

# What's Tax Deductible And What Do You Need to Save In Case You're Audited?

---

*Transcript of Tax Seminar with Sandra Karas – Part 2 of 4*

Hey, Equity sisters and brothers. This is Sandra Karas. I'm your Secretary/Treasurer. And I'm also the chair and director of your VITA committee. And I'm here to present some income tax information for those of you who weren't able to catch me in one of the cities I traveled to. You're watching this on the Equity Portal. We wanted to make sure that we had a recording so that everybody would have an opportunity to get the same information. So I'm really happy to present it to you. This segment is going to be on deductions for show business.

Yes, this is what everybody wants to know-- what's deductible? And while you didn't ask, I'm going to tell you what you need to save in the event of an audit. So we're going to start with this worksheet. You can find this on the [actorsequity.org](http://actorsequity.org) Member Portal, all the VITA worksheets are there. They're for your use in organizing your expenses, your income, your travel, your automobile.

All those worksheets are there. And if you come in to see us at the VITA center, we can certainly do your taxes there. But if you aren't lucky enough to live near us, then you can go to your own accountant, your own tax preparer. Or maybe you can find a VITA site near you, where they have some idea about how to use all these expenses on a tax return.

If you have any questions, don't hesitate to ask us by making a call to the VITA program in New York. It's (212) 921-2548. But that telephone number is also located on the worksheets and in the member portal. So with that, let's get started with the laundry list.

These are the ordinary and necessary business expenses that are tax deductible on your returns. We're going to start with the first instruction here is list exact amounts. Do not estimate. Well, why do we say that? Because the IRS knows that if you've got a bunch of round numbers on your tax returns, then you probably haven't kept records. And you'd be a really good person to examine, and you'd probably have to write a nice check to them.

So we ask you, go through your records. And if you've saved some pretty good records during the year, which I'm going to ask you to do this year as well-- yes, I know, the tax laws have changed. But when we get to the 2018 segment that we're going to do, you're going to find that I'm going to tell you don't break any of these good habits. You're going to be keeping records the same way.

So let's start. Accompanist and audition expense, well, what is that? Do you have to pay someone to go with you to play for you? Is there somebody you have to pay to be a reader? That doesn't usually happen very often, but we've seen it.

So what do you need from that person? Well you need an invoice, and you need a paid receipt because you're probably either paying in cash or writing a check. Either way you should plan to get the receipt from that person. And I would ask them upfront. Either to send me an invoice and I'll write you a check, and that way we're done, or bring me a receipt when we rehearse together or when we finish the audition.

So if you've got your pianist with you at your audition, don't wait until you're in the thick of all that mob scene to worry about whether or not you're going to get a receipt. Let him or her know ahead of time. And then it's just more convenient.

Advertising and publicity, photos, resumes, IMDb Pro, Actors Access, Show Facts, anything that you pay to advertise yourself-- you can have your own website and you pay for web hosting all year. You could have somebody designing a new site for you and making sure that your real is current and uploading things for you. All those things cost money. They're all worth it. But you have to get receipts. Again, make sure that professional that you're hiring is giving you an invoice and a receipt.

Obviously, when you pay for things online, you're going to get an email receipt pretty quickly. So make sure you save that email receipt somewhere safe or print it out and save it to your records. So that if you need to prove that you bought these things or you paid the photographer for your new head shots or whatever it is, you've got the receipts ready.

I should say at this juncture-- I should have said it at the top, but-- credit card receipts are the only thing that you may use if you want to prove a credit card charge, not the statement itself. You have to have the actual receipt from the merchant. So if you have used a credit card to pay for dance classes at a studio and they give you a receipt right then and there, something you sign, or they email you a receipt, that's the thing you have to save.

You can't rely on the statement at the end of the month to say that you had a certain expense at a place called Steps, right? Because it doesn't say what you bought there. Well, you know what you bought there, but the examiner doesn't. That's why they don't accept any credit card statements. So if you're using credit cards for any of these expenses, make sure and retain the receipt.

Agent's commissions and manager's fees, this one's is kind of easy because you can usually get your agent and your manager's office to put something on letterhead at the end of the year to say, received agents fees during calendar year 2017 of x dollars and call it a day. Sometimes your check stubs will have this on it. I know that I mine will say the gross amount. The 10% amount shows are right on the check stub, and then I get the net. But it may or may not be just easier to get it at the end of the year from your agent or your manager, fully tax deductible.

Automobile expense we're going to get to another segment. Coaching, classes, and lessons, yes, do you take voice, dance, dialects, fencing, martial arts? What do you do to maintain your skills, to maintain or improve your current job skills?

Now, you'll notice on our worksheet, it says no gym memberships. That means the gym memberships are not deductible, no matter what kind of great shape you're staying in. And we know you stay in great shape. So do police officers, most of them, so do firefighters, and they can't deduct their gym memberships either.

So understand that if you belong to a gym because you want to stay in shape for the business, that's great. You just can't use it as a tax deduction. Now, what if your gym has dance classes? Some of them do. Make sure that you get-- and you usually have to sign up for them. Sometimes they're part of your membership, and sometimes you have to pay extra. If you're paying extra for those classes at your gym, make sure that they'll give you a receipt for that \$20 or \$40 or whatever it is that you're paying to take that dance class there.

Equipment expense, we have a little, very short, but you can get another piece of paper if you need more space, a short place to put itemizing of your equipment and software. When you buy equipment or software for business, the IRS wants it itemized. You can put totals in all these other spaces, right, the total of all of your advertising and publicity, the total of your coaching and classes and lessons.

But why can't you put the totals of your equipment and software? It's because they created a form decades ago that breaks out what kind of equipment you bought, how long it's supposed to last, which you don't have to worry about but your tax preparer has to worry about. And so they want to know what it was you bought, the date you bought it, what it cost, including tax. And we have two other sections here, the percent used for business.

If you have a piece of equipment that you use both personally and for business, then you have to apportion that. Any kind of equipment that you can think of, your telephone itself, so these things have to go in itemized lists. We see everything from speakers to GarageBand software to major headphones, amplifiers, microphones, self-tape gear and equipment, lighting equipment. Sometimes people have entire outfits that they use for a self-contained act that they take all over the country.

So there's a lot of things that can be depreciated or expensed in one year. But we have to itemize all of them. So if these apply to you, make a list. You can get an extra piece of paper, if you need more, and put down the item, when you bought it, the cost of it, including tax, and whether or not it's 100% for business.

As I said, your telephone and your home computer might be two items, maybe the only two items that you use both personally and for business. And so we'd want to know how do you apportion that. And I'll talk a little bit about the telephone and a little bit more about the computer when I get to a couple of other of these expenses.

So make those lists there. Most of your stuff's going to be 100%. If you use it for business and if it's required for you to continue your work and to be current and to upload your sides and your songs and do research and record and whatever it is you need to do, then it's going to be tax deductible.

Gifts for business is limited to \$25 per recipient per year. Why is that? Well, there are a lot of people who ruined that for us a long time ago. They started taking entertainment gifts for business.

They were giving television sets and cars and God knows what to everybody, to all of their customers and clients. And Congress just said, no. You know what? You're limited to \$25 a year because maybe you want to do all this stuff. But we're not going to let you reduce your income by it. So we're all stuck with the same thing. So if you're sending your agent a gift basket at holiday time and the gift basket costs \$75, well I would send it to the agency because there are probably several people in that agency, and you can take the full deduction for that gift basket, rather than just sending it to the agent because that would limit it to \$25-- a little tax tip.

Internet and cable expense, this will apply to your computer. And this is not easy. But if you really want to deduct part of your internet and part of your home computer, this one is going to be based on a time test. You're going to keep a log. And what the IRS says, one week in every calendar quarter is sufficient to gauge your time as to how you're using your equipment and/or your internet, for that matter, because there's no other way of doing it.

So if you're online roughly four hours a day at home, and roughly three of those hours that you've logged is all business, you've done research, you've looked online at job postings, and you've gone through Backstage and the union postings, and you've read a couple of scripts, and/or you've looked at sides, and/or you've read a play, or you've done whatever you needed to do for business, you've contacted people online, and then you spend about an hour emailing your family, your friends and doing some other stuff that's just personal, then you've got about 75% business use, right? Well, you keep track of that for five business days once in every calendar quarter, and you have an idea as to how much you use the internet and your home computer for business.

I will tell you that most of the members we see at VITA use their computers and their internet and all of their equipment that has a personal use as well somewhere between 60% and 80% of the time. That doesn't mean that that's the right number for you. You might fall below that. You might fall above that. But that's what we're seeing from people who were actually kind of keeping track.

Makeup and hair care, only when you're working. So you get a job. That's the time to go out and refill your kit, buy some new stuff, get the eyebrow pencils, the lip liners, the mascara, the hair sprays, whatever it is that you need to do because your makeup and hair care is not deductible for auditions, for interviews, or your everyday use.

I know, you've got to wear the eyelashes to the audition. I know. And you've got to wear lots of extra makeup, especially if you're doing an on-camera audition. But it's just not deductible. So I

always tell people, if you've got a gig, if you've been booked for something, that's the time to run out and replenish your kit.

Now, if you're getting new head shots, however, I would say your makeup and your hair is completely deductible because that's advertising. Your head shots have to be perfect. And you're going to probably hire somebody to do makeup and hair for you. So that's tax deductible.

If you do background work and you're expected to do your own hair and makeup, that would be, again, the time to go out and replenish your supplies. In the theater, you're expected to bring your own makeup. You usually have somebody doing hair and wigs. But most people are not doing your makeup in the theater. So if you get the job, that's the time to go out and buy new makeup.

Office supplies, stationery, and postage, a lot of casting directors still ask for postcards. I know. They want you to mail them stuff. If you're one of those people who's still sending out postcards and you're buying postage and pens and you do this periodically-- some people do it a lot. We find some people don't do it quite as much. Don't forget to keep track of those expenditures and get the receipts for them.

Rental of studio space and/or equipment, do you have to rent a space to do some rehearsal? Do you have to rent some equipment to do a self tape to send to a theater, to upload to your website, to send to your agent? I can't tell you how many self tapes I've had to do this past year. And usually I end up getting a friend of mine, but sometimes I actually pay to get the whole kit and caboodle. So remember that you should get a receipt if you're renting space, if you're going up to a studio and they're going to rent the space and the equipment for you. So get those receipts.

Repairs and maintenance on your equipment, on your musical instruments. Do you have a warranty contract on any of your equipment, anything you've just purchased or on your instruments? Don't forget to keep track of those because they're easy to overlook. Make sure you keep the receipts on any of those that you purchase.

Research and miscellaneous-- supplies, sheet music, DVDs, scripts, scores, little ear buds, apps, downloads, iTunes, all that kind of stuff. You're buying snippets of music. Keep track of all that because those are your supplies for research, and you should be getting either emailed receipts or physical receipts when you buy something at point of purchase.

Our stage managers have supplies. They've got their kit. They've got stopwatches. They've got their blacks. They've got first aid. If you are-- it's tools. I mean, how many stage managers have the greatest tools in the world? Well, lots, so if you're a stage manager, again, as you're replenishing your kit, all that stuff's deductible. Make sure you save receipts for every bit of it.

Tax preparation, legal fees, and professional fees, if you're paying for them, deduct them. You should be able to get an invoice from any professional who provides a service to you. Telephone-- business percentage or 100% of the second line. Well, how many of you have a landline and a cell phone? Those of you who do get to deduct the cell phone 100%.

Those of you who only have a cell phone, you're going to have to apportion. And again, like the internet and that home computer, you have to figure out a way to do it. Well, I kind of think that cell phone is a little bit easier because you can go online and look at all the detail and see calls that came in and calls that went out. And that's one way of approaching it.

Obviously, your data plans are now all part of the monthly fee. That used to be a separate fee, and we used to say just deduct those 100%. But most of us have a plan that includes whatever data we have, includes texting and roaming and mobile Wi-Fi and so on. So I would look at the calls that have come in, the calls that have gone out. If it's to your agent, if it's to your mom, you'll know which ones are business and which ones aren't. So that's one way of looking at it.

Or look at the use of your phone. For most of us, when we're out and about, we need our phones to just be in touch with-- an agent might send an email or a text. And if we don't have an iPad with us, we're relying on our phone for all of that kind of information. And we've got to make calls.

We've got to meet people for rehearsals. We've got to be in touch with our stage manager. Sometimes we're using our phone for that, texting, what have you. So find a way to apportion your cell phone and take the business use of that.

Tickets for research-- theater, film, concert, dance, ballet, any kind of entrance fees, and it can include even museums or symphonies or lots of things, depending on the work you're doing, connect it to who you are and the work you're doing. So how could this possibly enhance your revenue? It's not good enough that you're just in the business and you're an artist. You're going to deduct everything you see. It won't fly in an audit. And trust me, I've helped people with hundreds of audits.

You want to keep all of your tickets and entry fees to show, or to be able to show, an examiner that you have all of them, but you've only deducted the ones that were professionally related to you. So is it a show you want to see because you know the PSM and you wanted to be familiar with it? You wanted to be able to get her your photo and resume because perhaps you could be considered for an audition, for a replacement. Or do you want to get to know an AD on a Set or is it you're going to look at a particular show for style or for a role that's right for you or because your agent or manager says you should really know everything that so-and-so's doing because you're her type and we're going to be sending you out for stuff like that?

So those are things that are going to be important to you. Is there a certain kind of dance style that you've got to be familiar with? Is there a certain show that has this dance style and you might see a dance concert, but then you might have to see it in a theatrical performance as well? And this can also apply to films. It can apply to your Netflix, your Hulu, your HBO, and your Showtime.

So make sure that you connect your work in the industry with those entry fees and that kind of theatrical research, but save all the other ones too. Because I'm telling you, it's very powerful to say, oh, I have these hundreds of movie tickets that I didn't deduct because they were just

personal. They didn't apply to me and my work in the business. It's very, very powerful in an audit to have all of that, so save those.

Tips and gratuities, well, here's something you can't get a receipt for because you're not going to ask your dresser to give you a receipt or an invoice for the tip that you give him or her. So what I always recommend is that you keep a copy of the playbill. You've got your name in it. It's also got the names of all of the staff members, all the backstage, the crew. It's got the wig master, the wardrobe mistress. It's got dressers. It's got everybody. And if you're tipping those people, it's even got the door and backstage crew, people who are helping you whom you might give tips to.

So if you're doing that, keep track of those in your calendar. And then you can have the playbill and your calendar to say, well, it was every week I gave Jane Doe this kind of a tip. If you work in regional theater-- I do most of my work in regional theater so, I wait till the end of the run. And then I usually give a gift card, and then I put my tip in that. And I keep track the same way. I make a note of it in my calendar and I keep the playbill.

Trade publications-- Backstage, Variety, Performers Cues, Call Sheet, anything that you buy online, and most of us buy our trade pubs online, but some of you get them from a newsstand, so it depends. If you get it from a newsstand, pick up a paper receipt. If you do it online, make sure you get that electronic receipt because a lot of us forget about those. And they say, oh, I just don't remember what I spent last year. Well, when you buy it, get that receipt and save that electronic receipt to some folder somewhere or print it out.

Travel expenses we're going to get to in another segment. Transportation and transit seeking employment-- are you going to auditions? Yes. Are you going to interviews? Yes. Are you going to classes? Yes. Are you going to pay for play? Are you going to go meet a casting director, and you want to sign up for something?

Are you going to do research at a library or elsewhere to find out some more about whatever it is that you're working on or that you want to be able to audition for? That kind of transportation, it's not travel overnight, but it's local transportation. If you do it by public transit, if you do it by automobile, we're going to talk about the auto use and what you need for that in another segment.

But this just includes public transit, taxi, delivery, shuttle, whatever you might have that gets you in and out. You might be near a rail line, a commuter train that takes you in and out. So keep track of those there and keep all of those appointments in your calendar because that's the best evidence for where you were, what you were doing, and why you had to go.

Union dues and initiation fees-- yay, union. Well, they're totally deductible. But don't forget your working dues. So those you usually see on your pay stub. Again, what's really easy, and the membership office might get mad at me for this, but at the end of the year, you can go to the membership office and say, what was my total dues payment last year? And they'll print out everything, your basic dues and all of your working dues. They'll put it on a letter, and you're done. But if you're really diligent all year, you're going to be keeping track of not only your basic dues payments, but your working dues payments as the year goes.

Wardrobe and cleaning-- if you have specialty dance wear or costumes that you have purchased and that you use over and over again-- we have a lot of actors who have self-contained acts, right? And they've got costumes for them for various characters that they play that they take to various places. Some do parties. Some do work at hospitals. And part of their living is earned this way.

We've got a lot of members who buy a police uniform or a firefighter's uniform or military uniform or doctor scrubs or nurse's uniform. All these things can be tax deductible. However, your streetwear isn't. So if it's clothing like I've got on right now, it's not tax deductible, even if I wear it to an audition, and even if I have a whole bunch of clothes that I wouldn't be caught dead in anywhere else. But I wear them to auditions and interviews. Streetwear is not tax deductible not for anyone, not for any taxpayer in the United States, including us. So keep track of your dance wear, however, your dance shoes and any specialty costumes that you might have.

If we haven't thought of it, we've got a little space for other. Once in a while, we see people put things down like storage. Remember those people I said to have a self-contained act? Some of them pay for storage fees for all of their theatrical stuff. And some of it is a lot for some people. So that might go here.

You could put it up on rental of studio space. If you wanted, you could put your storage up there. We don't see too many other items here. But if you've got some stuff that we haven't thought of, don't forget to add it here and tell your accountant about it.

Meals and entertainment for business, this one's right at the bottom here-- locally, not out of town meals, but local meals. And the meals should indicate who, what, why, where, and when. And what the IRS wants to know is-- get the receipt-- why did you pick up the tab for this person, obviously, when, how much you paid and where it was and the business purpose. That's the why. So who the person is, what you were doing there, and why you needed to treat that person, or if you felt you needed to treat that person, where you were, when you were there, and how it connects to your revenue enhancement. And it has to connect to revenue enhancement.

It can't just be a bunch of us are going out after rehearsal, and we're all going to a bar. We're going to borrow food and have a couple of beers. That's not business entertainment, even though we talk about the biz. Yes, we all talk about the biz. Everybody who works goes out with people after work, or lots of people do anyway. And they go to bars and they talk shop because that's what they do.

But it's not tax deductible unless the person you're picking up the tab for can actually enhance your revenue. That person has to be able to get you a job or connect you very specifically to someone who can get you a job. So make sure you make that note if it's a PSM, if it's a director, could be your agent. We don't see a heck of a lot of this, but some people do spend money. And they say it's money well spent once in a while. So make sure you keep track of that and make careful notes on your receipt.

We've talked about the equipment expenses, which is at the bottom. So we're done with ordinary and necessary business expenses. Now, I will tell you for 2017, these are all deductible. For



2018, they may still all be deductible. It depends on how we use them. So I want you to continue to keep receipts, keep your documentation, keep all your substantiation the same way you've been keeping it because we don't know what kind of income sources you're going to have next year and whether or not we may be able to use some or all of these expenses on next year's tax. Returns so don't be discouraged. Save your receipts.