Tax Tips for Music Professionals

KSA Management's Karie and Shane Purcell offer six ways artists, managers, studio owners and other music professionals can maximize their 2019 tax return.

– by Peter Petro

Sharpening the Saw

Most music professionals underestimate how much they do to learn their craft that constitutes a write-off at tax time. If you went somewhere to do market research relevant to your work you can often write off 100% of the trip and all related expenses. It's not necessary that you meet with prospects or colleagues. Just be sure you have receipts for your hotel, meals, and transportation.

As an example, if you're a professional guitarist and go to NAMM because they have guitar suppliers, or you're looking at recording software, or there are producers attending you'd like to work with, that's typically 100% deductible. If you see Post Malone perform on stage you can deduct that too, because you can pick up new riffs and musical trends from that performance.

Parties & Dinners

Many people lunch with a client thinking the meal is 100% deductible if they discuss business. Actually, that meal is only 50% deductible. If you drop $500 for a steak dinner with a client you can only deduct $250.

However, if you threw a companywide party or get-together that's 100% deductible — but it's important you invite all of your employees for it to qualify. In that case, you could deduct 100% even if you also invited non-business contacts. There are lots of benefits to these events and we've done them ourselves over the years. It's great networking for you, your clients, prospective clients, colleagues, friends, and employees. You never know what collaborations and deals could come from it.

Touring Per Diems

If you're a touring artist or musician receiving a per diem from the label you typically don't have to claim it unless the tour is out for a year or more. Conversely, if you're the label paying a per diem, you can deduct it. That's because it's considered reimbursement, not income. The person getting paid could theoretically save it or spend it elsewhere.

Remember, talent must be paid as an employee first and can then receive a per diem. In most cases, per diems can't be used as wages (again, assuming the tour runs less than a year) and you can't reclassify a salary or wage as a per diem after the fact. We've seen per diems ranging from $35 to $65/day for meals and incidental expenses (M&IE), but that can vary from state to state and region to region. It's meant to cover breakfast, lunch, dinner, and miscellaneous travel needs (sodas, bandaids etc). Per diems would be higher if they're meant to cover hotel stay too.

The maximum allowable amount of per diems in certain regions has changed since 2019. The standard per diem lodging rate as defined by the IRS went from $94 to $96 in 2020. Standard per diem meal rates are the same as last year — $55.

You don't need to report per diem money, but be careful not to expense the meals you bought with it. If you're using a per diem for meals you can't deduct that meal. This can be counterintuitive for clients. But you can't tell your tax professional, "I paid for these meals on the road so they're deductible." You were reimbursed for those meals so you can't claim them as expenses.

It's critical to keep track of that money. If we allocate $5000 to a tour manager for per diems for the band and the bus driver, they keep track of that cash to account for it when they return. A tour manager is responsible for staying on budget and tracking expenses to write off per diems so that everyone — talent and the label — benefits.

Tour Bus Budgets

You can earmark a budget to stock a tour bus with snacks and meals. In 2017 bus supplies were 100% deductible; now they're only 50% deductible.

You don't need to list items specifically. Touring outfits usually know to deduct bus supplies, but many don't realize it's only 50% deductible now. So don't go crazy. While there's no maximum for this budget, if your tour earns $100,000 and you spend $20,000 on bus supplies you could get audited. But you could easily have a $3000 bus budget. The amount should relate to the schedule of the tour and the total revenue generated by the tour.

It's important to establish a budget and per diem rates before you head out on tour. Beyond taxes, if you're not spending according to your budget you'll never know what you made on that tour. When we have a tour manager taking off with $5000, we break it down for per diem/per musician, initial bus supplies and first week's salary for the bus driver (who usually needs it to pull out of the driveway). Of course as the tour progresses, you make adjustments as needed. But ultimately, the tour manager verifies that when they come back with receipts we can cross reference and ensure all money is accounted for.

IRA Contributions

Our clients are often excited to discover they can put money into an IRA now to decrease

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taxable income from the previous year — as long as it's done before April 15 and properly designated to the previous year. The maximum contribution on an IRA is $6000/year ($7000 if you're over 50). You can arrange an IRA contribution now as a 2019 contribution. But you'll need some time to set it up — if you wait till the last minute you won't get it in. Feel free to call us for tips on how to set this up.

As an example, let's say that after reviewing your taxes you discover you owe the IRS $10,000. You may be able to avoid paying all $10,000 to the IRS, but you should still try to come up with the money. You could then put $6,000 in an IRA now to reduce your taxable income. What you contribute to the IRA does not reduce your taxable income dollar-for-dollar but it's much better than paying the full $10,000.

Let's say you only have $5,000 available to pay that tax bill. Put $4,000 in your IRA, pay $1000 to the IRS and set up a payment plan. Yes, you are paying interest but you'll bring your taxable income down. You want that money going in your own pocket, not the IRS.

It might be a few hundred dollars to setup a new IRA if you don't have one, but it can save you thousands. Plus, it's always a good idea to have retirement money for yourself later.

Depreciation in Recording Studios

15 years ago a country artist client of ours began recording at a new studio in New York. She loved the place, always talked about it and we soon found ourselves providing management services for the studio owner as well. He had initial expenses that new studios often don't know are deductible, like business license registration, insurance and website/hosting expenses. Since it was a home studio he also was able to deduct some of his utilities.

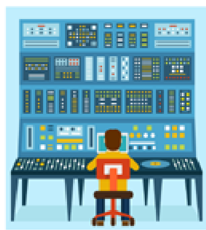
He'd just finished renovations and soundproofing, which we listed as capital improvements so it also became 100% deductible. He'd already bought a board and guitars prior to opening the studio, but since he'd never listed those on previous tax returns we were able to list those as depreciating assets. That brings us to the strategy behind listing expenses vs. depreciating.

Often with business costs you can either expense them outright or depreciate them; you could think of it as depreciating all at once or over time. Starting out with a studio you often have a lot of expenses upfront and operate at a loss your first year. Using depreciation instead of expensing means the loss can be carried over several years, lowering your taxes in subsequent years when there's more revenue to deduct against.

Depreciation involves estimating "useful life" and a "salvage value". For example, if you're a new studio you might buy a board, a set of electric and acoustic guitars, recording equipment, furniture, and a Mac computer system. Maybe the Mac is $6500 and you figure you can get five years out of it and sell it for $1500. You take the difference ($5000) and divide by 5 years so you can depreciate $1000 each year instead of just one $6500 writeoff that first year. A full $6500 deduction helps when you have lots of income the year of the purchase. Depreciation helps if you want to spread that deduction out over time.

Depreciation often provides tax advantages over a single writeoff. Choosing the right strategy requires assessing income, expenses, and planned purchases. Just remember you can't change horses midstream. If you depreciate, you generally have to continue depreciating for the duration. If you write it off in a single year, you can't later depreciate it.

Music studios always have equipment at various stages of usefulness and market value and often wonder what to do with it — keep it, sell it, depreciate it. Say a studio owns a classic analog tape machine. It's high maintenance, one in a hundred sessions uses it, and it's hard to get parts and servicing for it. They bought it for $10,000 and after depreciation it's valued at $3000. It may be worth selling it for $2000 at a $1000 loss (writeoff) vs. spending months of work and advertising money to fetch $3000. Is an instant $1000 tax deduction better than an additional $1000 in cash flow? That depends on your other income and deductions, and whether you have a $1000 deductible expense planned to get that money off the books again. It's a strategic decision and varies case-by-case.



We really enjoy working with music clients and have spent 20+ years helping them be more profitable and successful. To readers with additional questions on business management or taxes, feel free to contact us and we will be happy to help get you moving in the right direction.

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