TAX TIPS FOR MUSICIANS

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Each year, as the tax deadline approaches, Allegro publishes updated tax tips for musicians provided by Local 802's accounting firm, Gould, Kobrick & Schlapp P.C. These articles focus on important aspects of the tax law and those that specifically affect musicians. For additional information on deductions, exemptions or filing status, see a tax advisor or visit www.irs.gov. This article and all accompanying articles do not constitute tax advice or an accountant-client relationship. You should consult with your tax professional regarding your specific circumstances. As the tax rules and interpretations are complex and change frequently, the information contained in these articles may not always be up to date.

2020 was a year unlike any other in our lifetime. Political, social and health issues changed the way we lived, worked and played. Sadly, many have succumbed to the pandemic and are no longer with us. For those of us of fortunate to have survived, we saw a complete shut down in live entertainment (Broadway, concerts, live venues, celebrations, etc.) making it almost impossible to work. Thankfully there was some economic and tax relief enacted.

The CARES Act provided individuals with certain financial assistance necessitated by COVID-19. Some of the payments to individuals are includible in gross income, while others are tax free. Tax free benefits include: economic impact payments (stimulus checks), Paycheck Protection Program loan forgiveness, coronavirus-related loans from qualified retirement plans, Higher Education Act emergency financial aid grants to undergraduate and graduate students for unexpected financial needs, and mortgage forbearance. Taxable benefits include: paid sick leave, paid family leave, $600 additional unemployment benefits, and coronavirus-related distributions from qualified retirement plans and IRAs.

Stimulus check - To help individuals, the government sent up to $1,200 tax-free payments to eligible taxpayers and $2,400 for married couples filing joint returns. An additional $500 payment may have been sent for each qualifying child dependent under age 17 (using the qualification rules under the Child Tax Credit). Eligibility for payments was gradually phased out, at a rate of 5% of the individual's modified adjusted gross income over $75,000 (singles or marrieds filing separately), $112,500 (head of household), and $150,000 (joint). There was no income floor or “phase-in” (all recipients who were under the phase-out threshold should have received the same amounts). *If you are still waiting on your check, contacting the IRS by calling 800-919-9835.*

Second Stimulus check - A refundable recovery rebate credit for 2020 will paid in advance to eligible individuals, often automatically, early in 2021. The amount of the tax-free rebate is $600 per eligible family member - $600 per taxpayer ($1,200 for married filing jointly), plus $600 per qualifying child. Thus, a married couple with two qualifying children will receive $2,400, unless a phase-out applies. Eligibility for payments was gradually phased out, at a rate of 5% of the individual's modified adjusted gross income over $75,000 (singles or marrieds filing separately), $112,500 (head of household), and $150,000 (joint).

Note - If your adjusted gross income in 2020 was less than it was in 2018 or 2019 (whichever year was used to figure the payment), you may be eligible for a recovery rebate credit.

Distributions from qualified retirement plans and IRAs - For individuals that had to borrow from, or take money out of one of their retirement accounts, there were some relief provisions enacted. Both loans and distributions from qualified retirement plans and IRAs are subject to special rules related to COVID-19. Loans were given a longer repayment period and a higher loan limit. Distributions are not subject to the 10% early distribution penalty (for those younger than age 59½). Although these distributions are taxable, the distribution can be spread over 3 years (optional). Should your financial position change for the better, you also have the option to return the distribution within 3 years, and file an amended return to recoup the tax paid on that distribution.

For 2020 the following tax law changes were enacted:

- Distributions that were normally required to be made from qualified retirement plans and IRAs for those who reach the required starting date, or who inherited accounts, were suspended (no distribution was required for 2020).
- For 2020 and 2021 you can deduct donations up to $300 (as an above-the-line deduction) even if you are required to use the standard deduction. This dollar limit is the same for single and joint filers.
- Individuals that itemize deductions can elect to deduct donations up to 100% of adjusted gross income.

- If an individual's child tax credit (CTC) exceeds their liability, they are eligible for a refundable credit equal to 15% percent of so much of their taxable "earned income" for the year over $2,500. The earned income credit (EIC) equals a percentage of the taxpayer's "earned income." For both of these credits, earned income means wages, salaries, tips, and other employee compensation, if includible in gross income for the current tax year. But for determining the refundable CTC and the EIC for 2020, the Act allows taxpayers to elect to substitute the earned income for the preceding tax year, if that amount is greater than the taxpayer's earned income for 2020.

For 2020, Form 1040 has the following changes:

- The question regarding virtual currency transactions is now on the top of the form (indicating that this may be a focus issue for the IRS).
- There is a new adjustment to income line for the above-mentioned charitable contributions.
- The line for reporting federal withholding has been divided into separate lines for: Forms W-2, 1099, and "other." (This may suggest an increased level of scrutiny for the self-employed and gig workers (independent contractors)).
- There is a new line for recovery rebate credit (stimulus checks). This is where taxpayers who did not get the payments or should have received larger payments (due to birth of child or changes in income) will enter the additional amount due. This amount will be treated as a refundable credit. The reconciliation of stimulus payments requires a worksheet contained in the Form 1040 instructions.
- The “Amount You Owe” section of the new 1040 now says, “Schedule H and Schedule SE filers, line 37 may not represent all of the taxes you owe for 2020.” This is because, under the CARES Act, employers can defer deposits and payments of the employer’s share of Social Security tax that would have otherwise been required to be made between March 27, 2020 and December 31, 2020. This deferred amount will be reported in the payments section of Form 1040, Schedule 3, Line 12e as a “Deferral for certain Schedule H or SE filers.”
    - For self-employed taxpayers, a third page is being added to the Schedule SE where the deferred portion of the self-employment tax will be calculated. Schedule H will also be redesigned to address the deferred portion of the social security tax deposits made by taxpayers who have household employees.
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security tax deposits made by taxpayers who have household employees.
  - The new refundable credit for qualified sick and family leave will be entered on Schedule 3, Line 12b. The credit amount will be calculated on Form 7202, which the IRS has not released yet in draft form.

The Tax Cuts and Jobs Act (the "Act") is now in its third year. The rules remain the same with some inflationary dollar amount changes.

This year's article will begin with a reminder of the applicable provisions of the Act.

Tax rates:

- The seven tax brackets are the same as in 2019: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The applicable dollar amounts associated with these tax rates depends on filing status and have been adjusted for inflation. The top rate applies to taxable income above $518,400 for single and head of household taxpayers, $622,050 for married couples filing jointly, and $311,025 for married taxpayers filing separate returns.
- Qualified dividends and long-term capital gains may escape tax entirely under the 0% rate, or be subject to capital gain rates of 15% or 20% depending on filing status, taxable income, and how much of the taxable income consists of qualified dividends and eligible long-term gains. The 20% capital gain rate applies in 2020 when taxable income exceeds $441,450 for singles, $469,050 for heads of households, $496,600 for married persons filing jointly and qualifying widows/widowers, and $248,300 for married persons filing separately. The 0%, 15%, and 20% rates do not apply to long-term gains subject to the 28% rate (collectibles and taxed portion of small business stock) or the 25% rate for unrecaptured real estate depreciation.
- "Kiddie Tax" rules. Tax rules for figuring the tax on unearned income of children subject to the kiddie tax in 2020 are those in effect prior to 2018. This means the rate on investment income over $2,200 depends on the parent's top marginal rate. A child can elect to apply this change for 2018 and 2019 instead of using the tax rates for trusts and estates by filing amended returns.

Exemptions:

- Taxpayers cannot claim personal or dependency exemptions on their federal tax return.

Standard deduction:

- The standard deduction has been adjusted for inflation and is $24,800 for joint filers and qualifying widows/widowers, $18,650 for heads of household, and $12,400 for single and married taxpayers filing separately.
- The additional standard deduction for being 65 or older or blind is $1,650 if filing as single or head of household ($3,300 if 65 and blind). If married filing jointly, the

additional standard deduction is $1,300 if one spouse is 65 or older or blind, and $2,600 if both spouses are at least 65 (or one is 65 and blind, or both are blind and under age 65).

Itemized deductions:

- The itemized deduction for state and local income tax and property taxes is limited to a combined total of $10,000.
- Mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 for loans taken out December 15, 2017 or after (loans issued prior to December 15, 2017 are not affected by this rule). Interest on home equity loans that are not used to buy, build, or substantially improve the home that secures the debt, are not deductible regardless of when the debt was incurred.
- There is no federal deduction for miscellaneous itemized deductions such as tax preparation, investment expenses, union dues, and unreimbursed employee expenses. *(Union members in the State of New York may have the opportunity to deduct union dues on their NY return if they itemize deductions on their NY return. This applies even if you are not able to utilize itemized deductions on your federal return).*
- Medical expenses are deductible to the extent they exceed 7.5% of adjusted gross income for all taxpayers.
- Long-Term care premiums may be deductible as a medical expense. The maximum amount of age-based long-term care premiums that can be included as deductible medical expenses for 2020 (subject to the AGI floor) is $430 if you are age 40 or younger at the end of 2020; $810 for those age 41 through 50; $1,630 for those age 51 through 60; $4,350 for those age 61 through 70; and $5,430 for those over age 70.
- The itemized deduction for casualty and theft losses for personal use property only applies to losses incurred in a federally declared disaster.
- Charitable contributions are now limited to 100% of adjusted gross income (AGI).

Alternative minimum tax (AMT) exemption.

- The AMT exemption has been adjusted for inflation and is $113,400 for joint filers and qualifying widows/widowers ($56,700 for married taxpayers filing separately), and $72,900 for single and head of household taxpayers. The exemption starts phasing out for taxpayers with alternative minimum taxable income over $1,036,800 million for joint filers and qualifying widows/widowers and over $518,400 for all others.

Alimony:

- For post-2018 divorce decrees and separation agreements, alimony will not be deductible by the paying spouse and will not be taxable to the receiving spouse.

Deduction for "qualified business income":

- If you are a sole proprietor or have an interest in a partnership, limited liability company, or S corporation, you may be eligible for a deduction of up to 20% of qualified business income. This deduction is a personal deduction, not a business deduction, and can be claimed whether you itemize or take the standard deduction. The taxable income amounts used to figure the deduction have been increased for inflation. The income must be from a trade or business within the U.S. Investment income does not qualify, nor do amounts received from an S corporation as reasonable compensation or from a partnership as a guaranteed payment for services provided to the trade or business. The deduction is not used in computing adjusted gross income, just taxable income. For taxpayers with taxable income above $163,300 ($326,600 for joint filers), (1) a limitation based on W-2 wages paid by the business and depreciable tangible property used in the business is phased in, and (2) income from service-related businesses (such as health, law, consulting, athletics, performing artists, financial or brokerage services, or where the principal asset is the reputation or skill of one or more employees or owners) is phased out of qualified business income.

Child and family tax credit:

- The credit for qualifying children (i.e., children under 17) is $2,000 per child. A nonrefundable $500 credit is also available for a taxpayer's dependents who are not qualifying children. The adjusted gross income level at which the credits begin to be phased out is $200,000 ($400,000 for joint filers).

Estate and gift tax exemption:

- For decedents dying, and gifts made, in 2020, the estate and gift tax exemption has been adjusted for inflation and is now $11,580,000. The annual gift tax exclusion is the same $15,000 per donee for gifts of cash or present interests. The top tax rate remains at 40%.

Tax breaks for educational expenses:

- American Opportunity credit: $2,500 limit per student (phased out with income* between $160,000 and $180,000 for married filing jointly taxpayers and $80,000 and $90,000 for all other taxpayers).
- Lifetime Learning credit; $2,000 limit per tax return (phased out with income* between $118,000 and $138,000 for married filing jointly taxpayers and $59,000 and $69,000 for all other taxpayers).
- Student loan interest deduction: Up to $2,500 per taxpayer (phased out with income* between $140,000 and $170,000 for married filing jointly taxpayers and $70,000 and $85,000 for all other taxpayers).
- Coverdell Education Savings Account (ESA) contributions; $2,000 annual limit per beneficiary (phased out with income* between $190,000 and $220,000 for married filing jointly taxpayers and $95,000 and $110,000 for all other taxpayers).

- Tuition and Fee Deduction; $4,000 (with tier 1 limit cut-off of $130,000 for married filing jointly taxpayers and $65,000 for all other taxpayers).
- Tuition and Fee Deduction; $2,000 (with tier 2 limit cut-off of $160,000 for married filing jointly taxpayers and $80,000 for all other taxpayers).

**modified adjusted gross income.*

OVERVIEW AND HIGHLIGHTS (not discussed above)

The following outline focuses on important aspects of the tax law and those that specifically affect musicians. For additional information on deductions, exemptions or filing status, see a tax advisor or visit www.irs.gov. Here is a quick overview of some highlights.

To help those of modest means there is a Premium Tax Credit. This Premium Tax Credit – also known as PTC – is a refundable credit that helps eligible individuals and families cover the premiums for their health insurance purchased through the Health Insurance Marketplace. To get this credit, you must meet certain requirements and file a tax return. Eligibility depends on your household income and other factors highlighted below:

1. Your household income for 2020 is at least 100% and no more than 400% of the poverty level for your family size.
2. You are not eligible for coverage from an employer plan or from a government plan (including Medicaid or Medicare).
3. If married, you must file jointly.
4. You cannot be claimed as a dependent by another taxpayer.
5. You bought your coverage through the Marketplace. Purchasing identical coverage directly from the insurer disqualifies you from claiming the credit.

For 2020, the tax rate on the employee portion of Social Security is 6.2 % on wages up to $137,700, so Social Security tax withholdings should not exceed $8,537.40. Medicare tax remains at 1.45 % and is withheld from all wages regardless of amount. “High income” workers, with wages and other compensation including net self-employment earnings in excess of $250,000 if married filing jointly, $125,000 if married filing separately, or $200,000 if single, head of house-hold or qualifying widow(er), are subject to the 0.9 % additional Medicare tax. This tax is calculated on Form 8959.

On Schedule SE for 2020, self-employment tax of 15.3 % applies to earnings of up to $137,700 after the earnings are reduced by 7.65 %. The 15.3 % rate equals 12.4 % for Social Security (6.2 % employee share and 6.2 % employer share) plus 2.9 % for Medicare. If net earnings exceed $137,700, the 2.9 % Medicare rate applies to the entire amount. One-half of the self-employment tax may be claimed as an above-the-line deduction on Form 1040 (as an adjustment to gross income). An election can be made to defer half of the Social Security portion of self-employment tax for 2020, with 50% becoming payable by December 31, 2021, and the other 50% by December 31, 2022.

In 2020, you may again be subject to the Net Investment Income Tax (NIIT). The tax rate and thresholds have not changed and are as follows: 3.8 % of the smaller of (a) your net investment income or (b) the excess of your modified adjusted gross income over: $125,000 if married filing separately, $250,000 if married filing jointly or qualifying widow(er), or $200,000 if single or head of household. This tax is calculated on Form 8960.

If you have a same-sex spouse whom you lawfully married in a state (or foreign country) that recognizes same-sex marriage, you and your spouse are treated as married for all federal tax purposes and must use the married filing jointly or married filing separately filing status on your 2020 return, even if you and your spouse now live in a state (or foreign country) that does not recognize same-sex marriage. Answers to frequently asked questions (FAQs) for individuals of the same sex who are married under state law are available at:

https://www.irs.gov/uac/answers-to-frequently-asked-questions-for-same-sex-married-couples

For 2020, the limit on the adoption credit as well as the exclusion for employer-paid adoption assistance is $14,300. The credit is phased out for modified adjusted gross income between $214,520 and $254,520. The credit is claimed on Form 8839.

For 2020 the maximum earned income tax credit is $3,584 for one qualifying child, $5,920 for two qualifying children, $6,660 for three or more qualifying children, or $538 for taxpayers who have no qualifying child. The earned income limits and adjusted gross income limits have been adjusted for inflation in 2020 and depend on filing status and/or earned income and/or adjusted gross income and are as follows:

1. If you are single, head of household, or a qualifying widow/widower with earned income, such as wages and self-employment earnings, and have adjusted gross income (AGI), under $41,756 if you have one qualifying child, $47,440 if two qualifying children, or $50,954 if you have three or more qualifying children. Investment income must not exceed $3,650
2. If you are married filing jointly, earned income and AGI must be less than $47,646 if you have one qualifying child, $53,330 if you have two qualifying children; or $56,844 if you

have three or more qualifying children. Investment income must not exceed $3,650

All unemployment compensation is taxable in 2020.

The standard mileage rate for business use of your car is 57.5 cents per mile for 2020. The rate for medical expense deductions is 17 cents per mile. For charitable volunteers, the mileage rate is 14 cents per mile.

Normally, a Required Minimum Distribution (RMD) must be received by April 1 of the year following the year in which you reach age 70½ from your traditional IRA account(s). If a RMD is not received within the required period, the IRS can impose a penalty of up to 50 % on the amount not received. For 2020 no distributions are required. (*For years after 2020 the RMD age has been increased to age 72).*

The filing deadline for 2020 individual returns is April 15, 2021. A six-month automatic extension to file your tax return may be obtained by filing Form 4868 by this date. (If you get an extension, interest will still be charged for taxes not paid by the original April 15 deadline and late payment penalties will be imposed unless at least 90% of your tax liability is paid by the original deadline or you otherwise show reasonable cause. If you cannot pay the full amount of tax you owe when you file your return, you can file Form 9465 to request an installment payment arrangement.

For 2020, the contribution limit for traditional individual retirement accounts (“IRAs”) and Roth IRAs has been adjusted for inflation to $6,000 or $7,000 for those ages 50 or older. The deduction is phased-out for active participants covered by an employer pension plan at certain income levels, depending on your filing status.

New Law Alert - There Is No Longer an Age Limit for Traditional IRA Contributions. For 2019 and earlier years, you could not contribute to a traditional IRA if you were age 70½ or older at the end of the year. The SECURE Act repealed this rule. Starting with contributions for 2020, you may make traditional IRA contributions (deductible or nondeductible) regardless of your age, provided you have compensation for the year.

For 2020 the elective deferral limits for 401(k), 403(b) and 457 plans have been adjusted for inflation to $19,500. If you are age 50 or older, additional “catch-up” contributions of $6,500 are permissible. For simple IRA’s the elective deferral limits are $13,500 with an additional “catch-up” contribution of $3,000 for those over 50 years old. If these limits were exceeded you must receive a corrective distribution to avoid penalties and interest.

Taxpayers with interests in foreign bank accounts or other foreign financial accounts or assets may have to file Form TD F90-22.1 (FBAR) or Form 8938, or possibly both. Substantial penalties may apply if a required form is not filed.

The definition of a high-deductible health plan, which is a prerequisite to funding a Health Savings Account (HSA), means a policy with a minimum deductible for 2020 of $1,400 for self-only coverage and a maximum out-of-pocket cap on co-payments and other amounts of $6,900. These limits are doubled for family coverage. The contributions to a HSA are capped at $3,550 for self-only coverage or $7,100 for family coverage.

In 2020, if the claimed value of a donated car exceeds $500, a qualifying written acknowledgment should be obtained from the charity and be reported to you on Form 1098-C. If the charitable organization sells the vehicle without having put it to significant use or improving it, the deduction may be limited.

If a new car is placed in service in 2020 and used over 50 % for business, bonus depreciation allows an $18,100 first-year depreciation limit. The depreciation limit is $10,100 if bonus depreciation is not allowed. There are different rules for larger vehicles (SUV's, vans and trucks weighing 6,000 lbs. but not more than 14,000 lbs.) that are more complicated (consult your tax advisor). The limits are reduced for personal use.

Eligibility for savers credit: the adjusted gross income brackets for the 10%, 20%, and 50% credits were increased for 2020. No credit is allowed when AGI exceeds $32,500 for single taxpayers, $48,750 for heads of households, and $65,000 for married persons filing jointly.

Identity protection services received without cost, before or after a data security breach, are excludable from income; however, cash received in lieu of such services or proceeds received under an identity theft insurance policy are not excludable.

TAXPAYER GUIDE TO IDENTITY THEFT

For 2020, the IRS, the states and the tax industry continue to use safeguards and take actions to combat tax-related identity theft. Many of these safeguards will be invisible to you, but invaluable to fight against criminal syndicates. If you prepare your own return with tax software, you will see log-on standards. Some states also have taken additional steps. See your state revenue agency's web site for additional details.

Tax-related identity theft occurs when someone uses your stolen Social Security Number ("SSN") to file a tax return claiming a fraudulent refund. You may be unaware that this has happened until you e-file your return and discover that a return already has been filed using your SSN. Or, the IRS may send you a letter saying it has identified a suspicious return using your SSN.

Be alert to possible tax-related identity theft if you are contacted by the IRS (in writing*) or by your tax professional/provider about: more than one tax return was filed using your SSN; you owe additional tax, refund offset or have had collection actions taken against you for a year you did not file a tax return; IRS records indicate you received wages or other income from an employer for whom you did not work.

*The IRS does not make calls, so be careful about giving any personal or tax information to someone on the phone.

If you are a victim of identity theft, the Federal Trade Commission recommends these steps:

- File a complaint with the FTC at identitytheft.gov.
- Contact one of the three major credit bureaus to place a 'fraud alert' on your credit records:
  - Equifax, www.Equifax.com
  - Experian, www.Experian.com
  - TransUnion, www.TransUnion.com
- Contact your financial institutions, and close any financial or credit accounts opened without your permission or tampered with by identity thieves.

If your SSN is compromised and you know or suspect you are a victim of tax-related identity theft, the IRS recommends these additional steps:

- Respond immediately to any IRS notice; call the number provided or, if instructed, go to IDVerify.irs.gov.
- Complete IRS Form 14039, Identity Theft Affidavit, if your e-filed return is rejected because of a duplicate filing under your SSN or you are instructed to do so. Use a fillable form at IRS.gov, print, then attach the form to your return and mail according to instructions.

If you previously contacted the IRS and did not have a resolution, contact the IRS Identity Protection Specialized Unit for specialized assistance at 1-800-908-4490. They have teams available to assist.

INCOME & RELATED EXPENSES

Professional musicians may have income from which tax has been withheld (W-2) or income from self-employment where neither tax nor Social Security has been deducted (usually reported on Form 1099-Misc or new this year Form 1099-NEC).

If the musician is self-employed, all allowable travel and other expenses should be deducted on Schedule C before the adjusted gross income is entered on page 1 of the tax return.

If the musician has only W-2 wages, the new tax act has eliminated the ability to deduct these costs. If possible, it may be advantageous to receive income from your trade as an independent contractor rather than as an employee. The employer may not be willing to do this and independent contractor rules are complicated and looked at closely by the IRS, so discuss this with your tax professional.

Reimbursements for expenses (e.g., travel and entertainment) received under an accountable plan should not be reported on the musician's Form W-2, and are not reported as income. Generally, reimbursements are considered received under an accountable plan if:

They are made for deductible business expenses;
The employee accounts for the expenses to the employer; and
The employee returns any excess reimbursement.

Reimbursements received under a non-accountable plan (any plan other than an accountable plan) are subject to withholding and employment taxes and are shown as wages on Form W-2 and must be reported as income on Form 1040.

RECORDING

Self-employed and freelance musicians (those not getting a W-2 and filing a Schedule C) may deduct the costs of recording, including the cost of renting a studio, hiring other musicians, hiring graphic designers, printing, packaging, and the cost of any materials (including blank CDs, cases, inserts, etc.). NOTE: The recording must be made for sale (i.e. there must be a profit motive).

OTHER EXPENSES

Also deductible for self-employed musicians are expenses incurred in the practice of your profession.

In addition to the travel expenses discussed above, they include:

Union dues, assessments and initiation fees;

Commissions paid to agents and booking offices;

Dues to other professional societies;

Rehearsal hall, studio or office rental;

Sheet music, transcriptions, arrangements, records, manuscript paper, etc.;

Stationery, printing, and postage used in business;

Telephone used for business (a portion of your home phone may be deducted);

Costs associated with your cell phone, as long as the calls are made for business purposes;

Books and subscriptions to professional journals;

Advertising and photographs for promotion;

Other promotional expenses;

Gifts (not exceeding $25 per recipient);

Repairs and upkeep of instruments;

Insurance on instruments;

Substitutes' pay;

Legal expenses for drawing up contracts of employment;

Rental of instruments; and

Depreciation of instruments or recording equipment.

The following are additional expenses that may be deductible:

Costs of your internet service provider, web site designer, web site expenses, domain hosting bill or anything related to the internet that is related to your business. Also, you may be able to deduct the cost of buying a computer if it is used for business purposes, and you may also be able to deduct a portion of the depreciation on your computer each year.

Contributions made to formal pension or profit-sharing plans for yourself and your employees. The procedures for this are quite complicated, and we advise that professional assistance be obtained.

The following items – home office and travel expenses and expenses for uniforms – were omitted from the above list. A word of caution is needed as to their deductibility.

HOME OFFICE EXPENSES

You may claim a deduction if you use your home office exclusively and regularly for the administration or management activities of your business and you have no other fixed location where you conduct such activities. “Exclusive use” means that the office space cannot be used for personal purposes. Home office expenses in excess of your net business income as a musician are not deductible. The IRS has now provided an optional safe-harbor method for calculating home office deductions on Schedule C. The rules for the home office expense deduction go beyond this general description and should be discussed with your tax preparer.

TRAVEL EXPENSES

The deductibility of long-distance travel involving railroad or plane fares is fairly clear. The fares, plus related costs – such as taxis to or from the depot, baggage-handling charges and passports for business trips – are all deductible as travel expenses.

If you were away from home overnight, you may also deduct all of the following expenses: 50% of meals and entertainment (see additional notes and caution at end); 100% of travel and lodging; laundry and cleaning; reasonable tips to bellhops and other hotel employees; and transportation at your destination.

Musicians may also use their own cars for business travel. The deductible items involved include: depreciation of the cost of the auto; gas, oil and tires; insurance, license and registration fees; parking expenses (e.g., garage rental or parking meters); and parkway or bridge tolls. The point to remember in deducting auto expenses is that after you have totaled all of these costs, you must subtract that portion used for personal purposes.

The regulations call for an allocation based upon both time and mileage used, and this is often the most difficult part of the calculation.

An alternate method involves computing the amount of business mileage and then multiplying those miles driven by 57.5 cents per mile (for 2020). You may still deduct direct costs such as parking and tolls (but not depreciation, gas or oil).

The real problem in travel expenses is determining what portion of local travel (that is, not away from home overnight) is deductible.

In no case are personal meals deductible if the musician does not sleep away from home.

The regulations say that commuting costs are not deductible. This means that if the musician travels only from home to the hall and back again, the costs of travel are not deductible – even if the instruments are so bulky and heavy that it is impossible to use public transportation.

The costs of transporting instruments to and from work (other than commuting costs) are deductible only if extra costs were incurred.

If you are playing more than one job during the day, you may use the business mileage formula described above for travel between jobs.

Again, except for any additional expenses, there is no auto deduction for travel to the first job or home from the last.

EXPENSES FOR UNIFORMS

The cost of uniforms and other apparel, including their cleaning, laundering, and repair, is deductible only if the garments are specially required in order for you to keep your job and are not adaptable to general or continued wear, to the extent that they could replace your regular clothing.

You may not deduct the cost of ordinary clothes used as work clothes on the grounds that they get harder use than customary garments, that they are soiled after a day's work and cannot be worn socially, or that they were purchased for your convenience to save wear and tear on your better clothes.

That your job requires you to wear expensive clothing is not, according to the IRS, a basis for deducting the cost of the clothes, if the clothing is suitable for wear off the job.

Deductions have been allowed to musicians for formal wear and the costs of theatrical clothing and accessories, if these items are not suitable for ordinary use.

JOB EXPENSES & EDUCATION

Bills are required as proof for all job expense items exceeding $75.

There are many items of a lesser amount – such as tips and taxi fares – where no proof may be obtained.

Detailed and contemporaneous records must be kept of these expenses (and of business mileage if a car is involved) through a careful diary or log. Keeping such records takes time and effort. If your return is ever examined, however, you could lose your entire deduction in the absence of a good log or diary.

Numerous other items are deductible by the professional musician. Among these are education expenses, accounting fees, and fees for investment advice.

With regard to education, you may take a deduction for any training or coaching that sharpens your present job or professional skills, or meets the expressed requirements of your employer for you to retain your job. You may also be able to deduct the cost of a course if you are entering a new specialty within the music field.

Note - Unfortunately, after the Tax Cuts and Jobs Act ("the TCJA"), starting January 1, 2018, entertainment, amusement, or recreation expenses for clients and business associates are no longer allowed as business deductions. Business meals provided to clients and business associates are discussed below.

The IRS issued guidance clarifying that taxpayers may generally continue to deduct 50% of the food and beverage expenses associated with operating their trade or business, despite changes to the meal and entertainment expense deduction under Sec. 274 made by the TCJA. *(The recent stimulus legislation included a provision that removes the 50% limit on deducting business meals provided by restaurants in 2021 and 2022 and makes those meals fully deductible).*

Under the interim guidance, taxpayers may deduct 50% of an otherwise allowable business meal expense if:

- The expense is an ordinary and necessary business expense under Sec. 162(a) that is paid or incurred during the tax year when carrying on any trade or business;
- The expense is not lavish or extravagant under the circumstances;
- The taxpayer, or an employee of the taxpayer, is present when the food or beverages are furnished;
- The food and beverages are provided to a current or potential business customer, client, consultant, or similar business contact; and
- For food and beverages provided during or at an entertainment activity, they are purchased separately from the entertainment, or the cost of the food and beverages is stated separately from the cost of the entertainment on one or more bills, invoices, or receipts.

BONUS TAX TIP:

If you earn less than $16,000 for the year as a musician, you may be eligible to deduct business expenses as an “above the line” deduction, meaning that it can directly reduce your adjusted gross income. This could be an advantage for musicians. The following information is from IRS publication 463 (see www.irs.gov):

If you are a performing artist, you may qualify to deduct your employee business expenses as an adjustment to gross income. To qualify, you must meet all of the following requirements:

1. During the tax year, you perform services in the performing arts as an employee for at least two employers and you receive at least $200 each from any two of these employers.

2. Your related performing-arts business expenses are more than 10 % of your gross income from the performance of those services.

3. Your adjusted gross income is not more than $16,000 before deducting these business expenses.

If you are married, you must file a joint return unless you lived apart from your spouse at all times during the tax year. If you file a joint return, you must figure requirements (1) and (2) separately for both you and your spouse. However, requirement (3) applies to your and your spouse’s combined adjusted gross income.

If you meet all of the above requirements, you should first complete Form 2106 or 2106-EZ. Then you include your performing-arts-related expenses from Form 2106, line 10, or Form 2106-EZ, line 6, in the total on Schedule 1 of Form 1040.

If you do not meet all of the above requirements, you do not qualify to deduct your expenses as an adjustment to gross income.

This article does not constitute tax advice or an accountant-client relationship. You should consult with your tax professional regarding your specific circumstances. As the tax rules and interpretations are complex and change frequently, the information contained in this article may not always be up to date.

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