

An Artists' Guide to the Schedule C: Profit or Loss from Business

This guide was developed from Janet Ecklebarger's talk "Everything You Ever Wanted to Know about the Schedule C (*But Were Afraid to Ask): Income Taxes for Artists," which took place at Chicago Artists Coalition on February 17, 2016. It is intended for educational reference purposes only and should not be used as a replacement for consulting with a tax professional.*

About the Schedule C

- The Schedule C is submitted as an attachment to the Form 1040: U.S. Individual Income Tax Return.
- According to the IRS, one should "use this schedule to report income or loss from a business you operated or a profession you practiced as a sole proprietor. An activity qualifies as a business if your primary purpose for engaging in the activity is for income or profit and you are involved in the activity with continuity and regularity."
- For artists, the moment you make income from your creative practice, you become a sole proprietor. The Schedule C can be used to report income and expenses related to your artistic work. You must file separate Schedule C's for different types of income (eg: creative practice, unrelated freelance work, etc.).

#	Form Description	Recommendations	Notes
	Proprietor Name	Enter your legal name	
	Social Security Number		
A	Principal business or profession, including product or service	Identify your profession by name e.g. "teaching artist", "musician"	
B	Enter code from instructions	Refer to the North American Industry Classification System for the appropriate code (http://www.census.gov/eos/www/naics/)	This is how the IRS determines if your expenses are "usual and customary" for your field. Enter 711510 for Independent Artists, Writers, and Performers, defined as "independent (i.e., freelance) individuals primarily engaged in performing in artistic productions, in creating artistic and cultural works or productions, or in providing technical expertise necessary for these productions. This industry also includes athletes and other celebrities exclusively engaged in endorsing products and making speeches or public appearances for which they receive a fee."
C	Business name	If you do not have a business name, leave this space blank	

D	Employee ID Number		
E	Business address (including suite or room no.)	Include the address if you have a separate studio space	
F	Accounting Method	Check "Cash"	
G	Did you "materially participate" in this operation of business in 2015?	Check "Yes"	
H	If you started or acquired this business during 2015, check here:	If you started this business in 2015, check "Yes."	The IRS is looking for you to be a legitimate business. You can have \$0 income during the first year, and perhaps even in the second, but after that they expect you to make some income. You must have records to back up what you report and a business plan of some sort. The IRS is looking for a profit 2 out of 5 years at least.
I	Did you make any payments in 2015 that would require you to file Form(s) 1099?	Check "Yes" when applicable	Issue Form(s) 1099s for people that you pay over \$600 for entire year, such as studio assistants or collaborators. This form is used when paying other independent people, not businesses, which provide receipts or invoices.
J	If "Yes," did you or will you file required Forms 1099?	Check "Yes"	It is always advisable to issue Form(s) 1099 when deemed necessary by the IRS. By law, you must mail these out by January 31st of the following tax year.

Part I: Income			
#	Form Description	Recommendations	Notes
1	Gross receipts or sales	Enter the total amount of income received that directly relates to your artistic practice.	Examples include: honoraria, artwork sales, working for another artist, Kickstarter, etc. As an independent contractor, you should report all income regardless of if you receive a 1099 or not.
2	Returns and allowances	If you do not buy and sell products, leave lines 2, 3, 4, and 5 blank.	
3	Subtract line 2 from line 1		
4	Cost of goods sold (from line 42)		
5	Gross profit (subtract line 4 from line 3)		
6	Other income		
7	Gross income (add lines 5 and 6)	Same as Line 1	

Part II: Expenses

It is critical that you maintain consistent and comprehensive records of your expenses for the year. Determine your preferred method (analog or digital), and log everything. For items for which you do not receive a receipt, take notes and file accordingly. In the event that you are audited, you will need detailed receipts, not just bank statements.

#	Form Description	Recommendations	Notes
8	Advertising	Amount paid for advertising over the year	Examples include: printing business cards, show postcards, website hosting fees, Facebook boosted posts, and other promotional material
9	Car and truck expenses	If you drive for business, you are able to write off the percentage of expenses that correlates to the percentage of use that is business-related. The IRS allows 57.5 cents per mile in 2015, this is most likely your best bet rather than taking a % of your gas and expenses, and you rarely want to depreciate your vehicle.	Keep records of your mileage to and from any place that is business related. You must have a written record to justify these expenses.
10	Commission and fees		
11	Contract labor	When reporting expenses for independent contractor labor, include both 1099'd and non-1099'd (less than \$600) expenses.	
12	Depletion		
13	Depreciation and section 179 expense deduction	**Preferred in most cases** You can elect to recover all or part of the cost of certain qualifying property, up to a limit, by deducting it in the year you place the property in service. This is the Section 179 deduction (https://www.irs.gov/publications/p946/ch02.html). You can elect the Section 179 deduction instead of recovering the cost by taking depreciation deductions.	Use Form 4562 (https://www.irs.gov/uac/About-Form-4562) to report the depreciation and amortization of "durable goods" over the course of 5 incremental years. Refer to Publication 946 (https://www.irs.gov/pub/irs-pdf/p946.pdf) for detailed instructions.

14	Employee benefit programs		
15	Insurance	Use for business-related insurance only	Examples include: property insurance for separate studio space outside of your home, artwork in storage, storage space, etc.
16	Interest		
a	Mortgage	If you own your studio, interest paid on mortgage loan	
b	Other		Examples include: a business-only credit card for which interest has been paid
17	Legal and professional services	Use for any business-related professional services you engaged with	Examples include: hiring a lawyer to create an LLC, working with an income tax preparer, etc.
18	Office expense		
19	Pension and profit-sharing plans		
20	Rent or lease	Use for any business-related rentals	
a	Vehicles, machinery, and equipment		Examples include: U-Haul to move artwork, speakers needed for a performance, forklift, car, etc.
b	Other business property	Use for business-related space rentals, including studio, performance venue, exhibition space, etc.	Enter only the percentage you utilized in the case of a shared studio
21	Repairs and maintenance		
22	Supplies	Can be used for business-related supplies that do not fit in to other categories. **Recommended** that artists use Part V to provide an itemized breakdown of specific expenses that aren't listed on the first page of the Schedule C.	In Part V, you can separate it out into specific supply types if your supply expenses are large and you want to categorize.

23	Taxes and licenses	You should report sales tax remittance for any and all artwork sales. Many artists may want to adjust prices to include sales tax remittance rather than "charging" collectors an itemized sales tax.	Report only the amount that of sales tax that has not already been taken out from sales at galleries, Etsy, etc.
24	Travel, meals, and entertainment		
a	Travel	Use for all business-related travel (does not include daily commuting, etc.)	Examples include: airfare, taxicabs, public transportation, etc. Each can be made into an individual line item in Part V if preferred.
b	Deductible meals and entertainment	50% of meals can be deducted if business is discussed before, during, or after meal. Any per-diem rates for meals are also deducted at 50%	Refer to the Meals and Incidental Expenses (M&IE) Breakdown table at http://www.gsa.gov/portal/content/101518 to determine the M&IE deduction for your destination for meal expenses away from home.
25	Utilities	Use for studio or exhibition spaces in cases where tenant is required to pay for utilities	Examples include: electric, water, gas, etc.
26	Wages	Use only if you have employees that are not 1099'd and you withhold payroll taxes for.	
27	Other expenses		
a	(from line 48)	Carry over total from Part V	See below
b	Reserved for future use		
28	Total expenses (add lines 8 through 27a)		
29	Tentative profit or loss (subtract line 28 from line 7)		

30	Expenses for business use of your home	Use Form 8829 (https://www.irs.gov/pub/irs-pdf/f8829.pdf) to report on business use of home. You may only deduct this if there is a profit on line 29 of your Schedule C, otherwise the amounts carryforward to be used in a subsequent year.	You may only deduct for space that is used regularly and exclusively for business
a	Square footage of your home	Enter the square footage used exclusively for your business	
b	Part of home used for business	Enter percentage of total space	
31	Net profit or loss		
32	If you have a loss, check the box that describes your investment in this activity:		
a	All investment is at risk		
b	Some investment is at risk		

Part III: Cost of Goods Sold*This section is used mostly by businesses that buy and sell goods where the proprietor keeps an inventory, usually not artwork*

#	Form Description	Recommendations	Notes
33	Method used to value closing inventory		
a	cost		
b	lower of cost or market		
c	other (attach explanation)		
34	Was there any change in determining quantities, cost, or valuations between opening and closing inventory		
35	Inventory at beginning of year. If different from last year attach explanation		
36	Purchases less cost of items withdrawn for personal use		
37	Cost of labor (not including yourself)		
38	Materials and supplies		
39	Other costs		
40	Add lines 35 through 39		
41	Inventory at the end of year		
42	Cost of goods sold (subtract line 41 from 40)		

Part IV: Information on Your Vehicle

The government will deduct 57.5¢ for each business-related mile driven in 2015, making Part IV an important section for artists that use their vehicle for business purposes.

#	Form Description	Recommendations	Notes
43	When did you place your vehicle in service for business purposes?	Provide a date	
44	Of those total number of miles you drove enter number of miles you used your vehicle for:	MAINTAIN GOOD DOCUMENTATION! If you're going to take the deduction, you should have a detailed account of all business-related miles driven.	<div>Keep a mileage log in your car and record:</div> <ul style="list-style-type: none">- Date of your trip- Origin Location- Destination- Purpose of trip- Vehicle's starting mileage- Vehicle's ending mileage- Tolls or other trip-related costs <div>Mileage can be tracked using a variety of tools including: paper mileage logs, tracking apps, or simply a small notebook.</div>
a	Business		
b	Commuting	Can be used for commuting to a W-2 job but is not a deductible business expense, just a reporting section.	
c	Other		
45	Was your vehicle available for personal use during off-duty hours?	Check "Yes" or "No"	
46	Do you or your spouse have another vehicle available for personal use?	Check "Yes" or "No"	
47			
a	Do you have evidence to support your deduction?	Check "Yes" or "No." If you check yes, you must have evidence.	
b	If "Yes," is the evidence written?	Check "Yes" or "No." You should have written evidence.	

Part V: Other Expenses

Use Part V to create detailed documentation of various expenses that do not fit into any of the categories above.

	List below business expenses not included on lines 8–26 or on line 30.	You may make line items here for whatever you deem necessary, to better explain the nature of your expenses.	Examples of expenses that may be used for deductions include: <ul style="list-style-type: none">- Business communication (e.g., cellphone) the portion of your cell phone used for THIS business- Business Internet, same here, the % of the use that is directly related to this business- Research and Development: books, magazines, subscriptions, shows, museum tickets, etc.- Conference registration fees- Classes/Continuing education tuition- Professional memberships- Small tools, etc.
48	Total Other Expenses	Total amount for Part V. Enter into Line 27a.	