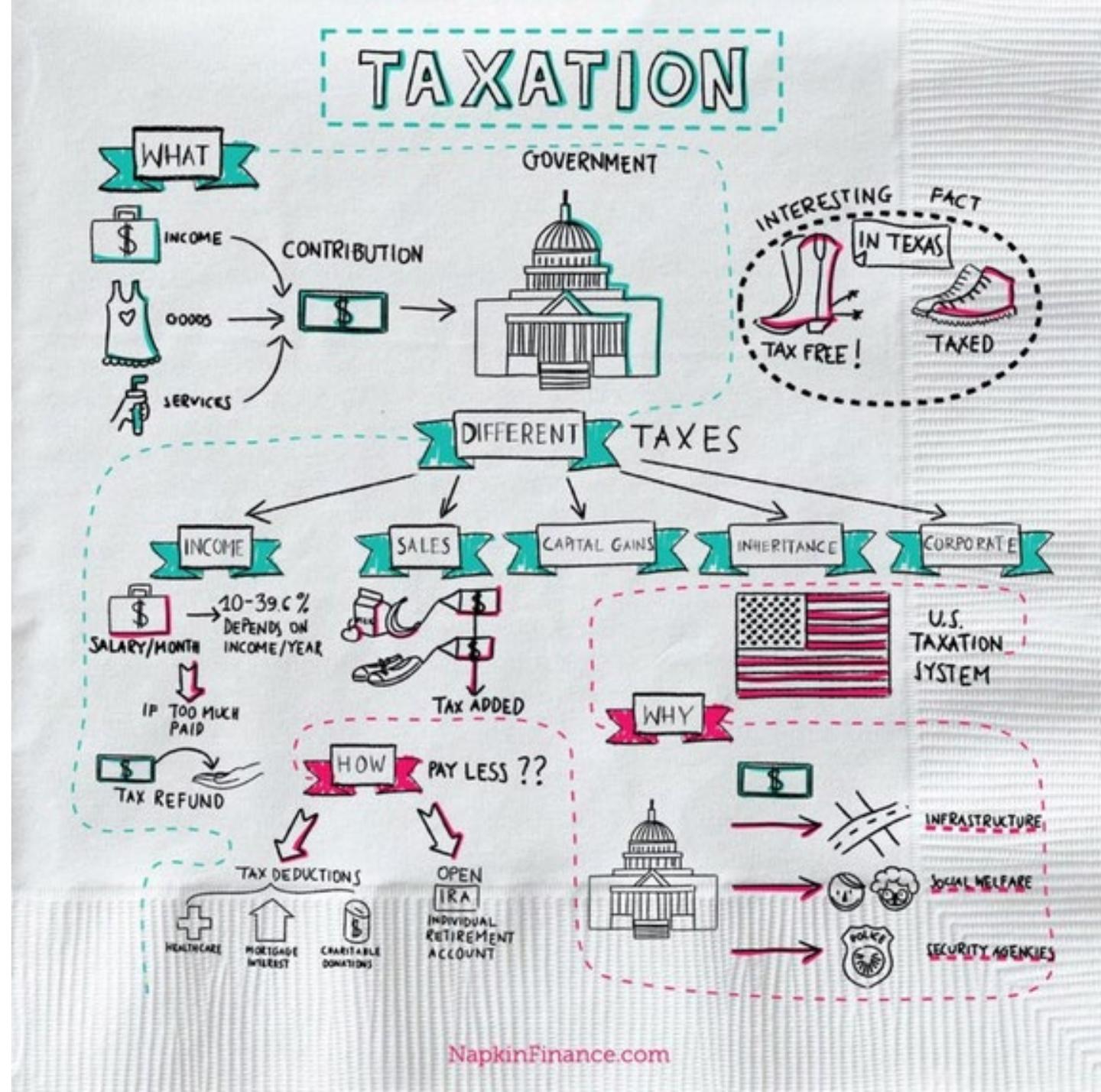


Let's Talk Taxes



DePaul School of Music
2018-2019
Mary Arendt
Coordinator of Career Services

Why do we pay taxes, and where does the money go?



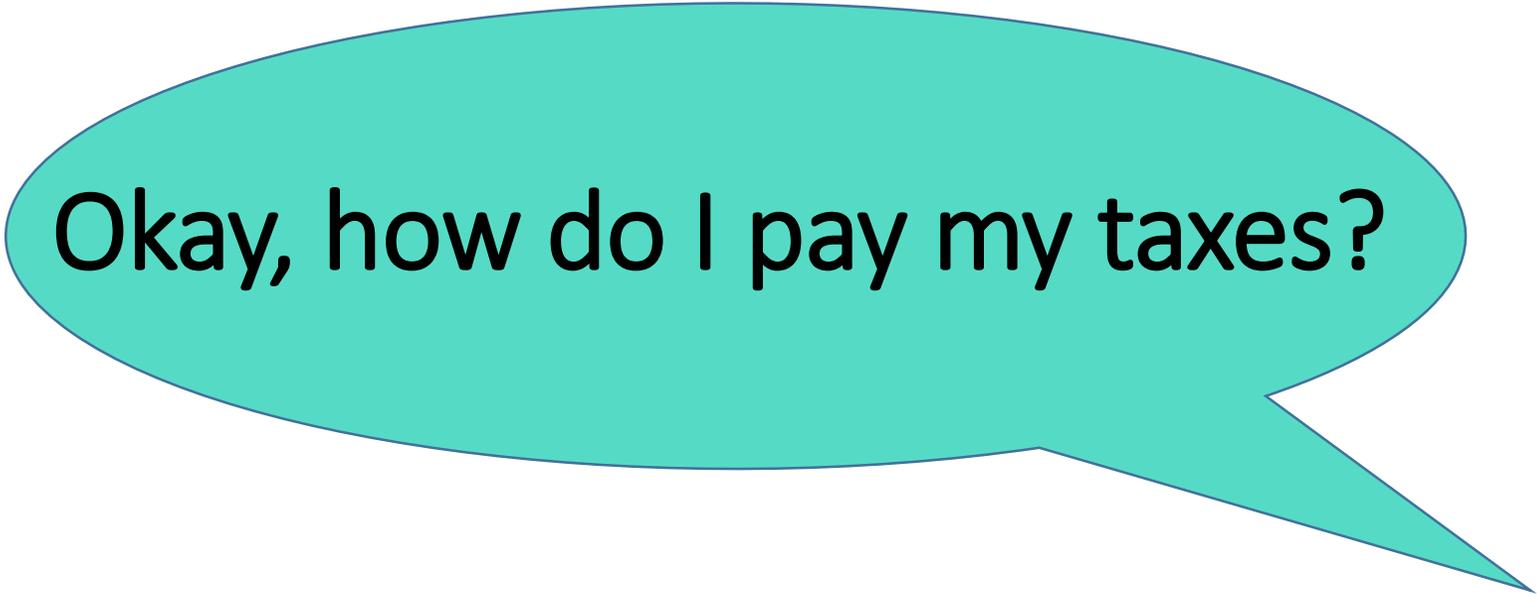
Do I have to pay taxes?

Simple Answer: Yes!

In 2018, an individual using single filing status who is under 65 years old must make more than \$12k in order to be required to file taxes.

If you are still a dependent*, your parent/guardian pays tax on your behalf.

*a person, other than the taxpayer or spouse, who entitles the taxpayer to claim a dependency exemption.



Okay, how do I pay my taxes?

Great question.

You'll need both basic information from your employer and personal information to fill out the appropriate government-issued forms.

Today's Agenda:

Employment Status

Important Forms

How to File Taxes

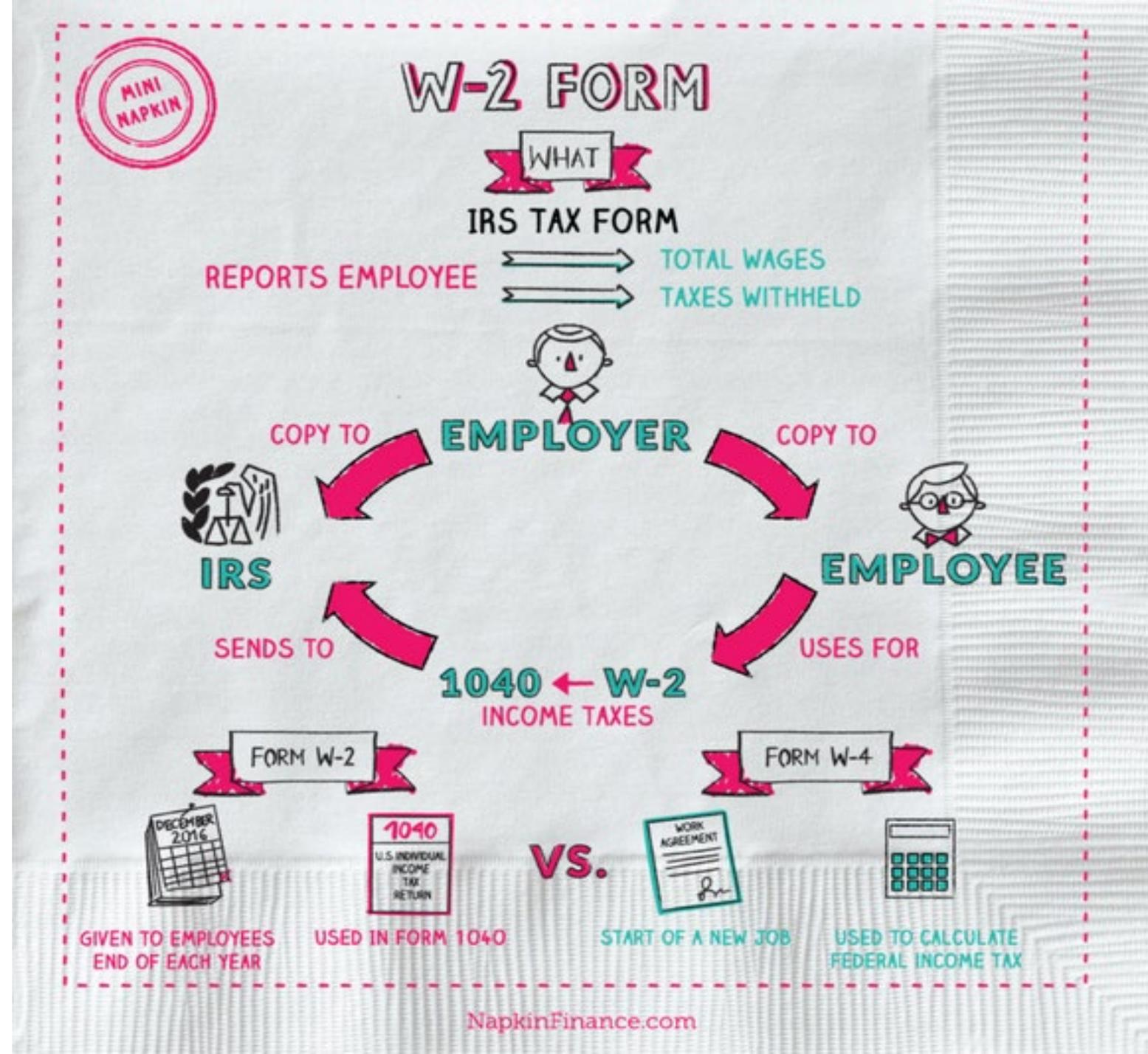
When to File

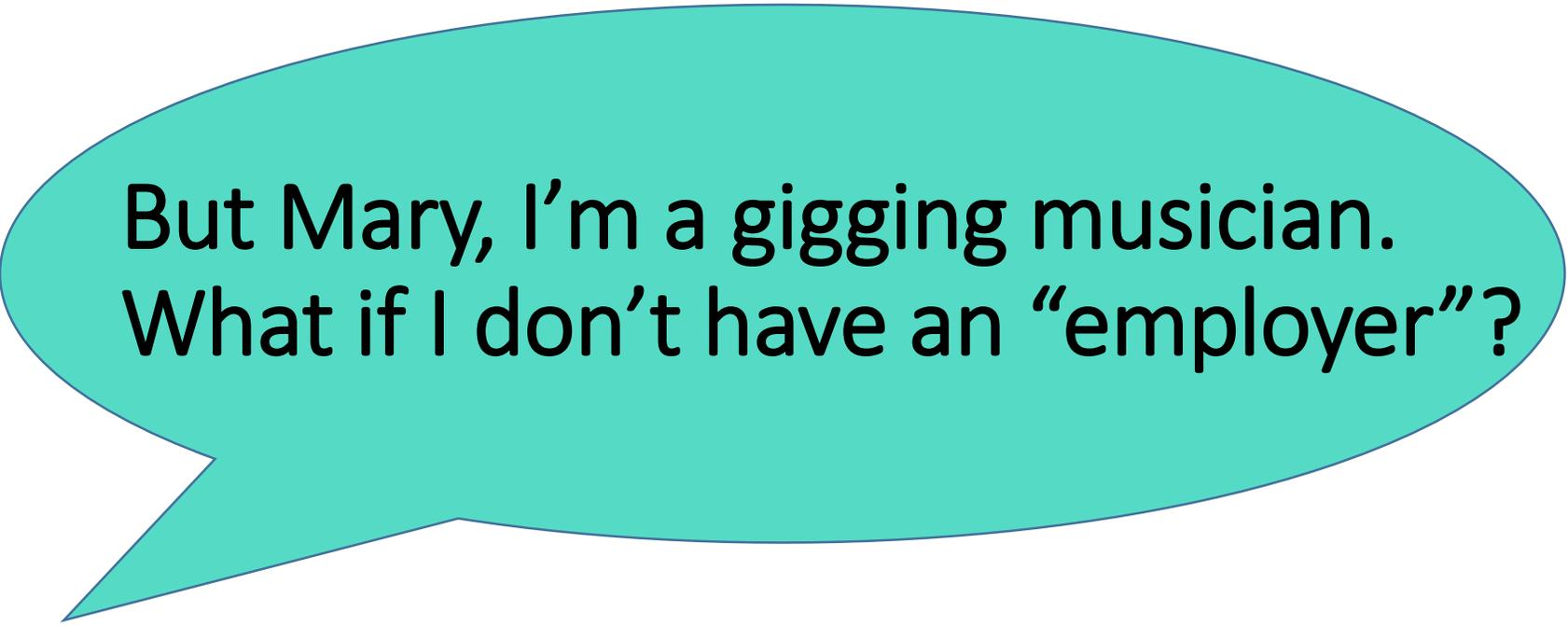
2017-18 Tax Reform

Musician Specifics

W-2

- Wage-Income tax form issued from employers with the amount they paid you that year, as well as how much of your wage has already been deducted in taxes
- Issued to full-time employees
 - ❖ This form must be sent to you on or before Jan. 31st by your employer
- This info is applied to your tax return and determines how much you owe in taxes (or are owed)





But Mary, I'm a gigging musician.
What if I don't have an "employer"?

I'm glad you asked.

The IRS has created a tax form for freelancers, called the 1099. But first, let's discuss some important terms.

Who qualifies?

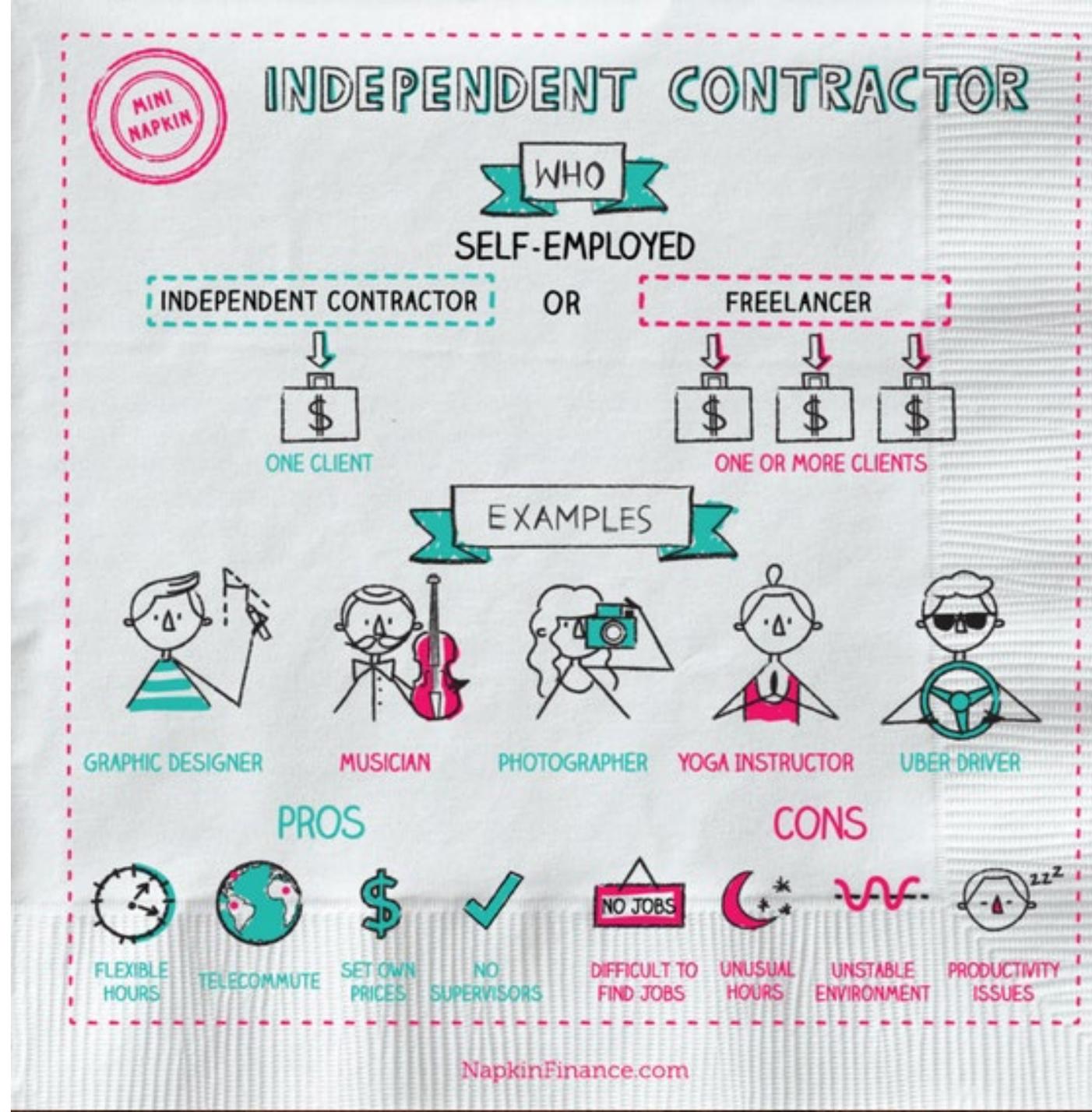
An *Independent Contractor*, a person or entity contracted to perform work or provide services to another entity as a non-employee, is required to file a 1099 form.

1. Self-employed
2. Freelancer
3. Independent Contractor

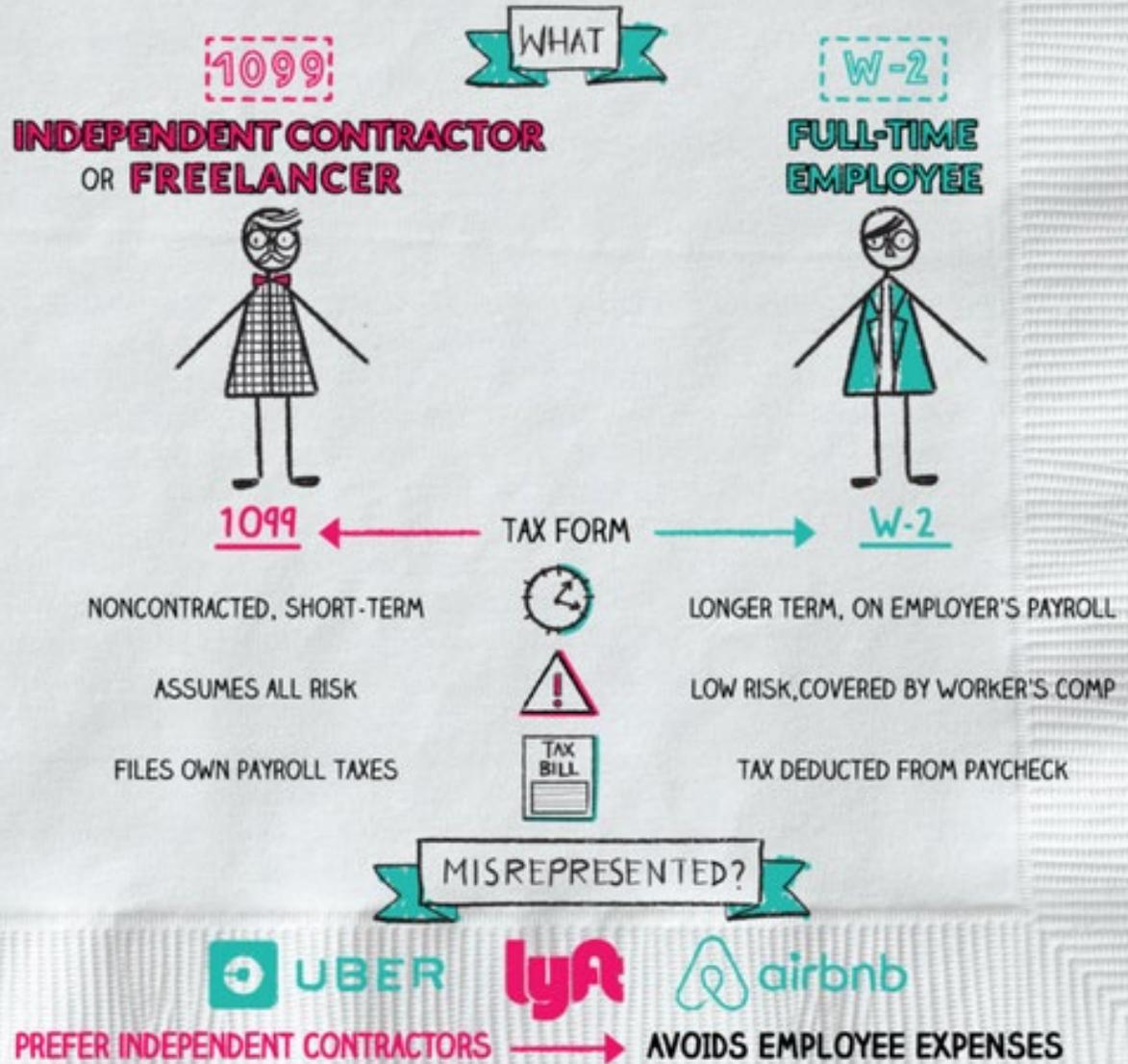
IC's must fill out a W-9 form when hired for work or services.

A W-9 provides the correct TIN* to the person who is required to file an information return to the IRS.

*taxpayer identification number (SSN or EIN)



1099 VS. W-2 EMPLOYEE

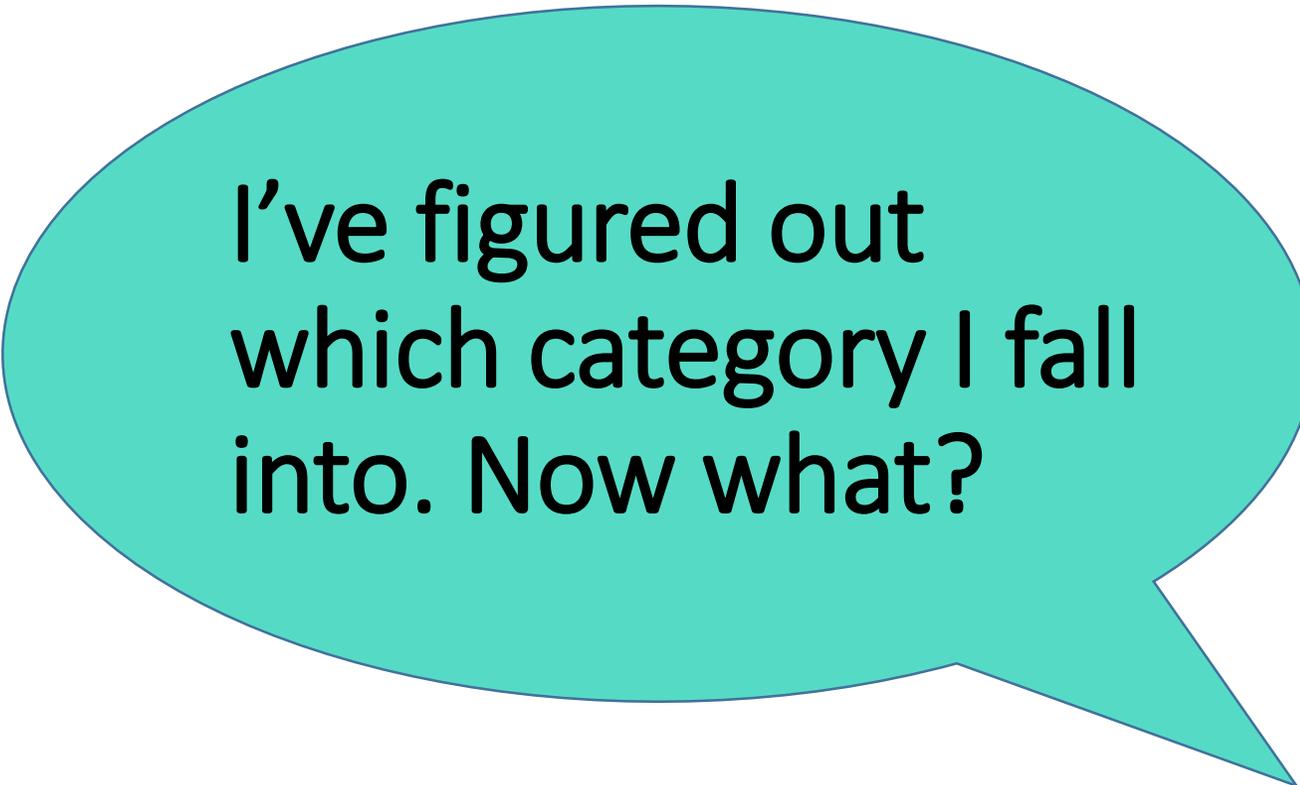


1099

- Tax form that you report with the amount you earned from a contractor
 - ❖ Every business that pays you at least \$600 must send you a 1099 form
 - ❖ If you made less than \$600, you are still required to report the \$ as self-employment income
- Must withhold your own taxes (15.3%)
 - ❖ 12.4% Social Security
 - ❖ 2.9% Medicare
- Responsible for calculating own payroll taxes and submitting to the IRS
- Used by freelancers, independent contractors, or self-employed individuals

Quick Form Review

Contractor	Employee
W-9 (Taxpayer Identification Number & Certification)	W-4 (Employee's Withholding Allowance Certificate)
1099-MISC (\$600.00+)	W-2 (Wage and Tax Statement - FUTA Tax, Social Security, Medicare taxes)



I've figured out
which category I fall
into. Now what?

Fantastic!

*All of the information you've gathered
(whether W-2 or 1099) can now be
transferred to the next (and most
important) tax form, the 1040.*

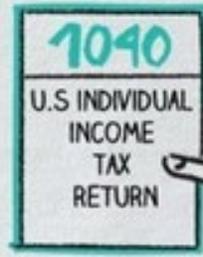
3 Ways to File a Tax Return

1. File your taxes manually (Free!)
2. File your taxes with a tax software program or website (\$)
 - Ex) TurboTax, H&R Block, TaxAct, TaxSlayer
3. File your taxes with an accountant or tax preparer (\$\$)

TAX RETURNS

WHAT

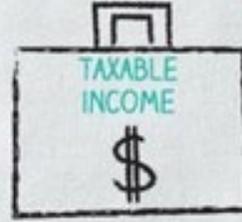
FORM USED TO FILE TAXES WITH THE IRS



DEADLINE



WHO



\$10,150 SINGLE
\$20,300 MARRIED / JOINTLY
\$6,200 MARRIED / SEPARATELY
\$13,050 HEAD OF HOUSEHOLD



IMPORTANT TAX FORMS



W-2

EMPLOYER SENDS TO EMPLOYEE AND IRS

W-4

COMPLETED BY EMPLOYEE

1040

THE ACTUAL STANDARD FORM TAXPAYERS FILE WITH IRS

Tax Brackets

Tax Bracket: A range of incomes taxed at a given rate

Ex) If you are single, the lowest tax rate of 10% is applied to the first \$9,525 of your income in 2018. The next portion of income is then taxed at 12%, etc.

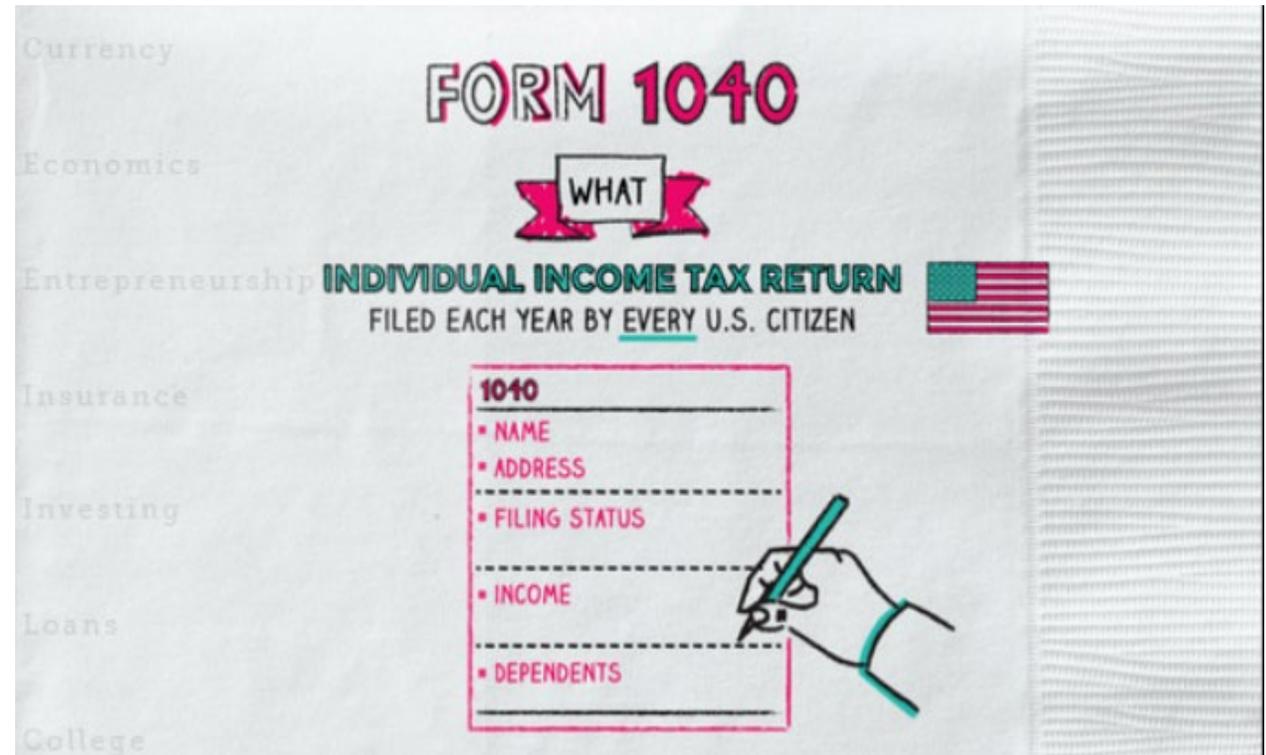
- ❖ Progressive Tax System
(People with higher incomes pay higher taxes)

Rate	Individuals	Married Filing Jointly
10%	Up to \$9,525	Up to \$19,050
12%	\$9,526 to \$38,700	\$19,051 to \$77,400
22%	38,701 to \$82,500	\$77,401 to \$165,000
24%	\$82,501 to \$157,500	\$165,001 to \$315,000
32%	\$157,501 to \$200,000	\$315,001 to \$400,000
35%	\$200,001 to \$500,000	\$400,001 to \$600,000
37%	over \$500,000	over \$600,000

Chart: Forbes.com

1040 Form for 2018

- Shorter than previous versions (from 79 lines to 23)
- Accommodates 2018 tax year changes
- If you've filed with tax prep software in the past, you won't notice the difference



Form **1040** Department of the Treasury—Internal Revenue Service (99) **2018** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: Single Married filing jointly Married filing separately Head of household Qualifying widow(er)

Your first name and initial Last name Your social security number

Your standard deduction: Someone can claim you as a dependent You were born before January 2, 1954 You are blind

If joint return, spouse's first name and initial Last name Spouse's social security number

Spouse standard deduction: Someone can claim your spouse as a dependent Spouse was born before January 2, 1954 Full-year health care coverage or exempt (see inst.)

Spouse is blind Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Presidential Election Campaign (see inst.) You Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6. If more than four dependents, see inst. and ✓ here

Dependents (see instructions):		(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.):	
(1) First name	Last name			Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature Date Your occupation If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Spouse's signature. If a joint return, both must sign. Date Spouse's occupation If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Preparer's name Preparer's signature PTIN Firm's EIN Check if: 3rd Party Designee Self-employed

Firm's name Phone no.

Firm's address

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	
2a	Tax-exempt interest	2a	
3a	Qualified dividends	3a	
4a	IRAs, pensions, and annuities	4a	
5a	Social security benefits	5a	
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22	6	
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7	
8	Standard deduction or itemized deductions (from Schedule A)	8	
9	Qualified business income deduction (see instructions)	9	
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10	
11	a Tax (see inst.) (check if any from: 1 Form(s) 8814 2 Form 4972 3) b Add any amount from Schedule 2 and check here	11	
12	a Child tax credit/credit for other dependents b Add any amount from Schedule 3 and check here	12	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13	
14	Other taxes. Attach Schedule 4	14	
15	Total tax. Add lines 13 and 14	15	
16	Federal income tax withheld from Forms W-2 and 1099	16	
17	Refundable credits: a EIC (see inst.) b Sch. 8812 c Form 8863 Add any amount from Schedule 5	17	
18	Add lines 16 and 17. These are your total payments	18	
19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you overpaid	19	
20a	Amount of line 19 you want refunded to you. If Form 8888 is attached, check here	20a	
21	Amount of line 19 you want applied to your 2019 estimated tax	21	
22	Amount you owe. Subtract line 18 from line 15. For details on how to pay, see instructions	22	
23	Estimated tax penalty (see instructions)	23	

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.

Standard Deduction for—
 • Single or married filing separately, \$12,000
 • Married filing jointly or Qualifying widow(er), \$24,000
 • Head of household, \$18,000
 • If you checked any box under Standard deduction, see instructions.

Refund
 Direct deposit? See instructions.
20a **b** Routing number **c** Type: Checking Savings
d Account number

IRS Schedules - what are they?

A tax schedule is a form the IRS requires you to prepare in addition to your tax return when you have certain types of income or deductions.

Totals (\$) on these schedules are then transferred to your Form 1040.

For 2018, the IRS added new Schedules 1-6, in addition to the letter schedules already in use.

Commonly Used Forms

Schedule A: Itemized Deductions (property taxes, medical expenses)

*Schedule C: Used to report self-employment income

*Schedule SE: Used to report self-employment social security tax

Schedule 1: Used to report Adjustments to Income (1099)

Schedule 4: Use to report Self-Employment Tax

When filing with a tax software system, you usually don't need to know which schedules to fill out. The program will ask questions to determine which forms need to be included.

Schedule C-EZ explained

Sole proprietors are able to use a simpler version of Schedule C, called Schedule C-EZ. This form omits a lot of the detail in the full Schedule C and just asks for your total business receipts and expenses.

Sole Proprietorship = simplest form under which one can operate a business (not a legal entity)

Sole Proprietor = Person who owns a business and is personally responsible for its debts

You can use Schedule C-EZ only if you:

- operate one sole proprietorship
- do not report more than \$5,000 in business expenses
- don't hold business inventory during the year
- have no employees
- not claiming a deduction for a home-office

Schedule-SE Explained

Self-Employment Tax

In addition to paying income tax, you also have to fill out an [IRS Form 1040 SE](#). The IRS assesses your Social Security and Medicare taxes on everything over \$400 of self-employment income.

Keep your money!

An easy way to reduce the amount of money you owe in taxes is to determine your possible tax deductions.

Student Loan Interest Deduction

- IRS allows you to deduct interest that you paid per year toward qualified student loans
- loan must be in your name
- If you paid at least \$600 in interest during the year, you'll receive a Form 1098-E from your lender

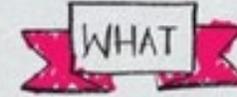
Max: \$2500 per year

Tuition & Fees Deduction

Max: \$4000 per year

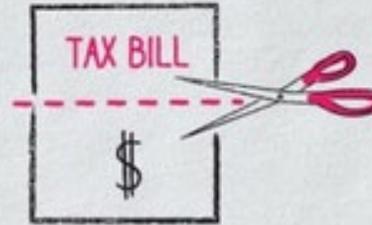


TAX DEDUCTIONS



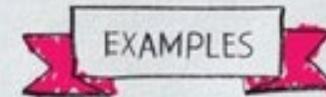
DEDUCTIONS

REDUCE THE AMOUNT OF TAXES YOU HAVE TO PAY



THE HARDEST THING TO UNDERSTAND IN THE WORLD IS THE INCOME TAX

REDUCE YOUR TOTAL TAXABLE INCOME = YOU OWE LESS TAXES



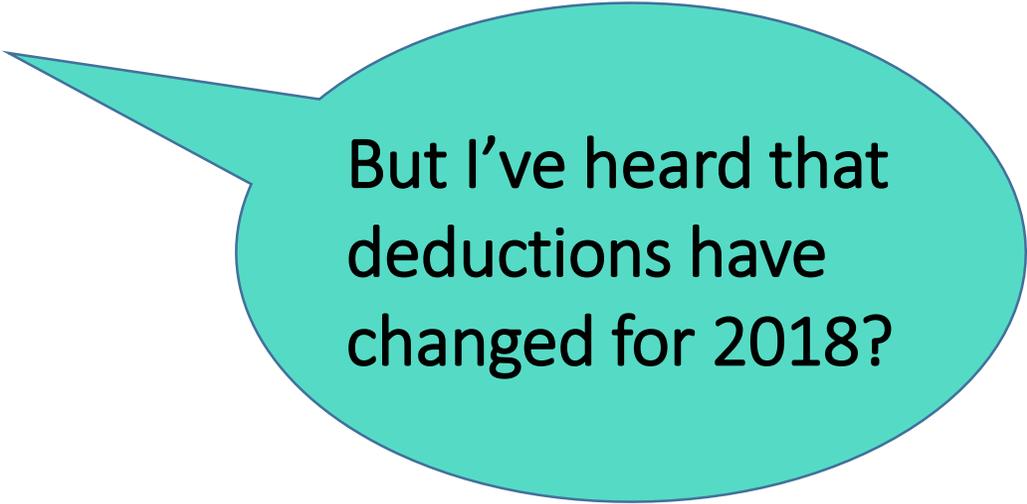
EDUCATIONAL ITEMS RETIREMENT ITEMS BUSINESS EXPENSES CHARITABLE DONATIONS MEDICAL EXPENSES



Deductions for Musicians

- ❖ To be deductible, a business expense must be both ordinary and necessary.
 1. An *ordinary* business expense is one that is common and accepted in your trade or business.
 2. A *necessary* expense is one that is helpful and appropriate for your trade or business.

- ❖ For Musicians:
equipment, instruments, promotional materials, consumable supplies (picks, strings, drum sticks, etc), website fees, copyright & trademark registration fees, office supplies, travel expenses (hotels, airfare), membership fees, professional expenses (lawyer, accountant, agent, etc), practice space, and rental expenses, among others



But I've heard that deductions have changed for 2018?

T.C.J.A.

“Tax Cuts and Jobs Act”

- Passed in December 2017
- Doubled the standard deduction & modified tax brackets
- Eliminated certain itemized deductions:
 - ❖ Tax preparation expenses
 - ❖ Moving Expenses
 - ❖ Casualty and theft
 - ❖ Unreimbursed employee expenses*
- Most provisions expire in 2025

2018 Tax Changes for Musicians

2018 : W-2

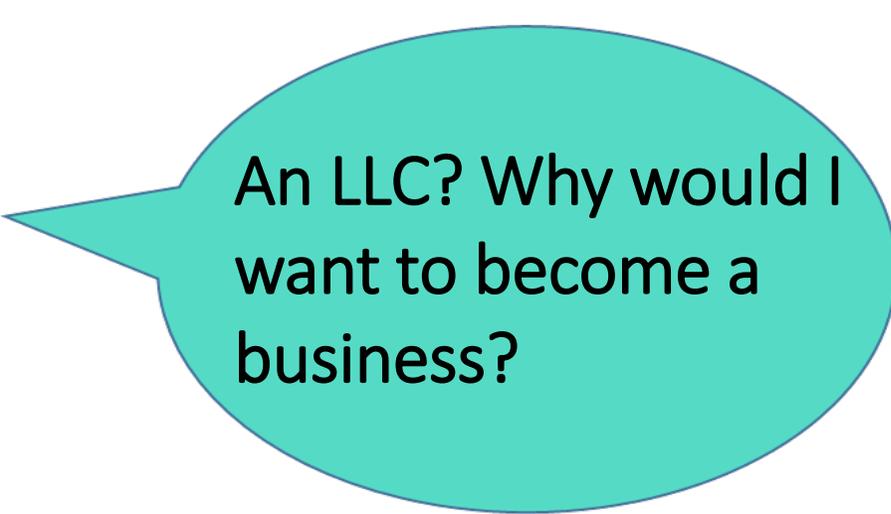
- Itemized deductions must exceed 12k (single) or 24k (joint) standard
- State & Local deductions are capped at 10k
 - It's rare for itemized deductions to exceed these new thresholds
- “Unreimbursed Employee Expenses” are **no longer** deductible
 - Instruments, music, equipment, concert attire, mileage, audition expenses, research expenses, home office expenses
 - Tax Prep fees, union memberships, work dues

2018 Tax Changes for Musicians

2018 : 1099

- “Miscellaneous Itemized Deductions” **still apply**
 - Refer to the previous Deductions slide
- 20% Deduction for small businesses*
 - (as “pass-through” entities)
 - Any Schedule C filer can claim this deduction (freelancers or gig musicians included)
 - You DO NOT need to incorporate, or LLC to qualify

*Ex) If you own a small business and it generates \$100,000 in profit in 2018, you'll be able to deduct \$20,000 of it before the ordinary income tax rates are applied.



An LLC? Why would I want to become a business?

Becoming an *LLC*, or *incorporating*, is the process of claiming status as a business/sole proprietor

1. Prevents Liability for business debts and obligations
2. You can opt to be taxed as a sole proprietorship, meaning you won't have to pay corporate income tax
3. You can operate as a "Pass Through Entity"
 - Taxes can be withheld (Social Security/Medicare)
 - Eliminates the self-employment tax
 - Paycheck to yourself becomes a deductible expense

Tax Deduction for Performers

- *The Performing Artists Tax Credit.*
 - You provided services in the performing arts for two or more employers
 - Receiving at least \$200 or more in wages from each employer
 - Job-related expenses are more than 10% of your income from your performing artist jobs
 - You have adjusted gross income of \$16,000 or less
 - Your filing status cannot be married filing separately
- ❖ Claim the deduction on Form 2106 or Form 2106-EZ
 - Transferred to Form 1040 Line 24

Steps to File Taxes as a Private Teacher

1. File Form 1040

Once you make more than \$400, you are required to file with the IRS

2. Fill out Schedule C

(Self-Employment Contributions Act)

3. Fill out Schedule SE

(Social Benefits Tax)

*Half of this tax is deductible on Form 1040, line 27

4. Assess your possible deductions

How often do I
file my taxes?

Another important question.

If you are a full-time, W-2 employee, you should file your taxes once a year.

- April 15th

If you are a freelancer, you should file your estimated taxes quarterly.

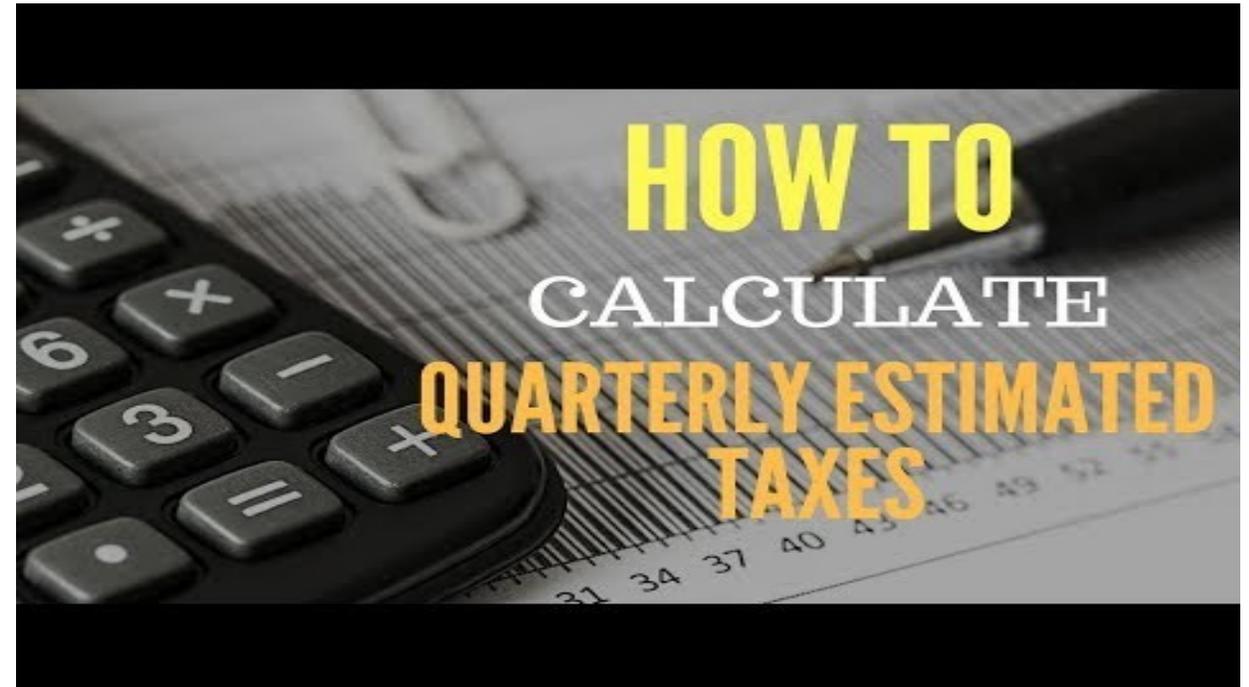
- April 15th, June 15th, September 15th, January 15th (following year)

HOLD ON.
I have to pay
taxes four times
a year?

You must pay quarterly taxes if:

You're estimated to owe more than \$1k in taxes by year's end (only 1099 income, *not* W-2)

1. Use IRS form 1040-ES, filling electronically or by paper mail
2. Estimate the amount you owe based on the total amount you made in the previous year.

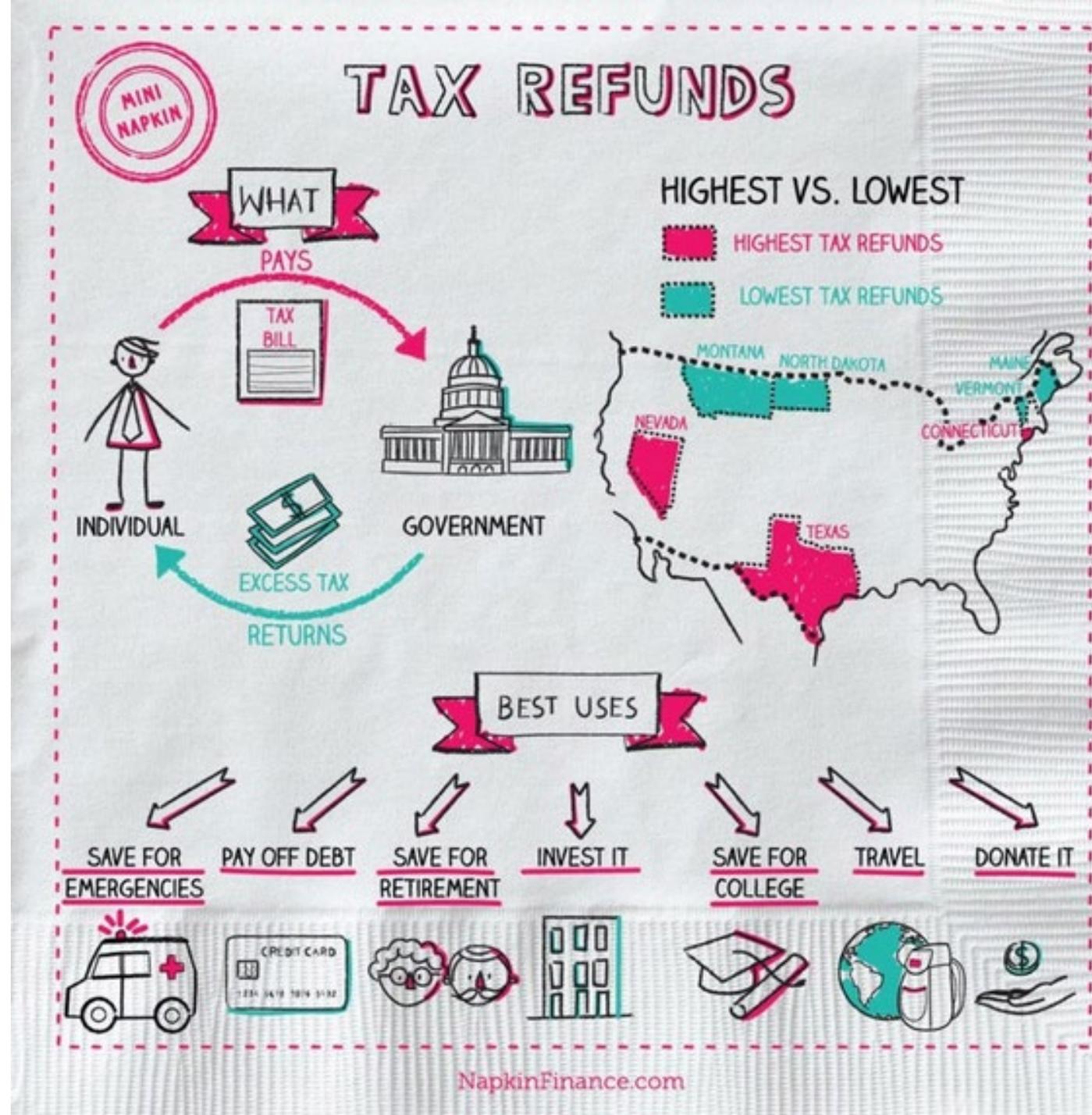


Stephen Lee, CPA from Chicago, IL

You overpaid your taxes.

Smart things to do with your refund:

- Pay towards Loans or Credit Card Debt
- Save for Emergencies
- Investing in your musical tools/supplies
 - Music, equipment, attire, attending programs, buying flights for auditions, paying for coachings & lessons



AUDIT

WHAT

! TO IDENTIFY TAX FRAUD & MAKE SURE EVERYONE PAYS CORRECT TAXES !



FINDS **ERROR**

NEEDS **MORE INFO**

WHO

1%
OF POPULATION



ANYONE

\$ 1 MLN
OR **\$ 0**
INCOME



RANDOM



IF BUSINESS PARTNER
AUDITED

HOW AVOID



DOUBLE CHECK



REPORT ALL INCOME



KEEP SEPARATE

Getting Audited

The IRS will ask you to provide proof of payment and explain how the expenses are related to your trade or business.

Always do the following:

1. Keep Records of Expenses & Payment
 - *Keep a log or planner with evidence of the circumstances surrounding any document you send*
2. Separate work v. personal receipts
3. Always submit all sources of income
4. Save a copy of your last three tax returns

Possible Requested Items:

(copies only)

Receipts

Bills

Canceled Checks

Legal Papers

Loan Agreements

Logs or Diaries (Planners)

Tickets

Medical and Dental Records

Theft or Loss Documents

Employment Documents

SIMPLE STEPS TO TRANSFER TAX INFORMATION INTO YOUR FAFSA® FORM

The IRS Data Retrieval Tool (IRS DRT) Electronically Transfers Your Federal Tax Return Information Into Your FAFSA® Form

WHY

EASY Transfer info with the click of a button.

FAST Instantly retrieve your information.

ACCURATE Correctly fill in your information.

HOW



1 Log in to your current FAFSA® form or start a new application at fafsa.gov.

3 Click the "Link to IRS" button and log in with your FSA ID to be transferred to the IRS to retrieve your info.

5 Check the "Transfer My Tax Information into the FAFSA® form" box, and click the "Transfer Now" button.*

2 In the finances section of the online form, you will see a "Link to IRS" button if you are eligible to use the IRS DRT.

4 Once at the IRS site, enter your information **exactly** as it appears on your federal income tax return and click the "Submit" button.

6 You will know that your federal tax return information has been successfully transferred because the words "Transferred from the IRS" will display in place of the IRS information in your FAFSA® form.

*For your protection, your tax information will not be displayed on either the IRS site or fafsa.gov.

The IRS DRT can be used by both students and parents.

Federal Student Aid | PROUD SPONSOR of the AMERICAN MIND®
AN OFFICE OF THE U.S. DEPARTMENT OF EDUCATION

To learn more about the IRS DRT, visit StudentAid.gov/irsdrt

International Students

International Student Services:

<https://offices.depaul.edu/global-engagement/student-resources/student-services/Pages/tax-responsibilities.aspx>

DePaul international students and scholars will receive an email from ISS in mid-late February 2019 with instructions on how to use the online Sprintax Tax Preparation service. The Sprintax system will assist you in filing your tax return forms. (<https://www.internationalstudent.com/tax/>)

All international students and scholars in F and J non-immigrant status are responsible for filing appropriate income tax forms each year, even if they have no U.S. source of income.

Non-resident individuals who were present in the U.S. in 2018 and earned taxable U.S. income must complete and file IRS Forms 8843 and 1040NR-EZ or 1040NR with the Internal Revenue Service (IRS) by **April 15, 2019**.

Individuals who earned taxable income in Illinois will also need to file Illinois form IL-1040 by **April 15, 2019**.

Individuals who were present in 2018 but did not receive any U.S. income need only file Form 8843 (Statement for Exempt Individuals) by **June 15, 2019**. Filing Form 8843 documents your status as a non-resident alien who is exempt from counting days toward the [substantial presence test](#).

Remember to make photocopies of all forms submitted to IRS to be kept for your records. Tax forms and additional instruction can be found on the IRS website at www.irs.gov.

Filing Deadline:

APRIL 15th

FILE EARLY!

- The IRS is currently accepting returns for 2018
- File an extension with the IRS using the IRS Tax Form 4868 (Oct 15th)
- File for FREE on the IRS government site
<https://www.irs.gov/filing/free-file-do-your-federal-taxes-for-free>
- Afraid to file by yourself? Book an appointment!