line 7. On the dotted line next to your entry, enter "Repaid" and the amount you repaid. If you repaid unemployment compensation in 2022 that you included in income in an earlier year, you can deduct the amount repaid on Schedule A (Form 1040), line 16 — that's assuming that you itemize and that the amount is more than \$3,000.
- **Digital Assets.** The IRS is trying to determine who has taxable transactions. If you engaged in a transaction involving digital assets, such as NFTs, in 2022, answer "Yes" to the question on page 1 of Form 1040 or 1040-SR. If your only transactions were purchases on platforms such as PayPal and Venmo, you are not required to check the "Yes" box.
- A new tax policy that would require users of **digital wallets and e-commerce platforms** to report income has been delayed. The rule, which will require services to send 1099-K forms to users who received "gig economy" income of \$600 or more will go into effect next year. Note: the rule is not intended to track and tax personal transactions.
- **Business meals.** There is a temporary allowance of a 100% business meal deduction for food or beverages provided by a restaurant and paid or incurred in 2022.
- **Fellowship grants and scholarships** are now reported on Schedule 1, line 8r.
- The 2017 tax bill repealed miscellaneous itemized deductions, including unreimbursed employee business expenses that were previously deducted on Form 2106. This change is negatively impacting union actors and other performers who are normally paid as employees, so Congress is

considering a fix. The proposed **Performing Artist Tax Parity Act** would update the Qualified Performing Artist (QPA) tax deduction to enable more lower and middle-income performing artists to claim it.

- If you are age 65 or older, you have the option to use Form 1040-SR, *Tax Return for Seniors*. Drafted to be easier for aging eyes to read and for taxpayers who don't file electronically, the two-page uses a bigger font than the standard Form 1040.

# Financial Records

## Why should you keep records?

A complete set of records will help you track your income, assets and expenses. Your records (including how you spend your time) are among the most effective tools for assessing how you are doing (financially), projecting cash-flow, re-evaluating your approach to pricing, setting priorities and planning for the future. Records will help you draft an evidence-based grant or commission budget. And, as we've learned during the pandemic, accurate records are needed when filing for unemployment benefits.

How about taxes? Without complete and well-organized records, you'll be unable to prepare and support your tax return, especially Schedule C, which is filed when you earn income through self-employment as a sole proprietor or as a single-member limited liability company. 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. If you're audited, you will be expected to prove that your records reflect your entire income and expenses, typically on a calendar-year basis.

## How can you keep your records?

Start with banking. You should have a separate credit card and a separate checking account for your creative business. If you use digital wallet apps like Venmo, Apple Pay, PayPal or Zelle, set up business accounts. Don't co-mingle.

The secret is to come up with a system that works for you. It can be a notepad, large labeled envelopes, Excel spreadsheets, Quicken or QuickBooks, or apps such as Wave, FreshBooks, Mint, YNAB and Yodlee Money. You may want to look at Schedule C, where you'll see expense categories. They're flexible (e.g. advertising could be your website). Be consistent.

*Expenses.* Your business records should include who was paid, for what, when and why (i.e. the business purpose for the expense). Note that this example includes a Schedule C column for easy sorting when completing your return. Bank transactions can be exported into Excel.

Date	Purchase	Amount	Purpose	Schedule C Line
6/18/22	Lowe's	42.53	Materials	10
6/20/22	Go Daddy	19.99	Website	8
7/10/22	Art Supply Store	28.76	Materials	10
7/23/22	VLAA	10	Professional Development	27a
8/6/22	Holiday Inn KC	182.50	Travel	24a
8/14/22	Café Gratitude	16.42	Food	24b
8/20/22	Bob Wellington	200	Contract Labor	11
8/21/22	Chubb	300	Liability Insurance	15
8/30/22	Adams St. Studios	275	Rent	20b

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. See Resources for a list of recommended apps for recording business mileage.

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 upon disposal.

*Income.* Invoices, contracts, bank records (which can be exported into Excel), copies of checks, copies of receipts that you give customers, bank deposit slips, W-2 Forms and 1099 Forms will make up your income paper trail. Be sure to note when invoices are paid.

**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 permanent records should show how much self-employment tax you have paid during your working years, so you can back up your Social Security retirement benefits claim. And your insurance company or creditors may require you to keep records longer than the IRS does.

# Employee or independent contractor?

A composer commissioned to write a new symphony is usually an independent contractor, but the organization's music director 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 work, the way income taxes are paid, Social Security tax liability.

Freelance and gig workers aren't entitled to minimum wage, overtime pay or (pre-pandemic) unemployment benefits. And they don't have right to unionize. So, some companies conclude that it is much less expensive to hire workers as independent contractors rather than as employees.

## THE EMPLOYER-EMPLOYEE RELATIONSHIP

*Taxes and Benefits.* Employers must withhold and pay taxes on wages paid to their employees. Staff photographers receive daily assignments from their editors, equipment from the supply rooms and checks from the payroll department. Federal, state, local and their share of their Social Security taxes (FICA) are deducted from those checks. The employer is required to make an additional FICA payment and provide coverage for worker's compensation and unemployment insurance. Many employers also offer 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 photographers are employees, the publication automatically owns the exclusive rights of authorship including copyright for work created within the regular scope of the job. If a staff photographer wants to make any use of the photographs, such as inclusion in a personal website, the employer must grant permission.

## 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 send Form 1099-NEC to independent contractors who were paid \$600 or more during the calendar year.

A freelance photographer hired to shoot a cover for a museum's annual report works as an independent contractor. She uses her own equipment and is paid a flat fee for her 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. She is not entitled to fringe benefits.

*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. She may simply assign the right to print the cover photograph to the museum for one-time (or additional) use.

# Business Essentials

22222		a Employee's social security number		OMB No. 1545-0008	
b Employer identification number (EIN)		1 Wages, tips, other compensation		2 Federal income tax withheld	
		25,000		3,215	
c Employer's name, address, and ZIP code		3 Social security wages		4 Social security tax withheld	
		25,000		1,581	
		5 Medicare wages and tips		6 Medicare tax withheld	
		25,000		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		12b	
				12c	
		14 Other		12d	
f Employee's address and ZIP code					
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
MO	25,000	960	25,000	250 STL	

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

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.		OMB No. 1545-0116 Form <b>1099-NEC</b> (Rev. January 2022) For calendar year 20 <u>22</u>		<b>Nonemployee Compensation</b>
PAYER'S TIN	RECIPIENT'S TIN			
RECIPIENT'S name		1 Nonemployee compensation		<b>Copy 1 For State Tax Department</b>
Street address (including apt. no.)		\$ 1,500		
City or town, state or province, country, and ZIP or foreign postal code		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>		
Account number (see instructions)		3		
		4 Federal income tax withheld		
		\$		
		5 State tax withheld	6 State/Payer's state no.	7 State income
		\$		\$
		\$		\$

Form **1099-NEC** (Rev. 1-2022)

www.irs.gov/Form1099NEC

Department of the Treasury - Internal Revenue Service

## DETERMINING THE CORRECT STATUS

The 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 seems to be 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.

The IRS looks at criteria that were once known as the “20 Factor” test. To simplify and refine that test, the factors were organized into three main groups: behavioral control, financial control and the type of relationship of the parties. Here are some questions to ask:

- **Behavioral**  
*Does the company control or have the right to control when, where and how the worker does the job?*
- **Financial**  
*How is the worker paid? Are expenses reimbursed? Who provides tools, workspace and supplies? Is the worker free to seek out other opportunities in the relevant market?*
- **Type of Relationship**  
*Is the relationship for a specific project? Is the work being performed a key aspect of the business? Is there a contract stating that the worker is an independent contractor? 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.*

The IRS says there is no “magic” or set number of factors that “makes” the worker an employee or an independent contractor and that no one factor stands alone.

Finally, the burden of misclassification is on employers and it can be costly for employers (including nonprofits). They will likely owe back taxes to the IRS and state, unpaid workers compensation premiums and benefits.

See Publication 15A, *Employer’s Supplemental Tax Guide*. For more information, consult an attorney or accountant.

## CHANGES ON THE HORIZON?

In 2022, the U.S. Department of Labor proposed a rule that would reclassify workers who are “economically dependent” on a company as employees. The change could impact more than 50 million workers. Stay tuned!

# Hobby or business?

For tax purposes, activities earning profits in three out of the last five consecutive years are normally presumed to be businesses rather than hobbies. Artists who meet the requirement can 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 creative 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.
- *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.

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- *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 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, 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 sufficiently documented expenses.

*Crile v. Commissioner* [T.C. Memo 2014-202, October 2, 2014] was 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@vlaa.org](mailto:vlaa@vlaa.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 liability<sup>1</sup>;
- Tax implications; and
- Continuity.

There is no right or wrong structure and it is possible to change the structure 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 the profits of the business but also is personally responsible for all 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.

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

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<sup>1</sup> 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](http://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 may not be 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 may not be 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, like 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 \$150 (then \$75 with your annual report). 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 your 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 with the Secretary of State 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 them.
- 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). In some cases, corporate profits are taxed twice – first, when the company makes a profit, and again when dividends are paid to shareholders on their personal tax returns. 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

Legally married same-sex couples are required to file as married (either jointly or separately).

## 2022 Filing Requirements for Most Taxpayers

Marital Status	Filing Status	Age	Gross Income
Single (including divorced and legally separated)	Single	under 65	\$12,950
		65 or older	\$14,700
	Head of household	under 65	\$19,400
		65 or older	\$21,500
Married, living with your spouse at end of 2022	Married, joint return	both under 65	\$25,900
		one 65 or older	\$27,300
		both 65 or older	\$28,700
	Married, separate return	any age	\$5

Source: 1040 Instructions

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 \$73,000 or less in 2022, you can file your return electronically at no cost by using Free File ([www.irs.gov](http://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 deadline, you may be able to get an automatic 6-month extension by filing Form 4868, *Application for Automatic Extension*, and the required state form. 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 forms. 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.

In addition to Form 1040, many artists complete one or more of the numbered schedules, and one or more of the following (copies of the bolded forms are included in the Appendix):

<b>Schedule C</b>	<b>Profit or Loss from Business</b>
<b>Schedule SE</b>	<b>Self-Employment Tax</b>
Form 4562	Depreciation and Amortization
<b>Form 8829</b>	<b>Expenses for Business Use of Your Home</b>
<b>Form 8962</b>	<b>Premium Tax Credit</b>

The recently revised Form 1040 includes 33 lines detailing your filing status, exemptions, income, adjusted gross income, tax computation, credits, other taxes, refund or amount due. Some figures, such as wages (line 1), only appear on Form 1040, while some, such as self-employment income are carried over from other forms. Numbered and lettered schedules accompany the Form 1040.

## Form 1040 Tips

- *Standard deduction.* If total itemized deductions such as mortgage interest, medical expenses and charitable contributions are greater than the standard deduction, file Schedule A, Itemized Deductions.
- *Royalty income* 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. These should be reported on Schedule C, not on Part I of Schedule E.
- *Unemployment compensation* (Schedule 1). Unemployment compensation 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.
- *Educator expenses* (Schedule 1). If you are an eligible educator (K-12), you may be able to deduct up to \$300 of expenses you paid for purchases of books and classroom supplies. Educator expenses include amounts paid or incurred for personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of coronavirus. This is an above-the-line deduction, so it's available even if the teacher does not itemize. See the instructions for Schedule 1 and Publication 970, *Tax Benefits for Education*.
- *Self-employment tax deduction* (Schedule 1). You may deduct one-half of your self-employment tax from Schedule SE. For more information, see the instructions for Schedule SE.
- *Retirement plans* (Schedule 1). 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). For 2022, the deductible contribution to IRAs is \$6,000 per person for age 49 and below and \$7,000 for age 50 and older. See Publication 590, *Individual Retirement Arrangements*.
- *Self-employment health insurance deduction* (Schedule 1). Most self-employed individuals who report a net profit for the year can deduct 100% 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* (Schedule 1). You may be able to claim an above-the-line 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 Education*.
- *Child and dependent care expenses* (Schedule 3). 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* (Form 8863). 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 Education*.
- *Residential Energy Credits* (Schedule 3). There are several “green” tax credits for making qualified improvements to your home like energy-efficient windows. See Form 5695.
- *Earned Income Credit* (Form 5695). 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 970, *Tax Benefits for Education*.
- *Virtual currency* transactions are taxable.

## Unreimbursed Employee Expenses

If you are a performing artist who usually works under a union contract, chances are most of your income comes from salaries and wages (W-2 income). The 2017 tax bill repealed miscellaneous itemized deductions, including unreimbursed employee business expenses that were previously reported on Form 2106. So, many performers — other than those with very low incomes who qualify for the Qualified Performing Artist (QPA) deduction (see next page) — lose all ability to deduct their professional expenses, such as audition travel, acting classes, union dues, agent and manager fees, headshots and websites. The proposed Performing Artist Tax Parity Act would update the QPA tax deduction to enable more lower and middle-income performing artists to claim it.

Some artists form loan-out companies, which provide corporate entity protection and tax advantages. Typically, the artist is an “employee” of his own corporation and the corporation “loans out” the services of that performer to the production company. Under this scenario, business related expenses are deductible and the “loan out” may qualify for the “pass-through” 199A deduction. This option may involve losing unemployment benefits eligibility and ongoing administrative costs that will not make sense for everyday middle-class artists.

Note that if you are a self-employed visual artist, composer, writer, filmmaker or a performing artist who was paid in fees (1099 income), you should report that income and your business expenses by filing Schedule C, *Profit or Loss from Business*.

## Qualified Performing Artists

While the 2017 Tax Cuts and Jobs Act law eliminated the deductibility of ordinary and necessary unreimbursed employee business expenses, which were reportable on Form 2106, it did not discard the Qualified Performing Artist Deduction (QPA). The QPA allows low-income performers to deduct their business expenses. In fact, those who meet the requirements can subtract their expenses off the top of their incomes.

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% 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 the requirements for the QPA Adjustment, complete Form 2106 and carry your deduction over to Schedule 1 (line 11).

The QPA was enacted in 1986 and the annual income cap has never been raised. Proposed legislation would update the QPA deduction to \$100,000 for single filers and \$200,000 for married artists filing jointly.



## 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.

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.)

Your accounting method is reported on line F. There are three accounting methods:

1. *Cash method.* Most artists use the cash method. With the cash method, you include income received during the year and deduct expenses in the tax year in which you 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*.

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 on 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 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 a CPA.

## Examples of Deductible Schedule C Expenses

*Line 8 Advertising.* Advertising expenses may include the cost of creating and maintaining a website. Other deductible expenses include business cards, post cards, portfolios and headshots.

*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 58.5 cents for the first half of 2022 and 62.5 cents for the second half of the year. 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, managers 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 are required to issue a Form 1099-NEC.

*Line 13 Depreciation.* There are two ways a small business can write off its equipment purchases, including musical instruments. 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 many years, the asset is generally expensed the cost over time. Amortization is like 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*.

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. See Publication 946, *How to Depreciate Property*.

*Line 15 Insurance.* Insurance obtained for the protection of the business 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. Note that health insurance is not reported on Schedule C.

*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. 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: ink, notebooks, 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 addition, 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 while 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. Beginning January 1, 2021, through December 31, 2022, businesses can claim 100% of their food or beverage expenses paid to restaurants as long as the business owner (or an employee of the business) is present when food or beverages are provided and the expense is not lavish or extravagant under the circumstances. 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. To claim a deduction, the entertainment expense 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 paid to you or money you withdrew from the business for your own use.

*Line 27 Other Expenses.* Clothing (i.e. uniforms and costumes) may be deducted when 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 not be. Education and professional development expenses are deductible if they are related to your present business. Likewise, you can deduct business use of your cell phone. Research expenses — what you do to stay up on your field — are deductible but must directly relate to what you get paid to do. 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*.

## Self-Employment Tax

In addition to income tax, you must pay self-employment tax (a mix of Social Security and Medicare taxes) on the net earnings reported on Schedule C. If you have self-employment income of \$400 or more, complete Schedule SE, *Self-Employment Tax*. The tax rate is 15.3%. The rate consists of two parts: 12.4% for Social Security and 2.9% for Medicare of the first \$147,000 (2022). 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 Schedule 1 line 13. Self-employment taxes can be an ugly surprise, so it's important to plan ahead.

## Affordable Care Act and Tax Returns

Many artists find affordable health insurance on HealthCare.gov or on state-based exchanges. Also, 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

If you purchased subsidized health insurance on HealthCare.gov, you'll need to reconcile your premium subsidies and tax credits with your actual 2022 earnings by filing Form 8962, *Premium Tax Credit*. This filing requirement applies whether or not you would otherwise be required to file a return.

You should receive a Form 1095-A in the mail from HealthCare.gov. 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.

**TIP:** To reduce your taxable income, you can contribute to a retirement account. IRA contributions can be made until April 18, 2023.

## **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% of the current year's tax or (2) 100% 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*.

Estimated tax payments should be reported on Form 1040 or Form 1040-SR, line 26.

You must also pay estimated state taxes on a quarterly basis, using the Missouri or Illinois 1040-ES form. These forms are available online.

The City of St. Louis requires you to file a tax return only once a year. Use Form E-234, which can be obtained online from the Collector of Revenue.

# 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.

The CARES Act of 2020 created a temporary Pandemic Unemployment Assistance (PUA) program, which made unemployment benefits available to self-employed, freelance, independent contractors and other gig workers unemployed or underemployed by the pandemic. This new federal program extended eligibility for individuals who have traditionally been ineligible for benefits. The PUA program has expired. The Mixed Earner Unemployment Compensation (MEUC) program has also expired.

## Eligibility

In order to collect traditional unemployment benefits, which are based on wages, 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 alternative base periods.)

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.

## 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.

To file online, 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 (FEIN) from your W-2 form or pay stub, the date(s) employment started and ended and how much you earned. If you’re applying under PUA or MEUC, gather all your documentation, including 1099 forms and other records of payments received. 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 or questioned; you have the right to file an appeal. The appeal process and procedures vary in complexity from state to state. Do your research, and pay attention for all filing deadlines. Seeking assistance from an attorney, your union or a social service agency is recommended. Employers may also appeal a determination.



### **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 \$823 (Massachusetts). Most states provide maximum benefits in the range of \$300 to \$500, and some increase benefits when the worker has dependents.

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 pay fewer weeks.

Opting for direct deposit into your savings or checking account is recommended.

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 traditional benefits (based on wages), 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. Don't lie.

### **Tips**

- Keep complete records, including every pay stub, W-2 forms, contracts, copies of residual checks, 1099 forms 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, your benefits may be denied.
- If you get frustrated with your interaction with the state bureaucracy, contact your state representative and/or senator for assistance.

# 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 catalog.

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.

If you’ll be showing work at a Missouri art fair, you won’t need to pay the bond. But you must obtain a Missouri Tax I.D. number (Form 2643) before you can file Form 2643S, *Special Event Tax Registration Application*. Be sure to take care of this paperwork well in advance.

In Illinois, contact the Department of Revenue (217/785-3707 or [www.ILtax.com](http://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 books, artwork, CDs or other merchandise online, be aware that e-commerce sales tax is a confusing and burdensome state-by-state system. A recent U.S. Supreme Court decision (*South Dakota v. Wayfair*) will make it even more complicated. The decision gave states the authority to require online retailers to collect sales tax, even if the business does not have a physical presence in the state. Most states are carving out exemptions for small merchants — those with fewer than 200 customers in the state annually or sales below \$100,000. For compliance guidance, consult a tax professional, especially if you operate a busy Etsy shop.

# Crowdfunding and Taxes

Although the crowdfunding industry is gigantic and growing at an exponential rate, the IRS has been slow to issue specific tax guidance for those who mount campaigns. The service has said that general tax principles apply. Those principles vary by type of campaign:

- *Donation-based* crowdfunding is used by nonprofits (and projects that raise funds under the auspices of tax-exempt fiscal sponsors<sup>2</sup>) to provide an opportunity for donors to support worthy causes. (While taxes aren't a concern, nonprofit organizations may want to investigate state charitable solicitation registration laws.<sup>3</sup>) Similarly, if you use crowdfunding to raise money for a personal cause, such as paying medical expenses, the donations are considered non-taxable gifts, as long as the donor does not receive anything in return. (If someone gives you more than the annual gift tax exclusion amount — \$16,000 in 2022 — the donor may have to file a gift tax return.)
- *Equity-based* crowdfunding allows entrepreneurs to find investors who are interested in purchasing equity in their startups or other privately held small businesses. These investments are not considered taxable income.
- *Rewards-based* campaigns promise backers “thank you” incentives in exchange for their support. Artists, writers, musicians, filmmakers, makers and gamers were early adopters of rewards-based crowdfunding and continue to use platforms such as GoFundMe, Kickstarter and Indiegogo to finance their projects. Generally, the revenue counts as business income, so the taxman wants his share of the proceeds.

## Thinking Ahead

Well-designed campaigns not only require hard work but also careful planning for the tax consequences of success. Here are a few tips:

- *Budget accordingly.* Remember, your campaign budget is not the same as your project budget; you'll need to account for service fees, reward costs and taxes. (While everyone's tax situation is different, one rule of thumb is to allocate at least 10% of the final goal for taxes.) You can find easy-to-use budget templates online.
- *Be clear about your business structure* — sole proprietor or LLC — and the associated business ID number (Social Security or FEIN) before you register; you won't be able to make changes once your campaign is launched. Also, be aware that Amazon Payments, PayPal and Stripe, which process payments for crowdfunding sites, are required to send you IRS Form 1099-K if your campaign has 200 separate transactions worth more than \$20,000. Note that the form lists the gross amount of all reportable payment transactions and is filed with the IRS.
- *Calculate the cost of your rewards, including shipping and handling.* Some rewards are difficult to value. If a reward has no value or a value that is less than the amount contributed, it could be classified as a nontaxable gift. Similarly, a backer could decide to decline the reward(s). Note that the IRS hasn't specifically addressed this pesky issue.
- *Create a spreadsheet* with columns for the date, backer name, zip code, amount contributed and the promised awards.
- *Consult an accountant or tax attorney before you launch your campaign.* Professional advice can help avoid unnecessary surprises.

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<sup>2</sup> See VLAA's *Guide to Fiscal Sponsorship* [www.vlaa.org](http://www.vlaa.org)

<sup>3</sup> See “Internet Fundraising and State Registration Rules” [nolo.com/legal-encyclopedia/internet-fundraising-state-registration-rules.html](http://nolo.com/legal-encyclopedia/internet-fundraising-state-registration-rules.html)

### **Income Taxes**

Money received through reward-based crowdfunding campaigns is usually taxable as income. Income can be offset by deductible expenses as long as you are operating as a “trade or business,” rather than engaged in the activity as a hobby.

For many creatives, campaign and project timing are the biggest tax challenges. That’s because the taxes are tied into the calendar year. So, if you receive the business income in one year, you will not be able to use the expenses to offset that income in the next year. This could result in a larger-than-anticipated tax liability. One recommended option is to mount your campaign towards the beginning of the year, rather than waiting until the fall. Another option is to undertake a few smaller campaigns to keep income and expenses within the same year (think pre-production, production and post-production of a film). Some artists have switched to the accrual basis (recording revenues when earned and expenses as incurred) of accounting, which is more complex than cash-basis. This choice should not be made without consulting a CPA.

### **Sales Tax**

You may not think of the money raised during your campaign as sales. But often crowdfunding is really pre-selling tangible goods, such as books and CDs, which could be subject to sales tax. The rules governing sales tax vary from state to state, and the Supreme Court recently ruled that states have the authority to require merchants to collect sales tax on purchases, even when the business doesn't have a physical presence in the state. As states enact new online sales tax laws, small online retailers are facing uncertainty and the prospect of added complexity.

# 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. However, the guidelines for claiming Cultural Contributions (see 12 Code of State Regulations 10-2.125), which date back to 1985, set out requirements that will make it difficult for most artists to take advantage of the deduction. Specifically, taxpayers must itemize deductions on their federal and Missouri returns. The other requirements are: 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.)

# Hiring an Accountant

Like many taxpayers, many artists want a professional to prepare their tax return. Don't wait until April 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 CPA Society, 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). 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.

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, 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 online 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 you may want to check out the lean canvas model (see Resources).

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 Eastern 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](http://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 online, start with the Foundation Center and/or 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 is approximately \$1,514 a month.

So, what can you do to plan for your retirement? When should you start? Experts 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.
- *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. The rules governing IRAs can be confusing, so get 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](http://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: *Career Documentation for the Visual Artist*, *Estate Planning for Visual Artists: A Workbook for Attorneys & Executors*, and *Estate Planning for Visual Artists*.

# Resources

## IRS Forms & Publications

[www.irs.gov](http://www.irs.gov)

Tax forms and publications can be downloaded from the Internal Revenue Service website. Check out *Your Federal Income Tax* (Publication 17) and *Tax Guide for Small Businesses* (Publication 334).

## State Forms

Illinois [www.tax.illinois.gov/taxforms](http://www.tax.illinois.gov/taxforms)

Missouri [www.dor.mo.gov/forms](http://www.dor.mo.gov/forms)

## Tax Preparation

GetYourRefund, a nonprofit service provided by Code for America in partnership with Volunteer Income Tax Assistance (VITA), provides free tax filing assistance to families earning less than \$66,000 a year. Taxpayers receive one-on-one help from real, live IRS-certified tax preparers. This service can also file back taxes and amendments.

You may be able to prepare your own return using My Free Taxes or programs such as TurboTax or H&R Block. These programs do a good job, but are not recommended for unusual or complicated situations.

## Inventory/Business Software

Artlogic [www.artlogic.net/artlogic](http://www.artlogic.net/artlogic)

Artwork Archive [www.artworkarchive.com](http://www.artworkarchive.com)

Artwork Inventory [www.artworkinventory.com](http://www.artworkinventory.com)

eArtist [www.artscope.net](http://www.artscope.net)

GYST [www.gyst-ink.com/products](http://www.gyst-ink.com/products)

## Financial Apps

Popular apps include Mint, YNAB and Yodlee Money.

## Mileage Apps

Mile IQ (free for under 40 rides/month) keeps a running tally of how much your business-related drives are worth (based on IRS deduction rates). Automatically calculates mileage value. Saves to cloud. Can export data for filing purposes. Easy swipe interface.

Everlance (free) calculates trip based on start and end time, mileage and reimbursement value. IRS guideline compliant and helps identify tax deductions for your business. Ability to track revenue, expenses and record receipts. Data saved in the cloud and can export through CSV or PDF. Designed to minimize battery drainage.

TripLog (free) automatically detects device movement to record mileage. Calculates fuel economy and tracks tollbooth fees. Can record multiple vehicles and multiple tax categories (business, medical, charity, etc.) Includes cloud backup, receipt records and an IRS-ready report.

BizXpenseTracker Live mileage tracking calculates travel distance and keeps an odometer record. Includes multiple categories for expense tracking. Can customize templates to create final reports. Human scan feature allows you to take a photo of your receipt and a team of human scanners will insert the information for you within 24 hours.

QuickBooks Self-Employed tracks work hours, receipts and automatic mileage. Built in receipt saver that can easily be attached to a business transaction. Ability to create and send invoices to customers. Compatible with TurboTax.

**Books**

Cullen, Melanie. *Get It Together: Organize Your Records So Your Family Won't Have To* (2020)

Daily, Frederick. *Stand Up to the IRS* (2020)

Dunn, Elizabeth. *Happy Money: The Science of Smarter Spending* (2014)

Mancuso, Anthony. *Nolo's Quick LLC* (2021)

McKeever, Mike. *How to Write a Business Plan* (2018)

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

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

Sharp, David Maurice. *The Thriving Artist: Saving and Investing for Performers, Artists, and the Stage & Film Industries* (2015)

# Business Essentials

<b>Form 1040</b> Department of the Treasury—Internal Revenue Service	<b>U.S. Individual Income Tax Return</b>	<b>2022</b>	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
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**Filing Status** ☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS)

Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Your first name and middle initial	Last name	Your social security number
If joint return, spouse's first name and middle 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. If you have a foreign address, also complete spaces below. State ZIP code

Foreign country name Foreign province/state/county Foreign postal code

**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.  
☐ You ☐ Spouse

**Digital Assets** At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) ☐ Yes ☐ No

**Standard Deduction** **Someone can claim:** ☐ You as a dependent ☐ Your spouse as a dependent ☐ Spouse itemizes on a separate return or you were a dual-status alien

**Age/Blindness** **You:** ☐ Were born before January 2, 1958 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1958 ☐ Is blind

**Dependents** (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) Check the box if qualifies for (see instructions):	Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If more than four dependents, see instructions and check here ☐

**Income**

**Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.** If you did not get a Form W-2, see instructions.

1a Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b Household employee wages not reported on Form(s) W-2	1b	
c Tip income not reported on line 1a (see instructions)	1c	
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e Taxable dependent care benefits from Form 2441, line 26	1e	
f Employer-provided adoption benefits from Form 8839, line 29	1f	
g Wages from Form 8919, line 6	1g	
h Other earned income (see instructions)	1h	
i Nontaxable combat pay election (see instructions)	1i	
z Add lines 1a through 1h	1z	

**Attach Sch. B if required.**

2a Tax-exempt interest	2a		b Taxable interest	2b	
3a Qualified dividends	3a		b Ordinary dividends	3b	
4a IRA distributions	4a		b Taxable amount	4b	
5a Pensions and annuities	5a		b Taxable amount	5b	
6a Social security benefits	6a		b Taxable amount	6b	
c If you elect to use the lump-sum election method, check here (see instructions) <input type="checkbox"/>					
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>			7		
8 Other income from Schedule 1, line 10			8		
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>			9		
10 Adjustments to income from Schedule 1, line 26			10		
11 Subtract line 10 from line 9. This is your <b>adjusted gross income</b>			11		
12 <b>Standard deduction or itemized deductions</b> (from Schedule A)			12		
13 Qualified business income deduction from Form 8995 or Form 8995-A			13		
14 Add lines 12 and 13			14		
15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your <b>taxable income</b>			15		

**Standard Deduction for—**

- Single or Married filing separately, \$12,950
- Married filing jointly or Qualifying surviving spouse, \$25,900
- Head of household, \$19,400
- If you checked any box under Standard Deduction, see instructions.

**For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.** Cat. No. 11320B Form **1040** (2022)

# Business Essentials

Form 1040 (2021)		Page <b>2</b>
<b>16</b>	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/> <span style="border: 1px solid black; padding: 0 20px;"></span>	<b>16</b>
<b>17</b>	Amount from Schedule 2, line 3	<b>17</b>
<b>18</b>	Add lines 16 and 17	<b>18</b>
<b>19</b>	Nonrefundable child tax credit or credit for other dependents from Schedule 8812	<b>19</b>
<b>20</b>	Amount from Schedule 3, line 8	<b>20</b>
<b>21</b>	Add lines 19 and 20	<b>21</b>
<b>22</b>	Subtract line 21 from line 18. If zero or less, enter -0-	<b>22</b>
<b>23</b>	Other taxes, including self-employment tax, from Schedule 2, line 21	<b>23</b>
<b>24</b>	Add lines 22 and 23. This is your <b>total tax</b>	<b>24</b>
<b>25</b>	Federal income tax withheld from:	
<b>a</b>	Form(s) W-2 <span style="float: right;"><b>25a</b></span>	
<b>b</b>	Form(s) 1099 <span style="float: right;"><b>25b</b></span>	
<b>c</b>	Other forms (see instructions) <span style="float: right;"><b>25c</b></span>	
<b>d</b>	Add lines 25a through 25c <span style="float: right;"><b>25d</b></span>	
<b>26</b>	2021 estimated tax payments and amount applied from 2020 return	<b>26</b>
<b>27a</b>	Earned income credit (EIC)	<b>27a</b>
Check here if you were born after January 1, 1998, and before January 2, 2004, and you satisfy all the other requirements for taxpayers who are at least age 18, to claim the EIC. See instructions <input type="checkbox"/>		
<b>b</b>	Nontaxable combat pay election <span style="float: right;"><b>27b</b></span>	
<b>c</b>	Prior year (2019) earned income <span style="float: right;"><b>27c</b></span>	
<b>28</b>	Refundable child tax credit or additional child tax credit from Schedule 8812	<b>28</b>
<b>29</b>	American opportunity credit from Form 8863, line 8	<b>29</b>
<b>30</b>	Recovery rebate credit. See instructions	<b>30</b>
<b>31</b>	Amount from Schedule 3, line 15	<b>31</b>
<b>32</b>	Add lines 27a and 28 through 31. These are your <b>total other payments and refundable credits</b>	<b>32</b>
<b>33</b>	Add lines 25d, 26, and 32. These are your <b>total payments</b>	<b>33</b>
<b>34</b>	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you <b>overpaid</b>	<b>34</b>
<b>35a</b>	Amount of line 34 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>	<b>35a</b>
<b>b</b>	Routing number <span style="float: right;"><b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings</span>	
<b>d</b>	Account number	
<b>36</b>	Amount of line 34 you want <b>applied to your 2022 estimated tax</b>	<b>36</b>
<b>37</b>	<b>Amount you owe.</b> Subtract line 33 from line 24. For details on how to pay, see instructions	<b>37</b>
<b>38</b>	Estimated tax penalty (see instructions)	<b>38</b>
<b>Third Party Designee</b>	Do you want to allow another person to discuss this return with the IRS? See instructions <input type="checkbox"/> <b>Yes.</b> Complete below. <input type="checkbox"/> <b>No</b>	
	Designee's name <span style="float: right;">Phone no.</span>	Personal identification number (PIN)
<b>Sign Here</b>	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	Date
	Spouse's signature. If a joint return, <b>both</b> must sign.	Date
	Phone no.	Email address
<b>Paid Preparer Use Only</b>	Preparer's name	Preparer's signature
	Firm's name	Date
	Firm's address	PTIN
		Check if: <input type="checkbox"/> Self-employed
		Phone no.
		Firm's EIN

Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

Form **1040** (2021)

# Business Essentials

## SCHEDULE C (Form 1040)

Department of the Treasury  
Internal Revenue Service

## Profit or Loss From Business (Sole Proprietorship)

Go to [www.irs.gov/ScheduleC](http://www.irs.gov/ScheduleC) for instructions and the latest information.

Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

OMB No. 1545-0074

**2022**

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

**C** Business name. If no separate business name, leave blank.

**D** Employer ID number (EIN) (see instr.)

**E** Business address (including suite or room no.)

City, town or post office, state, and ZIP code

**F** Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify)

**G** Did you "materially participate" in the operation of this business during 2022? If "No," see instructions for limit on losses ☐ Yes ☐ No

**H** If you started or acquired this business during 2022, check here ☐

**I** Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions ☐ Yes ☐ No

**J** If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☐ No

### Part I Income

<b>1</b>	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"/>	<b>1</b>	
<b>2</b>	Returns and allowances	<b>2</b>	
<b>3</b>	Subtract line 2 from line 1	<b>3</b>	
<b>4</b>	Cost of goods sold (from line 42)	<b>4</b>	
<b>5</b>	Gross profit. Subtract line 4 from line 3	<b>5</b>	
<b>6</b>	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	<b>6</b>	
<b>7</b>	Gross income. Add lines 5 and 6	<b>7</b>	

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

<b>8</b>	Advertising	<b>8</b>		<b>18</b>	Office expense (see instructions)	<b>18</b>	
<b>9</b>	Car and truck expenses (see instructions)	<b>9</b>		<b>19</b>	Pension and profit-sharing plans	<b>19</b>	
<b>10</b>	Commissions and fees	<b>10</b>		<b>20</b>	Rent or lease (see instructions):		
<b>11</b>	Contract labor (see instructions)	<b>11</b>		<b>a</b>	Vehicles, machinery, and equipment	<b>20a</b>	
<b>12</b>	Depletion	<b>12</b>		<b>b</b>	Other business property	<b>20b</b>	
<b>13</b>	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	<b>13</b>		<b>21</b>	Repairs and maintenance	<b>21</b>	
<b>14</b>	Employee benefit programs (other than on line 19)	<b>14</b>		<b>22</b>	Supplies (not included in Part III)	<b>22</b>	
<b>15</b>	Insurance (other than health)	<b>15</b>		<b>23</b>	Taxes and licenses	<b>23</b>	
<b>16</b>	Interest (see instructions):			<b>24</b>	Travel and meals:		
<b>a</b>	Mortgage (paid to banks, etc.)	<b>16a</b>		<b>a</b>	Travel	<b>24a</b>	
<b>b</b>	Other	<b>16b</b>		<b>b</b>	Deductible meals (see instructions)	<b>24b</b>	
<b>17</b>	Legal and professional services	<b>17</b>		<b>25</b>	Utilities	<b>25</b>	
				<b>26</b>	Wages (less employment credits)	<b>26</b>	
				<b>27a</b>	Other expenses (from line 48)	<b>27a</b>	
				<b>b</b>	Reserved for future use	<b>27b</b>	

<b>28</b>	Total expenses before expenses for business use of home. Add lines 8 through 27a	<b>28</b>	
<b>29</b>	Tentative profit or (loss). Subtract line 28 from line 7	<b>29</b>	

**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.

• If a profit, enter on both **Schedule 1 (Form 1040), line 3**, 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.

**32** If you have a loss, check the box that describes your investment in this activity. See instructions.

• If you checked 32a, enter the loss on both **Schedule 1 (Form 1040), line 3**, 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** ☐ All investment is at risk.

**32b** ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2022

**SCHEDULE SE  
(Form 1040)**Department of the Treasury  
Internal Revenue Service**Self-Employment Tax**Go to [www.irs.gov/ScheduleSE](http://www.irs.gov/ScheduleSE) for instructions and the latest information.  
Attach to Form 1040, 1040-SR, or 1040-NR.

OMB No. 1545-0074

**2022**  
Attachment  
Sequence No. **17**

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

Social security number of person  
with **self-employment** income**Part I Self-Employment Tax****Note:** If your only income subject to self-employment tax is **church employee income**, see instructions for how to report your income and 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 ☐

Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.

<b>1a</b> Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A . . . . .	<b>1a</b>	
<b>b</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 AH . . . . .	<b>1b</b> (	)

Skip line 2 if you use the nonfarm optional method in Part II. See instructions.

<b>2</b> Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order . . . . .	<b>2</b>	
<b>3</b> Combine lines 1a, 1b, and 2 . . . . .	<b>3</b>	
<b>4a</b> If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3 . . . . . <b>Note:</b> If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	<b>4a</b>	
<b>b</b> If you elect one or both of the optional methods, enter the total of lines 15 and 17 here . . . . .	<b>4b</b>	
<b>c</b> Combine lines 4a and 4b. If less than \$400, <b>stop</b> ; you don't owe self-employment tax. <b>Exception:</b> If less than \$400 and you had <b>church employee income</b> , enter -0- and continue . . . . .	<b>4c</b>	

<b>5a</b> Enter your <b>church employee income</b> from Form W-2. See instructions for definition of church employee income . . . . .	<b>5a</b>	
<b>b</b> Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0- . . . . .	<b>5b</b>	
<b>6</b> Add lines 4c and 5b . . . . .	<b>6</b>	
<b>7</b> 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 2022 . . . . .	<b>7</b>	147,000

<b>8a</b> Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$147,000 or more, skip lines 8b through 10, and go to line 11 . . . . .	<b>8a</b>	
<b>b</b> Unreported tips subject to social security tax from Form 4137, line 10 . . . . .	<b>8b</b>	
<b>c</b> Wages subject to social security tax from Form 8919, line 10 . . . . .	<b>8c</b>	
<b>d</b> Add lines 8a, 8b, and 8c . . . . .	<b>8d</b>	

<b>9</b> Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 . . . . .	<b>9</b>	
<b>10</b> Multiply the <b>smaller</b> of line 6 or line 9 by 12.4% (0.124) . . . . .	<b>10</b>	
<b>11</b> Multiply line 6 by 2.9% (0.029) . . . . .	<b>11</b>	
<b>12 Self-employment tax.</b> Add lines 10 and 11. Enter here and on <b>Schedule 2 (Form 1040), line 4</b> . . . . .	<b>12</b>	
<b>13 Deduction for one-half of self-employment tax.</b> Multiply line 12 by 50% (0.50). Enter here and on <b>Schedule 1 (Form 1040), line 15</b> . . . . .	<b>13</b>	

**Part II Optional Methods To Figure Net Earnings** (see instructions)**Farm Optional Method.** You may use this method **only** if **(a)** your gross farm income<sup>1</sup> wasn't more than \$9,060, **or (b)** your net farm profits<sup>2</sup> were less than \$6,540.

<b>14</b> Maximum income for optional methods . . . . .	<b>14</b>	6,040
<b>15</b> Enter the <b>smaller</b> of: two-thirds ( <sup>2</sup> / <sub>3</sub> ) of gross farm income <sup>1</sup> (not less than zero) <b>or</b> \$6,040. Also, include this amount on line 4b above . . . . .	<b>15</b>	

**Nonfarm Optional Method.** You may use this method **only** if **(a)** your net nonfarm profits<sup>3</sup> were less than \$6,540 and also less than 72.189% of your gross nonfarm income,<sup>4</sup> **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.

<b>16</b> Subtract line 15 from line 14 . . . . .	<b>16</b>	
<b>17</b> Enter the <b>smaller</b> of: two-thirds ( <sup>2</sup> / <sub>3</sub> ) of gross nonfarm income <sup>4</sup> (not less than zero) <b>or</b> the amount on line 16. Also, include this amount on line 4b above . . . . .	<b>17</b>	

<sup>1</sup> From Sch. F, line 9; and Sch. K-1 (Form 1065), box 14, code B.<sup>2</sup> 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.<sup>3</sup> From Sch. C, line 31; and Sch. K-1 (Form 1065), box 14, code A.<sup>4</sup> From Sch. C, line 7; and Sch. K-1 (Form 1065), box 14, code C.

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

Cat. No. 11358Z

Schedule SE (Form 1040) 2022



Form **8829**Department of the Treasury  
Internal Revenue Service**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.  
Go to [www.irs.gov/Form8829](http://www.irs.gov/Form8829) for instructions and the latest information.

OMB No. 1545-0074

**2022**  
Attachment  
Sequence No. **176**

Name(s) of proprietor(s)

Your social security number

**Part I Part of Your Home Used for Business**

<b>1</b>	Area used regularly and exclusively for business, regularly for daycare, or for storage of inventory or product samples (see instructions)	<b>1</b>	
<b>2</b>	Total area of home	<b>2</b>	
<b>3</b>	Divide line 1 by line 2. Enter the result as a percentage	<b>3</b>	%
<b>For daycare facilities not used exclusively for business, go to line 4. All others, go to line 7.</b>			
<b>4</b>	Multiply days used for daycare during year by hours used per day	<b>4</b>	hr.
<b>5</b>	If you started or stopped using your home for daycare during the year, see instructions; otherwise, enter 8,760	<b>5</b>	hr.
<b>6</b>	Divide line 4 by line 5. Enter the result as a decimal amount	<b>6</b>	.
<b>7</b>	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	<b>7</b>	%

**Part II Figure Your Allowable Deduction**

<b>8</b>	Enter the amount from Schedule C, line 29, <b>plus</b> any gain derived from the business use of your home, <b>minus</b> any loss from the trade or business not derived from the business use of your home. See instructions.	<b>8</b>	
<b>See instructions for columns (a) and (b) before completing lines 9-22.</b>			
		<b>(a) Direct expenses</b>	<b>(b) Indirect expenses</b>
<b>9</b>	Casualty losses (see instructions)	<b>9</b>	
<b>10</b>	Deductible mortgage interest (see instructions)	<b>10</b>	
<b>11</b>	Real estate taxes (see instructions)	<b>11</b>	
<b>12</b>	Add lines 9, 10, and 11	<b>12</b>	
<b>13</b>	Multiply line 12, column (b), by line 7	<b>13</b>	
<b>14</b>	Add line 12, column (a), and line 13	<b>14</b>	
<b>15</b>	Subtract line 14 from line 8. If zero or less, enter -0-	<b>15</b>	
<b>16</b>	Excess mortgage interest (see instructions)	<b>16</b>	
<b>17</b>	Excess real estate taxes (see instructions)	<b>17</b>	
<b>18</b>	Insurance	<b>18</b>	
<b>19</b>	Rent	<b>19</b>	
<b>20</b>	Repairs and maintenance	<b>20</b>	
<b>21</b>	Utilities	<b>21</b>	
<b>22</b>	Other expenses (see instructions)	<b>22</b>	
<b>23</b>	Add lines 16 through 22	<b>23</b>	
<b>24</b>	Multiply line 23, column (b), by line 7	<b>24</b>	
<b>25</b>	Carryover of prior year operating expenses (see instructions)	<b>25</b>	
<b>26</b>	Add line 23, column (a), line 24, and line 25	<b>26</b>	
<b>27</b>	Allowable operating expenses. Enter the <b>smaller</b> of line 15 or line 26	<b>27</b>	
<b>28</b>	Limit on excess casualty losses and depreciation. Subtract line 27 from line 15	<b>28</b>	
<b>29</b>	Excess casualty losses (see instructions)	<b>29</b>	
<b>30</b>	Depreciation of your home from line 42 below	<b>30</b>	
<b>31</b>	Carryover of prior year excess casualty losses and depreciation (see instructions)	<b>31</b>	
<b>32</b>	Add lines 29 through 31	<b>32</b>	
<b>33</b>	Allowable excess casualty losses and depreciation. Enter the <b>smaller</b> of line 28 or line 32	<b>33</b>	
<b>34</b>	Add lines 14, 27, and 33	<b>34</b>	
<b>35</b>	Casualty loss portion, if any, from lines 14 and 33. Carry amount to <b>Form 4684</b> . See instructions	<b>35</b>	
<b>36</b>	<b>Allowable expenses for business use of your home.</b> Subtract line 35 from line 34. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions	<b>36</b>	

**Part III Depreciation of Your Home**

<b>37</b>	Enter the <b>smaller</b> of your home's adjusted basis or its fair market value. See instructions	<b>37</b>	
<b>38</b>	Value of land included on line 37	<b>38</b>	
<b>39</b>	Basis of building. Subtract line 38 from line 37	<b>39</b>	
<b>40</b>	Business basis of building. Multiply line 39 by line 7	<b>40</b>	
<b>41</b>	Depreciation percentage (see instructions)	<b>41</b>	%
<b>42</b>	Depreciation allowable (see instructions). Multiply line 40 by line 41. Enter here and on line 30 above	<b>42</b>	

**Part IV Carryover of Unallowed Expenses to 2023**

<b>43</b>	Operating expenses. Subtract line 27 from line 26. If less than zero, enter -0-	<b>43</b>	
<b>44</b>	Excess casualty losses and depreciation. Subtract line 33 from line 32. If less than zero, enter -0-	<b>44</b>	

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

Cat. No. 13232M

Form **8829** (2022)

Form **8962**Department of the Treasury  
Internal Revenue Service**Premium Tax Credit (PTC)**Attach to Form 1040, 1040-SR, or 1040-NR.  
Go to [www.irs.gov/Form8962](http://www.irs.gov/Form8962) for instructions and the latest information.

OMB No. 1545-0074

**2022**  
Attachment  
Sequence No. **73**

Name shown on your return

Your social security number

**A.** You cannot take the PTC if your filing status is married filing separately unless you qualify for an exception. See instructions. If you qualify, check the box ☐**Part I Annual and Monthly Contribution Amount**

<b>1</b>	Tax family size. Enter your tax family size. See instructions . . . . .		<b>1</b>	
<b>2a</b>	Modified AGI. Enter your modified AGI. See instructions . . . . .	<b>2a</b>		
<b>b</b>	Enter the total of your dependents' modified AGI. See instructions . . . . .	<b>2b</b>		
<b>3</b>	Household income. Add the amounts on lines 2a and 2b. See instructions . . . . .		<b>3</b>	
<b>4</b>	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. <b>a</b> <input type="checkbox"/> Alaska <b>b</b> <input type="checkbox"/> Hawaii <b>c</b> <input type="checkbox"/> Other 48 states and DC		<b>4</b>	
<b>5</b>	Household income as a percentage of federal poverty line (see instructions) . . . . .		<b>5</b>	%
<b>6</b>	Reserved for future use . . . . .			
<b>7</b>	Applicable figure. Using your line 5 percentage, locate your "applicable figure" on the table in the instructions . . . . .		<b>7</b>	
<b>8a</b>	Annual contribution amount. Multiply line 3 by line 7. Round to nearest whole dollar amount	<b>8a</b>		
		<b>b</b> Monthly contribution amount. Divide line 8a by 12. Round to nearest whole dollar amount	<b>8b</b>	

**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, Allocation of Policy Amounts, 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  
☐ **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 SLCSP 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)
<b>11</b> Annual Totals						
Monthly Calculation	(a) Monthly enrollment premiums (Form(s) 1095-A, lines 21–32, column A)	(b) Monthly applicable SLCSP premium (Form(s) 1095-A, lines 21–32, column B)	(c) Monthly contribution amount (amount from line 8b or alternative marriage monthly calculation)	(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)
<b>12</b> January						
<b>13</b> February						
<b>14</b> March						
<b>15</b> April						
<b>16</b> May						
<b>17</b> June						
<b>18</b> July						
<b>19</b> August						
<b>20</b> September						
<b>21</b> October						
<b>22</b> November						
<b>23</b> December						
<b>24</b>	Total premium tax credit. Enter the amount from line 11(e) or add lines 12(e) through 23(e) and enter the total here					<b>24</b>
<b>25</b>	Advance payment of PTC. Enter the amount from line 11(f) or add lines 12(f) through 23(f) and enter the total here					<b>25</b>
<b>26</b>	Net premium tax credit. If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Schedule 3 (Form 1040), line 9. If line 24 equals line 25, enter -0-. Stop here. If line 25 is greater than line 24, leave this line blank and continue to line 27 . . . . .					<b>26</b>

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

<b>27</b>	Excess advance payment of PTC. If line 25 is greater than line 24, subtract line 24 from line 25. Enter the difference here	<b>27</b>	
<b>28</b>	Repayment limitation (see instructions) . . . . .	<b>28</b>	
<b>29</b>	Excess advance premium tax credit repayment. Enter the smaller of line 27 or line 28 here and on Schedule 2 (Form 1040), line 2 . . . . .	<b>29</b>	

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

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