



## FINANCIAL BASICS FOR ARTISTS: TAXES

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# OVERVIEW

Do I collect **sales tax** on that?

Is this **deductible**?

**Supplies** may not be deductible (immediately)?

Why do I owe **taxes**? I hardly made any money!

Is this an okay **record keeping** system?

## DO I COLLECT SALES TAX ON THAT?

- Ohio sales (and use) tax “applies to retail sale, lease, or rental of tangible personal property and selected services.”
- Rates
  - Ohio: 5.75% (changed September 2013)
  - Montgomery County: 1.0%
  - Franklin County: 1.25%
  - MVRTA: 0.5%
  - COTA: 0.5%

<sup>1</sup> Ohio Department of Taxation, Sales & Use Division: [http://www.tax.ohio.gov/sales\\_and\\_use.aspx](http://www.tax.ohio.gov/sales_and_use.aspx)

# DO I COLLECT SALES TAX ON THAT?

- Vendor License
  - \$0 - \$25, depending on type
- Collect upon each sale, remit monthly or semi-annually depending on volume
  - Liability < \$1,200 per six months: Semi-annual
- Internet sales
  - Marketplace Fairness Act (May 2013)
  - Most states require compliance if physical presence or nexus

<sup>1</sup> Ohio Department of Taxation, Sales & Use Division: [http://www.tax.ohio.gov/sales\\_and\\_use.aspx](http://www.tax.ohio.gov/sales_and_use.aspx)

## IS THIS DEDUCTIBLE?

- Expenses *directly related* to business are deductible as long as they are *ordinary and necessary* and not *lavish or extravagant*.

<b>Ordinary</b>	<b>Necessary</b>
“Common and accepted in your industry”	“Helpful and appropriate for your trade or business”

- Personal expenses are not deductible.

<sup>1</sup> “Publication 535: Business Expenses.” IRS. March 13, 2012. [www.irs.gov/pub/irs-pdf/p535.pdf](http://www.irs.gov/pub/irs-pdf/p535.pdf)

# IS THIS DEDUCTIBLE?

- Meals and Entertainment
  - 50% limit on deductibility
  - De minimis (fringe) benefit *(100% deductible)*
  - Providing meals, entertainment, or recreational facilities to public for advertising or goodwill *(100% deductible)*
  - Business meetings *(100% deductible)*

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<sup>1</sup> “Publication 535: Business Expenses.” IRS. March 13, 2012. [www.irs.gov/pub/irs-pdf/p535.pdf](http://www.irs.gov/pub/irs-pdf/p535.pdf)

# IS THIS DEDUCTIBLE?

- Transportation
  - Examples
    - Business travel
    - Local travel
    - Cartage
    - Not commuting
  - Actual expenses or safe harbor (\$0.565 per business mile driven in 2013; \$0.56 in 2014)

<sup>1</sup> “Publication 535: Business Expenses.” IRS. March 13, 2012. [www.irs.gov/pub/irs-pdf/p535.pdf](http://www.irs.gov/pub/irs-pdf/p535.pdf)

## IS THIS DEDUCTIBLE?

- Home Office (IRC 280)
  - Business part of your home must be used *exclusively* and *regularly* for trade or business
  - Business part of home must be one of the following:
    - Principal place of business
      - Exclusive and regular for administration/management
      - No other places for administration/management
    - Place to meet or deal with patients, customers, or clients in the normal course of business
    - A separate structure
  - IRS Safe Harbor Rev. Proc. 2013-13
    - \$5 per square foot, up to 300 square feet

<sup>1</sup> “Publication 535: Business Expenses.” IRS. March 13, 2012. [www.irs.gov/pub/irs-pdf/p535.pdf](http://www.irs.gov/pub/irs-pdf/p535.pdf)



## IS THIS DEDUCTIBLE?

- Other Administrative Expenses
  - Advertising or promotions
  - Education
  - Entry fees
  - Dues or memberships
  - Insurance
  - Legal or accounting
  - Subscriptions
  - Supplies
  - Lobbying

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## SUPPLIES MAY NOT BE DEDUCTIBLE?

- Supplies that turn into inventory are only deductible when the work is sold.
- Cost of Sales
  - Includes printing, framing, materials, etc.
  - Beginning + Additions – Ending = COGS
- Challenges
  - Estimating expenses per work
  - Locating unsold works

# WHY DO I OWE TAXES?

- Employment Taxes
  - Social Security and Medicare taxes withheld from employees' paychecks and matched by employer
  - Self-employed must pay both employee and employer portion
- 2013 Rates
  - Social Security: 15.3% on first \$113,700
  - Medicare: 2.9% (no cap)
  - Additional Medicare: 0.9% over \$200,000
- Net business earnings were \$400 or more
- Use Form 1040-ES to make quarterly payments

# IS THIS AN OKAY RECORD KEEPING SYSTEM?

- Information to Capture
  - Date
  - Other party (vendor or payer)
  - Amount
  - Business purpose
- Purpose
  - Summarize business transactions
  - Monitor business progress
  - Prepare financial statements and tax returns
- Electronic
- Statute of Limitations



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FINANCIAL ARTS

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