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# TAX TIPS FOR MUSICIANS

## Published in March 2023 (for tax year 2022)

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*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.*

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's adjusted gross income was $73,000 or less in 2022 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 23, 2023. 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 is 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 are 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 are required to file a tax return.

For 2022 the following tax law changes were enacted, modified, or changed:

- The IRS has renamed the filing status formerly called “qualifying widow/widower” as “qualifying surviving spouse.” The rules for this filing status have not changed.
- For 2022 you can no longer deduct charitable donations if you do not use itemized deductions.
- For 2022 Individuals that itemize deductions can no longer elect to deduct charitable donations up to 100% of adjusted gross income.
- For 2022 the exception to the 50% limit on deductions for food or beverages, was continued. 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 cannot be taken for grocery stores and convenience stores or employer-operated eating facilities. This rule will terminate in 2023.
- Deductible educator expenses increased to $300 for 2022. Expenses continue to include the cost of personal protective gear and other COVID–19–related safety measures.
- The itemized deduction for mortgage insurance premiums was discontinued.
- The age cap on contributing to a traditional IRA has been repealed. Contributions to a traditional IRA for 2022 can be made as long as you have earned income (or other eligible income).
- For 2022, the premium tax credit is allowed even if household income exceeds 400% of the federal poverty line. The required contribution percentages are reduced.
- The child tax credit (CTC) expansions were discontinued for 2022 returns, with the rules reverting back to those that were in place for filing 2020 returns. There were no advance payments as there were in 2021 for eligible taxpayers. The credit is no longer fully refundable, either. Instead, only up to $1,500 of the child credit is refundable for some lower-income individuals with children. And you must have at least $2,500 of earned income to qualify for this partial refund.
- The child and dependent care credit returns to 2020 rules and the fully refundable

dependent care credit expired and no longer applies.

- The enhanced earned income credit for those with no qualifying child expired at the end of 2021 and no longer applies.
- Retirement plan distribution reminder - COVID-19-related distributions taken in 2020 may be repaid within 3 years, so a repayment in 2022 means filing an amended return to recoup taxes paid on the 2020 distribution. If you opted to spread the distribution over 3 years, then a repayment in 2022 means filing amended returns for 2020 and 2021.

For 2022, Form 1040 has the following changes:

- Line 1 has been expanded into nine separate lines to categorize the income that was previously reported as one amount.
- Line 6c check box has been added to show the return includes a Lump Sum election.
- Line 19 was changed to "Child tax credit or credit for other dependents from Schedule 8812" from "Nonrefundable child tax credit or credit for other dependents ".
- Line 27a Earned Income Tax Credit checkbox was removed and was renumbered as line 27, line 27b has been moved to page 1 as line 1i, and Line 27c was removed.
- Line 30 the Recovery Rebate Credit is no longer valid for tax year 2022 and has been reserved for future use.

The following are 2023 pertinent filing deadlines:

*January 17, 2023*: 4th quarter 2022 estimated tax payment due.
*April 18, 2023*: Due date of 2022 individual tax return (or filing of request for extension).
*April 18, 2023*: 1st quarter 2023 estimated tax payment due.
*April 18, 2023*: Last day for individuals to make a 2022 IRA contribution.
*June 15, 2023*: 2nd quarter 2023 estimated tax payment due.
*September 15, 2023*: 3rd quarter 2023 estimated tax payment due.
*October 16, 2023*: Extended individual tax returns due.
*January 16, 2024*: 4th quarter 2023 estimated tax payment due.

For 2022 tax filings most rules remain the same with some inflationary dollar amount changes.

**DO YOU HAVE TO FILE A TAX RETURN?**

You must file a tax return if:

- You are single and:
  - ✓ Are under age 65 (on January 1, 2023) and your gross income is at least $12,950.
  - ✓ Age 65 or older (on or before January 1, 2023) and your gross income is at least $14,700.
- You are married and living together at the end of 2022 and:
  - ✓ Filing a joint return - both spouses under age 65 (on January 1, 2023) and your gross income is at least $25,900.
  - ✓ Filing a joint return - one spouse is age 65 or older (on or before January 1, 2023) and your gross income is at least $27,300.
  - ✓ Filing a joint return - both spouses are age 65 or older (on or before January 1, 2023) and your gross income is at least $28,700.
  - ✓ Filing a separate return for 2022 (regardless of age) and your gross income is at least $5.
- You are Married and living apart at the end of 2022 and:
  - ✓ Filing a joint or separate return for 2022 (regardless of age) and your gross income is at least $5.
- Head of a household maintained for a child or other relative and:
  - ✓ Are under age 65 (on January 1, 2023) and your gross income is at least $19,400.
  - ✓ Age 65 or older (on or before January 1, 2023) and your gross income is at least $21,150.
- Widowed in 2020 or 2021 and have a dependent child and:
  - ✓ Are under age 65 (on January 1, 2023) and your gross income is at least $25,900.
  - ✓ Age 65 or older (on or before January 1, 2023) and your gross income is at least $27,300.
- You are self-employed and you owe self-employment tax because your net self-employment earnings for 2022 are $400 or more.
- You (or your spouse if filing jointly) received HSA or Archer MSA distributions.
- You are entitled to a refund of taxes withheld from your wages or a refund based on any of the following credits: additional child tax credit, premium tax credit, earned income credit for working families, or the American opportunity credit.

This year's article will highlight important sections applicable to most individuals and provide you with the updated brackets, amounts and inflationary changes.

**Tax rates and other key amounts for 2022:**

- **Tax rate brackets**: For 2022 ordinary income remains at 10%, 12%, 22%, 24%, 32%, 35% and 37%, but the taxable income amounts in each bracket have changed. The top bracket of 37% for 2022 applies if taxable income exceeds $539,900 for single taxpayers and heads of households, $647,850 for married persons filing jointly and qualifying surviving spouses, and $323,925 for married taxpayers filing separate returns.
- **Dividend and capital gain tax rates**: 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 2022 when taxable income exceeds $459,750 for singles, $488,500 for heads of households, $517,200 for married persons filing jointly and qualifying surviving spouses, and $258,600 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.
- **Social Security and Medicare taxes for 2022**: The tax rate on the employee portion of Social Security is 6.2% on wages up to $147,000, so total Social Security tax withholdings should not exceed $9,114. Medicare tax of 1.45% is withheld from all wages regardless of amount.
- **Self-employment tax:** This applies to earnings of up to $147,000; only 92.35% of earnings are taken into account. 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 $147,000 (after the reduction), 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. If an election was made in 2020 to defer the employer portion of Social Security taxes, which is part of self-employment tax, then 50% of the deferred amount must be paid by December 31, 2022.

- **Additional 0.9% Medicare Tax on Earnings**: Wages, other employee compensation (tips, taxable fringe benefits), and net earnings from self-employment are combined to determine if you exceed the threshold for the 0.9% Additional Medicare Tax. The 0.9% tax, if applicable, is on top of the basic Medicare tax otherwise due (1.45% on all wages and salary; 2.90% on net self-employment earnings). Liability for the 0.9% tax does not depend on your adjusted gross income but only on your earnings. The 0.9% tax applies only to earnings above $250,000 for married persons filing jointly, $200,000 for single persons, heads of households and qualifying surviving spouses and $125,000 for married persons filing separately.
- T**raditional IRA and ROTH IRA contribution limit**s: $6,000 (with an additional contribution if age 50 or older of $1,000 (these amounts get phased out depending on marital status and income levels and whether your employer contributes to a pension plan on your behalf). You must make the payment to your IRA on or before April 18, 2023, even if you file for an extension.
- **Elective deferral limits for 401(k), 403(b), 457 plans and SIMPLE IRAs:** $20,500, with additional "catch-up" contributions of $6,500 for 401(k), 403(b), 457 plans and $3,000 for SIMPLE IRAs if your age is fifty or older.
- **Estate and gift tax exemptions:** For decedents dying, and gifts made, in 2022, the estate and gift tax exemption has been adjusted for inflation and is now $12,060,000. The annual gift tax exclusion is $16,000 per donee for gifts of cash or present interests. The top tax rate remains at 40%.
- **IRS standard business mileage rates:** For 2022 the rates are 58.5 cents a mile for the first half of 2022 and 62.5 cents per mile for the second half of 2022. The rates for medical expense and moving expense for certain military personnel deductions are 18 cents a mile for the first half of 2022 and 22 cents per mile for the second half of 2022. For charitable volunteers, the mileage rate is unchanged at 14 cents a mile.

**Income earned by your children:**

- The income of your minor child is not included on your return unless you make a special election to report a child's investment income (see kiddie tax below). A minor is considered a taxpayer in his or her own right. If the child is required to file a return but is unable to do so because of age or for any other reason, the parent or guardian is responsible for filing the return. A tax return must be filed for a dependent child who had more than $1,150 of investment income and no earned income (for personal services) for 2022. If your child had only earned income (for personal services) and no investment income, a tax return must be filed if the earned income exceeded $12,950. A child who is not required to file a return should still do so to obtain a refund of taxes withheld.

- “Kiddie Tax” rules. If your child has 2022 investment income exceeding $2,300, the excess is subject to the “kiddie tax” rules if (1) the child is under age 18, or (2) at the end of the year is either age 18 or a full-time student under age 24, and did not have earned income exceeding 50% of his or her total support for the year. If your child also has *earned income*, say from a summer job, the rules become more complicated.

**Exemptions:**

- You cannot claim exemptions for yourself, your spouse (on a joint return), or your dependents. The Tax Cuts and Jobs Act suspended the deduction for exemptions for 2018 through 2025.

**Standard deduction:**

- For most taxpayers, the standard deduction provides a larger deduction than itemizing deductions does, given the large increase in the standard deduction amount and the reductions to, or elimination of certain itemized deductions for years after 2017.
- The standard deduction has been adjusted for inflation and is $25,900 for married persons filing jointly and qualifying surviving spouses, $19,400 for heads of households, or $12,950 for single taxpayers or married persons filing separately.
- The additional standard deduction for being 65 or older or blind increases to $1,750 if single or head of household ($3,500 if 65 and blind). If married filing jointly, the additional standard deduction increases to $1,400 if one spouse is 65 or older or blind, $2,800 if both spouses are at least 65 (or one is 65 and blind, or both are blind and under age 65).

**Itemized deductions:**

- **Taxes**: The itemized deduction for state and local income tax (referred to as SALT) and real and personal property taxes is limited to a combined total of $10,000 ($5,000 if you are married filing separately). The following taxes are not deductible (and should not be included in the above-mentioned $10,000); Transfer taxes, Gasoline taxes and Federal taxes.

- **Mortgage interest**: Interest on home acquisition debt that is secured by a first or second home is deductible (see two-residence limit, below). This includes interest on home equity debt that also qualifies as home acquisition debt. However, there are limits on the amount of acquisition debt that can support an interest deduction. Home acquisition debt is debt used to buy, construct, or substantially improve the residence that secures the loan. The maximum amount of home acquisition debt on which mortgage interest may be deducted for 2018 through 2025 is $750,000 ($375,000 if married filing separately). This limit applies only to loans obtained after December 15, 2017. For loans obtained on or before December 15, 2017, the prior-law limit of $1,000,000 ($500,000 if married filing separately) continues to apply. There is a two-residence limit for qualifying mortgage debt. The rules for deducting interest on qualifying home acquisition debt or home equity debt apply to loans secured by your principal residence and one other residence. The residence may be a condominium or cooperative unit, houseboat, mobile home, or house trailer that has sleeping, cooking, and toilet facilities. If you own more than two houses, you must decide which residence will be considered your second residence. You do not have to live in the second residence to designate it as a qualifying home. However, a home that you rent out during the year may be designated as a second residence only if your personal use exceeds the greater of 14 days or 10% of the rental days. In counting rental days, include days that the home is held out for rental or listed for resale. In counting days of personal use, use by close relatives generally qualifies as your personal use.
- **Miscellaneous itemized deductions**: 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**: Unreimbursed medical expenses are deductible only to the extent they exceed 7.5% of adjusted gross income for all taxpayers. A different rule applies if you are self-employed and paid health insurance premiums.
- **Long-Term care premiums**: A qualified long-term care policy provides only for long-term-care services for the "chronically ill." If you pay premiums for a qualified long-term care policy, you may treat a fixed amount that depends on your age as medical

expenses (subject to the 7.5% AGI floor). For 2022, the maximum deductible premium for each person covered under a qualifying policy is: $450 for covered persons age 40 or younger at the end of 2022; $850 for those age 41 through 50; $1,690 for those age 51 through 60; $4,510 for those age 61 through 70; and $5,640 for those over age 70.

- **Casualty and theft losses**: An itemized deduction for casualty and theft losses of personal-use property is allowed for 2018 through 2025 only if the losses are attributed to federally declared disasters. An eligible loss is only deductible for the year it is "sustained." The loss is claimed on Form 4684 and the allowable amount is entered on Schedule A (Form 1040 or 1040-SR). If you do have a "qualified disaster loss" that was "sustained" in 2022 and you do not itemize deductions on Schedule A for 2022, you can increase your 2022 standard deduction by the loss.
- **Charitable contributions**: Only taxpayers who itemize deductions on Schedule A (Form 1040 or 1040-SR) can deduct charitable contributions. To be deductible, donations must be to religious, charitable, educational, and other philanthropic organizations approved by the IRS to receive deductible contributions. Keep a canceled check or receipt from the charity as proof of your donations. For donations of $250 or more, you need to obtain a written acknowledgment that notes any benefits or goods that you received in exchange. For a donated car, other motor vehicle, boat, or airplane valued at over $500, you must obtain an acknowledgment on Form 1098-C (or equivalent substitute) that you must attach to your return.

**Tax credits (excluding educational benefits that are discussed later):**

- **The Qualified Plug-in Electric and Fuel Cell (Clean) Vehicle credit** - For 2022, you can claim a credit for certain clean vehicles, which include electric vehicles (EVs), plug-in hybrids, and hydrogen fuel cell vehicles. The credit is claimed on Form 8936. The credit for 2022 applies to a qualifying vehicle that you purchased new, and which is propelled to a significant extent by a rechargeable battery with a capacity of at least four kilowatt hours. The vehicle must have a gross vehicle weight of less than 14,000 pounds to qualify for the credit. The minimum credit is $2,500, and depending on battery capacity the credit is increased, up to a maximum credit of $7,500. You may rely on the manufacturer's certification that a vehicle qualifies for the credit and on the amount of the credit so certified, assuming the IRS does not withdraw the certification prior to your purchase. For vehicles placed in service on or after August 16, 2022, there is a “final assembly requirement” that must be met in order to claim the credit.

- **Residential energy efficient property credit** – this was formerly called the nonbusiness energy property credit. If applies if you installed in your home qualifying property, such as energy-efficient insulation, storm windows, furnaces, heaters, boilers, and central air conditioners. For 2022, the credit is limited to 10% of the cost, up to a maximum credit of $500. However, dollar limits apply to certain improvements (e.g., $200 for windows; $250 for one exterior door). This credit has a lifetime limit, so if you claimed $500 for energy improvements to your home in 2021, you cannot claim a credit in 2022.
- **Residential clean energy credit** - For 2022, there is also a residential clean energy credit of a 30% of the the cost of qualified residential solar panels, solar water heating equipment, small wind turbines, geothermal heat pumps, and fuel cells that you installed in a home located in the United States. The residence does not have to be your principal residence and the credit can apply to a home under construction. If you own a condominium or are a tenant-stockholder in a cooperative housing corporation, you are treated as having paid your share of qualifying costs paid by the condominium management association or cooperative housing corporation. The credit includes the cost of labor for on-site preparation, assembly, and installation. There is no dollar limit on the 30% credit. However, no credit is allowed for costs allocable to heating a swimming pool or hot tub. Any subsidy that you (or your contractor on your behalf) received from a public utility for qualified costs reduces your costs on Form 5695 unless you included the subsidy in your gross income.
- **Adoption credit** - A tax credit of up to $14,890 may be available on your 2022 return for the qualifying costs (see below) of adopting an eligible child. An eligible child is a child under the age of 18, or any person who is physically and mentally incapable of self-care. The credit is phased out ratably for those with modified adjusted gross income between $223,410 and $263,410. Qualifying adoption expenses are reasonable and necessary adoption fees, court costs, attorney fees, travel expenses away from home, and other expenses directly related to, and whose principal purpose is for, the legal adoption of an eligible child. Do not include expenses paid or reimbursed by your employer or any other person or organization.
- **Saver's credit** - You may be able to claim the retirement savings contributions credit (saver's credit) on your 2022 return if you, or your spouse if filing jointly, made

contributions to a retirement plan for 2022. This includes a contribution made to a traditional IRA or Roth IRA for 2022 by April 18, 2023. The adjusted gross income brackets for the 10%, 20%, and 50% credits were increased for 2022. No credit is allowed when AGI exceeds $34,000 for single taxpayers, $51,000 for heads of households, and $68,000 for married persons filing jointly. ABLE account contributions can qualify for the credit.

- **Child Tax Credit and Additional Child Tax Credit** - To figure the exact amount of your child tax credit on your 2022 return, you must complete Schedule 8812 (Form 1040 or 1040-SR). On Schedule 8812, you determine if the potential credit ($2,000 × number of qualifying children). This may be limited by the phaseout rule (see below). Whether or not the phaseout applies, the tentative credit (either full credit or reduced amount after phaseout) is compared with your tax liability (regular tax plus AMT minus specified credits), and the smaller amount is the allowable child tax credit. However, if your child tax credit is limited to your tax liability, part or all of the excess credit may be refundable as an additional credit (ACTC) if your earned income exceeds $2,500 or you have three or more children. The credit for 2022 is phased out if your modified adjusted gross income (MAGI) exceeds the phaseout threshold, which is: $200,000 if your filing status is single, head of household, qualifying surviving spouses, or married filing separately, or $400,000 if you are married filing jointly.
- **Premium Tax Credit** - Although the penalty for failing to carry minimum essential health coverage no longer applies, eligible individuals can still receive government help in paying health care premiums via the premium tax credit. If you bought health care coverage in 2022 through a government exchange (also called “The Health Insurance Marketplace”) and your household income is at least 100% of the federal poverty line (FPL), you may be able to claim a tax credit on Form 8962 when you file your 2022 return. Those with household income above 400% of the FPL could not claim the credit before 2021, but for 2021 through 2025 the 400% limit does not apply. If, like most Marketplace applicants, you received an advance of the credit that went right to your insurance company and was applied to your monthly premiums, you will have to reconcile the advance payments you received with the actual credit that you are entitled to on Form 8962. The advance payments may have been too much or too little, depending on changes to your income or family composition between the time you received the advance payments and when you file your 2022 return.

- **Mortgage Interest Credit** - Under special state and local programs, you may obtain a “mortgage credit certificate” to finance the purchase of a principal residence or to borrow funds for certain home improvements. Generally, a qualifying principal residence may not cost more than 90% of the average area purchase price, 110% in certain targeted areas. If you received a mortgage credit certificate, a tax credit for interest paid on the mortgage may be claimed. The credit is computed on Form 8396. The credit equals the interest paid multiplied by the certificate rate set by the governmental authority, but if the credit rate is over 20%, the credit is limited to $2,000. *(If you itemize deductions, you must reduce your home mortgage interest deduction by the tentative mortgage interest credit. The reduction to the mortgage interest deduction applies even if part of the Line 3 credit is carried forward to the next tax year).*
- **Earned income tax credit** - for 2022, the maximum credit amount is $3,733 for one qualifying child, $6,164 for two qualifying children, $6,935 for three or more qualifying children, and $560 for taxpayers who have no qualifying child. The phaseout ranges for the credit have been adjusted for inflation. The excessive investment income limit is $10,300. You may claim the EIC on a 2022 return if you:

  - ✓ Have a qualifying child defined as: your son, daughter, adopted child, stepchild, grandchild or other descendent of any of these (your great-grandchild) who at the end of the year is under age 19 or under age 24 and a full-time student (enrolled full time during any five months), or any age if permanently and totally disabled. The qualifying person must live with you for over half the year. Your brother, sister, step- or half-brother or step- or half-sister, or their descendants (your niece or nephew), who meets the age 19 or 24 test and lives with you more than half the year also qualifies if he/she is younger than you (or your spouse if you file jointly) or is permanently and totally disabled. A foster child who lives with you for more than half the year qualifies if the child was placed with you by a court order or by an authorized placement agency.
  - ✓ Are single, head of household, or a qualifying surviving spouse with earned income, such as wages and self-employment earnings, and also adjusted gross income (AGI), under $43,492 if you have one qualifying child, $49,399 if two qualifying children, or $53,057 if you have three or more qualifying children. Investment income must not exceed $10,300.

- ✓ Are married filing jointly, with earned income and AGI less than $49,622 if you have one qualifying child, $55,529 if you have two qualifying children; or $59,187 if you have three or more qualifying children. Investment income must not exceed $10,300.
- ✓ If both your earned income and AGI equals, or exceeds the applicable amount shown above, the credit is completely phased out, so if your income is close to the applicable amount your credit will be low. The credit begins to phase out at much lower income levels.
- ✓ Have a qualifying child who lived with you in your main home in the U.S. for more than six months in 2022.
- ✓ File a joint return if married. Married persons filing separately may not claim the EIC. If you lived apart from your spouse for the last half of the year, you may be able to claim the credit as a head of household.
- ✓ File Schedule EIC with your Form 1040 or 1040-SR. On Schedule EIC, you identify and provide information about a qualifying child. Your child's Social Security number must be entered on Schedule EIC.
- ✓ Are not a qualifying child of another person.
- ✓ Include on your return your Social Security number and, if married, that of your spouse.

**Tax breaks for educational expenses:**

- **American Opportunity credit**: You may claim this credit if you pay qualified tuition and fees for an eligible student in the first four years of college or other post-secondary institution, provided the student is enrolled in one of the first four years of postsecondary education, is enrolled in a program that leads to a degree, certificate, or other recognized educational credential, is taking at least one-half of the normal full-time workload for his or her course of study for at least one academic period beginning during the calendar year and both the taxpayer claiming the credit and the student have a TIN . The credit cannot be claimed for a student, if the American opportunity credit and/or the Hope Scholarship was claimed for that student for any four tax years before 2022. The credit is limited to $2,500 limit per student (phased out with income* between $80,000 if you are single, head of household, or a qualifying surviving spouse, or $160,000 if married filing jointly). These thresholds are fixed by law and are not subject to inflation adjustments. Eligible expenses include tuition, student-activity fees that are required as a condition of enrollment or attendance, and books, supplies, and equipment needed for courses.

- **Lifetime Learning credit**: You may claim a lifetime learning credit of up to $2,000 for the total qualified expenses paid for yourself, your spouse, or your dependents enrolled in eligible educational institutions during the year. Unlike the American opportunity credit, the lifetime learning credit does not have a degree or workload requirement. It may be claimed for one or more courses at an eligible educational institution that are either part of a post-secondary degree program or part of a nondegree program taken to acquire or improve job skills. The lifetime learning credit is not limited to students in the first four years of postsecondary education, as is the American opportunity credit. There is no limit on the number of years for which the lifetime learning credit can be claimed. Qualified expenses are student activity fees and course-related books, supplies, and equipment that must be paid to the educational institution as a condition of enrollment or attendance. The credit is phased out with income* between $80,000 if you are single, head of household, or a qualifying surviving spouse, or $160,000 if married filing jointly.
- **Student loan interest deduction**: Up to $2,500 per taxpayer (phased out with income* between $70,000 and $85,000 if you are single, or between $145,000 and $175,000 if married filing a joint return).
- **Coverdell Education Savings Account (ESA) contributions**; An ESA, is a trust or custodial account set up specifically for the purpose of paying the qualified education expenses of the designated beneficiary of the account. A contribution cannot be made for a beneficiary after he or she reaches age 18 unless the beneficiary is a special needs beneficiary. Contributions must be in cash. ESAs were formerly known as Education IRAs. The $2,000 annual limit per beneficiary is phased out with income* between $95,000 and $110,000 if you are single, or between $190,000 and $220,000 if you are married filing jointly.

**Modified adjusted gross income.*

**Alternative minimum tax (AMT) exemption.**

- The AMT exemptions, exemption phaseout thresholds, and the dividing line between the 26% and 28% AMT brackets were adjusted for inflation. The 2022 AMT exemptions (prior to any phaseout) are $118,100 for married couples filing jointly and qualifying surviving spouses, $75,900 for single persons and heads of households, and $59,050 for married persons filing separately. See 23.1 for exemption phaseout rules and AMT calculation details. All nonrefundable personal credits may be claimed against the AMT as well as the regular tax.

**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 "QBI":**

- If you are a sole proprietor (Schedule C) or have an interest in a partnership, limited liability company, or S corporation, you may be eligible for a deduction 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. If your taxable income in 2022 does not exceed $340,100 for married filing joint returns and $170,050 for all other returns, the deduction is 20% of QBI. 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 over the above-mentioned limits complicated rules apply including when income is from a "specified service trade or business", which includes doctors, lawyers, accountants, consultants, financial advisors,  actuaries, athletes, and performing artists, as well as owners of other businesses where the reputation or skill of the employees is "the principal asset of the business.

**OVERVIEW AND HIGHLIGHTS (not discussed above)**

The following outline focuses on important aspects of tax law and some 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 other highlights.

**Net Investment Income Tax (NIIT)**: If you have net investment income and you have modified adjusted gross income (MAGI) exceeding the applicable threshold for your filing status, some or all of the net investment income will be subject to a 3.8% tax. The thresholds for the tax are: $250,000 for married persons filing jointly and qualifying surviving spouses, $200,000 for single persons and heads of households and $125,000 for married persons filing separately.

**Same-sex marriages**: Lawfully married same-sex couples are treated as married for all federal tax purposes. The IRS recognizes your marriage to a same-sex spouse if the marriage was legally entered into in one of the 50 States, the District of Columbia, Puerto Rico, U.S. territory or possession, or foreign country. Visit the following website or more information:

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

**Required minimum distributions (RMDs)**: The age at which 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 2022 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 an 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 2022 individual returns**: April 18, 2023. 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.

**Form TD F90-22.1 (FBAR)**: 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.

**Health Savings Account (HSA):** The definition of a high-deductible health plan, which is a prerequisite to funding an HSA, means a policy with a minimum deductible for 2022 of $1,400 for self-only coverage and a maximum out-of-pocket cap on co-payments and other amounts of $7,050. These limits are doubled for family coverage ($2,800/$14,100). The contribution limit for 2022 is $3,650 for self-only coverage and $7,300 for family coverage. Those age 55 or older and not yet on Medicare can add an additional $1,000.

**Bonus depreciation for vehicles**: For a vehicle placed in service in 2022 and used over 50% for business, the first-year depreciation limit using bonus depreciation is $19,200. However, if you elect not to have bonus depreciation apply, or you are not eligible for the bonus, the first-year depreciation limit is $11,200 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.

**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/f14039.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 will 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 did not 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.taxpayeradvocate.irs.gov/news/get-an-identity-protection-pin-to-protect-yourself-from-tax-related-identity-theft/.

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.

**MUSICIANS 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-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 by the standard mileage rates previously discussed. You may still deduct direct costs such as parking and tolls (but not insurance, 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 for 2022, despite changes to the meal and entertainment expense deduction under Sec. 274 made by the TCJA (this provision will expire in 2023).

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.

**BONUST 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.

**NEW FOR THIS YEAR, SOME INFORMATION TO HELP YOU PLAN FOR 2023**

In late December 2022, Congress passed a giant omnibus budget bill, the "SECURE ACT 2.0". Included was the "Setting Every Community Up for Retirement Enhancement 2.0 Act of 2022". The following are **some** key provisions of that act.

- Tax-free rollovers from 529 accounts to Roth IRAs. After 2023, the Act permits beneficiaries of 529 college savings accounts to make up to $35,000 of direct trustee-to-trustee rollovers from a 529 account to their Roth IRA without tax or penalty (strict rules apply).
- Age increased for required distributions. Under the Act, the age used to determine required distribution beginning dates for IRA owners, retired employer plan members, and active-employee 5%-owners increases, in two stages, from the current age of 72 to age 73 for those who turn age 72 after 2022, and to age 75 for those who attain age 74 in 2032.
- Bigger catch-up contributions permitted. Starting in 2025, the Act increases the current elective deferral catch-up contribution limit for older employees from $7,500 for 2023 ($3,500 for SIMPLE plans) to the greater of $10,000 ($5,000 for SIMPLE plans), or 50% more than the regular catch-up amount in 2024 (2025 for SIMPLE plans) for individuals who attain ages 60-63.
- More penalty-free withdrawals permitted. The Act adds an exception after 2023 to the 10% pre-age 59 1/2 penalty tax for one distribution per year of up to $1,000 used for emergency expenses to meet unforeseeable or immediate financial needs relating to personal or family emergencies. The taxpayer has the option to repay the distribution

within three years. No other emergency distributions are permissible during the three-year period unless repayment occurs.

- Retroactive for disasters after Jan. 25, 2021, penalty free distributions of up to $22,000 may be made from employer retirement plans or IRAs for affected individuals. Regular tax on the distributions is taken into account as gross income over three years. Distributions can be repaid to a tax preferred retirement account. Additionally, amounts distributed prior to the disaster to purchase a home can be recontributed, and an employer may provide for a larger amount to be borrowed from a plan by affected individuals and for additional time for repayment of plan loans owed by affected individuals.



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