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Tax Tips for Musicians

by [Christopher Knab](#)



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Musicians - you probably spend a lot of money supporting your craft every year, paying for instruments and amps, photos and photocopies, practice room space and van rentals. Wouldn't it be nice to deduct some of those expenses on your income taxes? Maybe you can.

Business or Hobby?

First you need to figure out if making music is your hobby or your business. That is, do you do it for pleasure, or to make a living? If it's a business, you can probably deduct the cost of your equipment and other expenses and fees on your tax return. If it's a hobby, you can only deduct only up to the amount of income you earned from the hobby. Intuit offers expert advice on their website, with several sections dealing with common questions about the hobby/business differentiation.

Sections include "What you need to know about turning a hobby into a business," "How do I convince the IRS that I'm serious about my business?" "What can I do if my business is audited?" and "What if my business really is a hobby? Can I write off my expenses?"

What if it's more than a hobby, but you're not in it for a profit (and haven't made a profit)? See this page from the New York State Society of Certified Public Accountants, particularly the section about 3/4 the way down the page, entitled ACTIVITIES NOT ENGAGED IN FOR PROFIT. (Keep in mind that this site was created for people who are accountants, not for those of us that need accountants.)

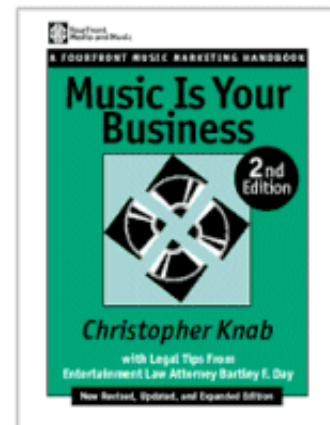
Play the Part

If you have decided that yes, your music is indeed a business venture, you need to know that the IRS says "The music business... present(s) unique problems in an income tax audit." Translation: tread

The Four Fronts...

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Christopher Knab Recommends...



Music Is Your Business

Used as the official textbook for the Art Institute of Seattle's Audio program, *Music Is Your Business* is filled with insights into the music business and tactics for marketing your music. It includes examples of industry marketing documents, a sample of an artist bio and fact sheet, and checklists for starting your career and running your own record label.. [More....](#)

carefully. While you are entitled to deduct expenses from your business, you have to make sure to learn what you can and cannot claim, ensure that you report all your earnings from music and document everything.

Solid Business Advice

- Make sure you are operating like a business.
- Keep good books and accurate records.
- Advertise.
- Get business cards.
- Get a business license or separate taxpayer ID number (TIN).
- Incorporate your band. Open a P.O. Box.
- Join Musicians' organizations and/or unions.
- Copyright your work. Register your songs with a performing rights organization (such as ASCAP, BMI or SECAC).

How You File

To deduct business expenses, fill out a Schedule C and file it with your Federal Form 1040. If you're self-employed, you will probably have to also file a Schedule SE. (According to IRS Publication 533, you must pay self-employment taxes if your net earnings from self-employment activities were over \$400.)

On Schedule C, Line A, you'll need to know your principal business code. It's listed in TurboTax under "Services: Personal, Professional & Business," then under "Amusement & Recreational Services." (So that's what the IRS thinks musicians are!) Code 9811 is for musicians - as well as theatrical performers, agents, producers and those in related fields.

Having a hard time getting the forms you need? Try the IRS' Tax Fax

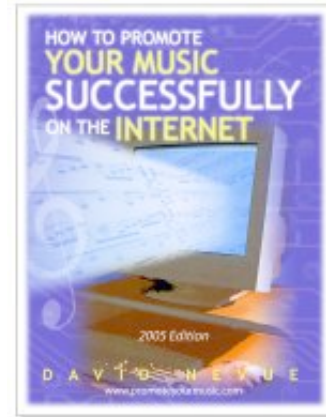
Services or download them over the Internet. Many of these forms are in PDF format, which requires you also download the free Adobe Acrobat reader.

What can you deduct?

If you spent money to run your music business, you should be able to deduct it from your income taxes. The IRS says in Publication 535: "To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business."

Here are some categories to think about (while keeping in mind that you'll have to separate business use from personal/pleasure use, at least in the eyes of the IRS):

- Instruments
- Equipment/gear & accessories (amps, pedals, effects, straps, carrying cases)



How to Promote Your Music Successfully on the Internet

Our in-depth guide to music promotion demonstrates how you can combine powerful internet marketing techniques to sell your music merchandise online! Learn what works, what doesn't, and what you shouldn't waste your time and money on. [More....](#)

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- Consumable supplies (such as drum skins & sticks, guitar strings & picks)
- Music business books, record company directories, venue directories
- Subscriptions to trade magazines (such as Billboard and CMJ))
- Sheet music and "How-To" books and manuals
- Promotional: CD/tape duplication (for demos), photos, bios
- Office supplies: paper, envelopes, photocopies, stamps
- Fees related to maintaining your website and e-mail access for your music-related activities
- Rent for storing your gear and for your practice space
- Membership in professional organizations, associations & unions
- Professional fees (attorney, manager, agent, accountant)
- Copyright and registration fees
- Lessons & instruction
- Travel expenses

Losses by theft

Some of these expenses can be deducted in full, while others must be depreciated. See IRS Publication 946 ("How To Depreciate Property") for more information.

Can you deduct for a home office?

If you're a performing artist, Certified Public Accountants tell us that no, you can't take a home office deduction: For musicians, the principal place of employment is where the performance occurs, not the home practice area."

If you run a studio out of your home, or your principal business is not to perform but to record or sell your music otherwise (such as by the sale of CDs or tapes, or if you operate principally as a songwriter/jinglewriter), that rule may not apply.

Be Prepared

I remember hearing that self-employed people are at more of a risk for an audit, and I can believe it. Add into that equation that you're an artist (which may make the business side of things a little harder to substantiate) I'd suggest that your expenses may well exceed your profits, and you're live bait. That's not to say it's not worth claiming legitimate expenses because you run the risk of an audit, just that you need to be accurate and be prepared.

You need to also be ready to answer questions like these below, culled from an IRS audit guide. This document was secured by AIM's Tax Center from the Internal Revenue Service through the Freedom of Information Act. (As it is part of a government document, I'm reproducing this list here.)

Important Questions that the IRS might be concerned about:

1. Explain all the different roles you play in the music industry. (Such as performer, songwriter, studio musician, recording artist, etc.)
2. What form of organization have you designed to be involved in these ventures? (Such as sole proprietorship, partnership, corporation, etc.)
3. Are you self-employed for any of your activities? (File Schedule "C" and "SE").
4. From what sources do you receive income?
5. How are these sources of income reported to you? (Form W-2, Form 1099, statement, settlement sheet, contractual agreement, partnership Schedule K-1, etc.)
6. Who keeps up with all your records and where are the records currently located?
7. What type of expenses do you incur?
8. Who keeps up with your expenses and where are the supporting records located?
9. What contractual agreements do you have through your business? Furnish copies.
10. Have you been examined [audited] previously? If so, what were the results?
11. What assets have you purchased that you use in your business?
12. How have these assets been handled for tax purposes?
13. Have you ever made or received any "payoffs" to obtain or maintain a position in the music industry?
14. Do you ever receive cash payments? If so, what is done with the money? (Used to pay bills, deposited into a bank account, etc.)

More of the document is on the AIM website, and is well worth reading, at least to get an idea of what the gameplan might be in case of an audit.

Proving It

So now you know - if you didn't already - that the IRS are absolute sticklers for detail. Document everything! I suggest you make a copy just for your tax file of pretty much anything related to your music, such as:

1. Every letter and every press release you sent
2. Responses from record companies, radio stations - anyone - to verify that you have been active in the pursuit of your music
3. Gig fliers/postcards (even the postmarked "return to sender" ones are helpful for this)
4. A copy of your mailing list
5. All press mentions - and if you have none (or very few), keep the ad or newspaper listing from any shows you play
6. All receipts and invoices for everything you pay out or earn that's band-related. Make sure everything has a date and any other supporting information written down on it somewhere.

7. If you haven't already kept detailed records, start now - and do your best to reconstruct everything up to this point NOW, rather than some random point in the future when you might get audited. Really put some effort into keeping this up - if you don't, and you get audited with a poor end result, you could owe back taxes and penalties otherwise, and any future music-related deductions will be closely scrutinized.
8. When in doubt, ask a professional or don't deduct it. (I recommend that you keep those "questionable but not deducted" receipts, though - if you ever get audited, they might be helpful.) Keep all of your tax-related records for at least seven years.

Is It Worth It?

You definitely should take whatever deductions are allowed - we don't get many tax breaks in the country... well, not unless you're rich. ;-)

While I'm not a tax professional, these tips represent some of what I've learned when filing several IRS Schedule C's over the years. When all is said and done, and especially if you have earned a lot or are deducting a lot of money, you might be better off doing what the guys Hyperreal suggest: get yourself a tax attorney and/or have her or him advise you. This is particularly true if you're not used to filling out tax forms.

Many happy returns!

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Chris Knab's book, '[Music Is Your Business](#)' is available from the Music Biz Academy [bookstore](#).

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