This article appears in the March 2022 issue of Allegro, the digital newsletter of the NYC musicians' union AFM Local 802.

TAX TIPS FOR MUSICIANS

Published in March 2022

(for tax year 2021)

Each year, as the tax season approaches, Allegro publishes these updated tax tips for musicians provided by Local 802's accounting firm, Gould, Kobrick & Schlapp P.C.

There were some improvements from the effects of COVID in 2021, but unfortunately there continued to be disruptions in live entertainment (Broadway, concerts, live venues, celebrations, etc.) making it difficult to work and earn a living. Although some of the relief provided by the 2020 CARES Act ended, thankfully there was a continuation of many tax relief provisions plus some new enhancements under the American Rescue Plan Act of 2021 ("ARPA"). The Child Tax Credit and a third stimulus payment are two of the changes that might affect your 2021 income taxes. These will all be explained later.

Before we go into the details of tax law and filing information I would like to advise you of IRS tax help that is available.

- You can use the Online Account portal on the IRS website to securely access the latest information about your federal tax account, including the Economic Impact Payments you received, advance Child Tax Credit payments, and key data from your most recent tax return. The link is https://www.irs.gov/payments/your-online-account *(If you don't have an existing IRS username or ID.me account, you will need to have your photo identification ready. More information about identity verification is available on the sign-in page)*

- Taxpayers who made $73,000 or less in 2021 can prepare and file their federal tax return for free online by using the IRS Free File program, also available with the IRS2Go app. Eligible taxpayers will use brand-name tax preparation software that helps you find deductions, credits and exemptions. Free File opened January 14, 2022. You can look up Free File service providers on the IRS website. The link is https://www.irs.gov/filing/free-file-do-your-federal-taxes-for-free *(IRS Free File lets you prepare and file your federal income tax online using guided tax preparation, at an IRS partner site or Free File Fillable Forms. It's safe, easy and no cost to you for a federal return. To receive a free federal tax return, you must select an IRS Free File provider from the "Browse All Offers" page or your Online Lookup Tool results. Once you click your desired IRS Free File provider, you will leave the IRS.gov website and land on the IRS Free File provider's website. Then, you must create an account at the IRS Free File provider's website accessed via IRS.gov to prepare and file your return. Please note that an account created at the same provider's commercial tax preparation website does NOT work with IRS Free File: you MUST access the provider's Free File site as instructed above.)*
- At IRS.gov you can find a variety of online tools. Its Interactive Tax Assistant (ITA) provides answers to common questions. The IRS says ITA can help you determine if a type of income is taxable, if you're eligible to claim certain credits or if you can deduct expenses on your tax return. It also provides answers for general questions, such as determining your filing status, whether you can claim dependents or if you're required to file a tax return.

STIMULUS CHECKS - The third economic stimulus payments (officially known as "Economic Impact Payments") authorized by ARPA, were an advance payment of the Recovery Rebate Credit authorized for the 2021 tax year. The IRS started sending the third stimulus payments to eligible individuals in March 2021 and continued sending them throughout the year as tax returns were processed. By law, these payments were required to be issued by December 31, 2021. These payments remain tax free. If you did not qualify for the third economic stimulus payment or did not receive the full amount, you may still be eligible for the Recovery Rebate Credit based on your 2021 tax situation. To do that, you **must** file a 2021 tax return. *(Note: If you did not receive the first or second stimulus payments and did not file a 2020 tax return, you can still file that return and claim a Recovery Rebate Credit.)*

The IRS will be sending taxpayers Letter 6475 in January 2022, which you can use to determine if you qualify for the Recovery Rebate.

ADVANCE CHILD TAX CREDIT PAYMENTS – The Child Tax Credit is normally claimed on your tax return, but for 2021 ARPA expanded the Child Tax Credit for many households (up to $3,600 per qualifying child) and the government sent out half of the eligible amount in advance monthly payments.

If you received advance Child Tax Credit payments during 2021, the IRS advises you to compare the advance Child Tax Credit payments you received last year with the amount of the Child Tax Credit that you can properly claim on your 2021 tax return. The advance Child Tax Credit payments were based on your 2020 return. If you didn't file a 2020 return, the IRS used your 2019 return. Things may have changed since you filed, which may have resulted in an overpayment.

The IRS gives these examples:

- A qualifying child who lived with you changed homes during 2021 and resided more than half of the 2021 tax year with a different individual.
- Your income increased in 2021.
- Your filing status changed for 2021.
- Your main home was outside of the United States for more than half of 2021.

If you received less than the amount you were eligible for, claim a credit for the remaining amount on your 2021 tax return. If you received more than you were eligible for, you may need to repay some or all of the excess when you file your 2021 tax return.

The IRS will be sending taxpayers Letter 6419, which shows the total amount of the advance Child Tax Credits payments you received.

For 2021 the following tax law changes were enacted, modified or changed:

- Distributions are required to be made from qualified retirement plans and IRAs for those who reach the required starting date, or who inherited accounts (this rule was suspended in 2020).
- For 2021 you can again deduct donations up to $300 (and for 2021 - $600 on joint returns) even if you do not use itemized deductions. For 2021 the deduction is entered as an additional standard deduction.
- Individuals that itemize deductions can again elect to deduct donations up to 100% of adjusted gross income.
- Beginning January 1, 2021 and continuing through December 31, 2022, a temporary exception to the 50% limit on deductions for food or beverages, was enacted. To apply, the facility must prepare and sell food or beverages to retail customers for dining in or

take-out meals, and the business owner or an employee must be present. This increased deduction can't be taken for grocery stores and convenience stores or employer-operated eating facilities.

- Unemployment benefits are fully taxable in 2021 (in 2020 there was a partial exclusion)
- Educator expenses of up to $250 can now include the cost of personal protective gear and other COVID–19–related safety measures.
- The tuition and fees deduction expired at the end of 2020, was not extended and does not apply for 2021. The modified adjusted gross limits for the lifetime learning credit have increased.
- The age cap on contributing to a traditional IRA has been repealed. Contributions to a traditional IRA for 2021 can be made as long as you have earned income (or other eligible income).
- For 2021, the premium tax credit is allowed even if household income exceeds 400% of the federal poverty line. The required contribution percentages are reduced.
- 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 2021, 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 2021.

For 2021, Form 1040 has the following changes:

- The line on page 1 of Form 1040, used for reporting charitable cash contributions, was moved to the standard deduction line, so the deduction no longer impacts your federal adjusted gross income (AGI).
- Lines 19 and 28, on page 2 of Form 1040 were adjusted to account for the child tax credit that is now fully refundable for the 2021 tax year.
- Line 27 on page 2 of Form 1040 was modified and expanded (including a new check box) to satisfy changes to the earned income tax credit.

The following are 2022 pertinent filing deadlines:

January 18, 2022: 4th quarter 2021 estimated tax payment due

April 18, 2022: Due date of 2021 individual tax return (or filing of request for extension)

April 18, 2022: 1st quarter 2022 estimated tax payment due

April 18, 2022: Last day for individuals to make a 2021 IRA contribution

June 15, 2022: 2nd quarter 2022 estimated tax payment due

September 15, 2022: 3rd quarter 2022 estimated tax payment due

October 17, 2022: Extended individual tax returns due

January 17, 2023: 4th quarter 2022 estimated tax payment due

The Tax Cuts and Jobs Act (the "Act") is now in its third year. Most 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 for 2021 as they were in in 2020: 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 $523,600 for single and head of household taxpayers, $628,300 for married couples filing jointly, and $314,150 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 2021 when taxable income exceeds $445,850 for singles, $473,750 for heads of households, $501,600 for married persons filing jointly and qualifying widows/widowers, and $250,800 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 2021 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. If your child also has *earned income*, say from a summer job, the rules become more complicated.

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 $25,100 for joint filers and qualifying widows/widowers, $18,800 for heads of household, and $12,550 for single and married taxpayers filing separately.
- The additional standard deduction for being 65 or older or blind is $1,700 if filing as single or head of household ($3,400 if 65 and blind). If married filing jointly or qualifying widow/widower, the additional standard deduction is $1,350 if one spouse is 65 or older or blind, and $2,700 if both spouses are at least 65 (or one is 65 and blind, or both are blind and under age 65).
- Non–itemizers can also deduct cash contributions to charity up to $300 ($600 on a joint return.

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 ($375,000 if married filing separately) 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.
- Interest on a home equity loan is generally not deductible unless used to buy, construct, or substantially improve a first or second residence and only if that the loan is secured by the first or second residence and meets the definition of home acquisition debt.
- 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 2021 (subject to the AGI floor) is $450 if you are age 40 or younger at the end of 2021; $850 for those age 41 through 50; $1,690 for those age 51 through 60; $4,520 for those age 61 through 70; and $5,640 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 $114,600 for joint filers and qualifying widows/widowers ($57,300 for married taxpayers filing separately), and

$73,600 for single and head of household taxpayers. The exemption starts phasing out for taxpayers with alternative minimum taxable income over $1,047,200 million for joint filers and qualifying widows/widowers and over $523,600 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 $164,900 ($329,800 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 $3,600 per child for a qualifying child from birth to under age 6 and up to $3,000 for a child age 6 to under age 18. A nonrefundable $500 credit is also available for a taxpayer's dependents who are not qualifying children. There is a two-step phase out for the child tax credit based on modified adjusted gross income

Estate and gift tax exemption:

- For decedents dying, and gifts made, in 2021, the estate and gift tax exemption has been adjusted for inflation and is now $11,700,000. 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 (NEW – 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).
- 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).
- The Tuition and Fee Deduction expired in 2020 and is no longer available.

**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 (some exceptions exist, so you should consult a tax advisor):

1. Your household income for 2021 is at least 100% 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 2021, the tax rate on the employee portion of Social Security is 6.2 % on wages up to $142,800, so Social Security tax withholdings should not exceed $8,853.60. 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 2021, self-employment tax of 15.3 % applies to earnings of up to $142,800 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 $142,800, 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).

In 2021, 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 2021 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 2021, the limit on the adoption credit as well as the exclusion for employer-paid adoption assistance is $14,440. The credit is phased out for modified adjusted gross income between $216,660 and $256,660. The credit is claimed on Form 8839.

For 2021 the maximum earned income tax credit is $3,618 for one qualifying child, $5,980 for two qualifying children, $6,728 for three or more qualifying children, or $1,502 for taxpayers who have no qualifying child. The earned income limits and adjusted gross income limits have been adjusted for inflation in 2021 and depend on filing status and/or earned income and/or adjusted gross income and are as follows:

1. If your filing status is single, head of household, or qualifying widow/widower, and you have qualifying children, your 2021 credit begins to phase out in the EIC Table if either earned income or adjusted gross income is at least $19,520, regardless of the number of children. The phase out endpoint depends on the number of children. The credit is completely phased out if earned income or adjusted gross income is at least $42,158 for one child, $47,915 for two children, and $51,464 for three or more children. Investment income must not exceed $10,000.
2. If you are married filing jointly and have qualifying children, the 2021 credit begins to phase out in the EIC Table if either earned income or adjusted gross income is at least $25,470, regardless of the number of children. The phase out endpoint depends on the number of children. The credit is completely phased out if earned income or adjusted gross income is at least $48,108 for one child, $53,865 for two children, and $57,414 for three or more children. Investment income must not exceed $10,000.
3. If you do not have any qualifying children, the phase out of the childless EIC begins in the EIC Table when either earned income or AGI is at least $11,610, or $17,560 if married filing jointly, and the credit is completely phased out if either amount is $21,430 or more, or $27,380 or more if married filing jointly.
4. If you were self-employed in 2021, you figure your earned income for EIC purposes on the worksheet in the IRS instructions. Generally, your earned income for EIC purposes is the net earnings shown on Schedule SE, less the income tax deduction for 50% of self-employment tax. If your net earnings were less than $400, the net amount is your earned income for purposes of the credit. If you had a net loss, the loss is subtracted from any wages or other employee earned income. If you are a statutory employee, the income reported on Schedule C qualifies for the credit.

All unemployment compensation is taxable in 2021.

The standard mileage rate for business use of your car is 56 cents per mile for 2021. The rate for medical expense deductions is 16 cents per mile. For charitable volunteers, the mileage rate is 14 cents per mile.

The age at which required minimum distributions (RMDs) must begin was changed by the SECURE Act from age 70 ½ to age 72 for those born after June 30, 1949. If you were born before July 1, 1949 and received RMDs under the age 70 ½ rule for years before 2020, there was no RMD for 2020, as the CARES Act waived all RMDs for 2020, **but you must receive your RMD for 2021**

and later years. The Required Minimum Distribution (RMD) must be received by April 1 of the year following the year in which you reach age 72 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.

The filing deadline for 2021 individual returns is April 18, 2022. 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 18 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 2021, the contribution limit for traditional individual retirement accounts ("IRAs") and Roth IRAs 9is the same $6,000 or $7,000 for those ages 50 or older. A contribution may be made for a non-working spouse. The deduction is phased-out for active participants covered by an employer pension plan at certain income levels, depending on your filing status. You must make the payment to your IRA on or before April 18, 2022 even if you file for an extension.

For 2021 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 2021 of $1,400 for self-only coverage and a maximum out-of-pocket cap on co-payments and other amounts of $7,000. These limits are doubled for family coverage. The contributions to a HSA are capped at $3,600 for self-only coverage or $7,200 for family coverage.

In 2021, 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 2021 and used over 50 % for business, bonus depreciation allows an $18,200 first-year depreciation limit. The depreciation limit is $10,200 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 2021. No credit is allowed when AGI exceeds $33,000 for single taxpayers, $49,500 for heads of households, and $66,000 for married persons filing jointly.

TAXPAYER GUIDE TO IDENTITY THEFT

Identity theft continues to proliferate, and annually makes the IRS' list of Dirty Dozen Tax Scams. If you know your personal information has been compromised, or suspect that it has, tell the IRS. File Form 14039, "Identity Theft Affidavit," at https://www.irs.gov/pub/irs-pdf/fl4039.pdf, to put the IRS on alert immediately. Follow the instructions for mailing or faxing the form to the IRS. By filing this form, the IRS marks your tax account as "suspect." Unfortunately, this will not necessarily speed up the issuance of your tax refund, but it may ease filings going forward.

Under the Taxpayer First Act, if you are a victim of tax identity theft, you'll be assigned one person in the IRS to deal with (a point of contact). Also, the IRS is now required to notify you if there is any suspected unauthorized use of your tax information (e.g., someone obtained a tax refund using your Social Security number).

If someone else is using your Social Security number to file a bogus tax return, it interferes with your filings. You can obtain an Identity Protection Personal Identification Number (IP PIN), a six-digit number, to use in place of your Social Security number on future tax returns.

You must obtain an IP PIN if:

1. You lost an IRS notice (CP01A) sent to you with an IP PIN.
2. You had an IP PIN before but didn't receive a new one.
3. Your e-filed return was rejected because your IP PIN was missing or incorrect.

You can also choose to obtain an IP PIN if you want one as a protection against tax identity theft.

To obtain an IP PIN online, you must go through an authentication process called "Secure

Access Steps." These steps are explained at the IRS' Secure Access page at https://www.irs.gov/individuals/secure-access-how-to-register-for-certain-online-self-help-tools.

Learning more about tax-related ID theft. Combating ID theft is a priority for the IRS, and toward this end it has many resources to help you.

- https://www.irs.gov/individuals/how-irs-id-theft-victim-assistance-works
- Publication 4524, Security Awareness to Taxpayers.
- Taxes. Security. Together. This is a joint campaign by the IRS, state tax administrators, and the private-sector tax industry to encourage taxpayers to protect personal and financial data online and offline. See: https://www.irs.gov/individuals/taxes-security-together
- Taxpayer Guide to Identity Theft, which is a landing page at https://www.irs.gov/uac/taxpayer-guide-to-identity-theft that contains information and links.

If you are a victim of identity theft, the Federal Trade Commission recommends that you contact one of the following 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

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.

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 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 later, 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, 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 56 cents per mile (for 2021). 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 in current year tax changes and below.

The IRS issued guidance clarifying that taxpayers may generally continue to deduct 100% of the food and beverage expenses associated with operating their trade or business (limited to 2021 and 2022), despite changes to the meal and entertainment expense deduction under Sec. 274 made by the TCJA.

Under the interim guidance, taxpayers may deduct 100% 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 report the performing artist expenses on Form 2106 and enter the unreimbursed amount on Line 12 of Schedule 1 (Form 1040 or 1040-SR).

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

END