

I started working with Susan Lee over 20 years ago, when I was overwhelmed trying to figure out my own tax returns. I had tried other tax preparators, but had often found their advice lacking when it came to issues specific to a visual artist. One of the lawyers from Volunteer Lawyers for the Arts suggested that I try calling Susan. From the beginning, I found working with her reassuring. She was careful, compassionate, and had tremendous experience with how small business tax laws relate to creative people, especially since she was a literary artist herself. Since then, I have called upon Susan to discuss these issues in my classes and seminars and have deeply appreciated our long-term partnership.

This is an interview with Susan Lee from December 18th, 2007.

J: Susan, could you introduce yourself, your background, and how you came to be such a treasured consultant?

S: I was in graduate school getting a master's degree in writing. A friend of mine, who was getting a master's degree in photography, looked unhappy. I asked him, "What's the matter with you?" He said, "I don't know how to do my income taxes." I said, "Oh, for God sakes, I'll read the instructions." That's what I did. Within a few years, I started doing taxes professionally so that I could keep writing fiction. I got credentialed in taxation. When I stopped writing fiction, I went back to school and became a certified financial planner. Whether one likes it or not, the ability to function in this world depends in large part on one's ability to handle money and money flow. While taxes are an enormous part of this functioning, I wanted to be able to also deal with people's financial issues beyond a once a year tax visit.

J: So, you go beyond just merely dealing with the filing of taxes. You really are much more interested in the whole artist and in other aspects of their financial planning.

S: Both. While I don't do formal financial planning when I do people's taxes, I can bring that knowledge to bear and be more helpful than I might otherwise be. I do financial planning during the rest of the year when I'm not doing taxes.

J: That's a separate—

S: Yes, doing taxes and doing financial planning are generally separate. I have a weekly radio show, YOU AND YOUR MONEY on WBAI 99.5 FM in New York or www.wbai.org. YOU AND YOUR MONEY is a holistic financial show. I look at issues that come up in people's lives that they need thoughtful information on either before that issue comes up or while they're in the middle of it. I was just talking to somebody today who's going to walk out of her graduate school with a degree and \$220,000 in loans. And she wants to be an artist. She never seriously thought about that she might have to really pay back those loans. All I could think of was that poem by Coleridge about the albatross around your neck. I did a show sometime back about taking loans and whether it's worth getting a more expensive degree and having larger loans or going to less expensive schools and having fewer loans. I'll never know if this woman would have made the same choices had she heard that show and consciously considered the pros and cons of deciding to go to more expensive schools.

For me, money is this discussion that you may or may not have about the tradeoffs in your life and the kind of life you want to live. For artists, everything's a tradeoff. Questions to ask might include: how do you look at money? How do you decide what you are going to spend money on? How are you going to earn money? And what are the choices involved with each of the answers?

For instance, after graduate school, I had to decide how I was going to earn money. I figured if I indeed made a living from writing that would happen sometime in the future. In the meantime, I had to do something. I could have taught writing or English. But I personally didn't want to. I drove a taxi for a while but I got sciatica. Then I started doing taxes. That gave me a lot of time to write. Many artists have the option to teach and I think, for a lot of people, it's a great option. Often, however, the jobs that are available are adjunct jobs in colleges and universities. Artists have to think about what might happen if it turns out that they won't be able to make a living from their art and if they continue to teach as an adjunct. The difference between now and thirty years ago is that housing was cheap then. A lot of artists got into spaces that were inexpensive and kept them. Now that's a lot less likely. It used to be that people could manage as an adjunct art professor. Now, I say if somebody wants to teach, great, but they need to make sure they have the credentials to get a full time job. If you take stop gap jobs like art handling or being a waiter and have the idea that you'll only be doing it for a year or two before you break out as an artist, evaluate where you are after that year or two and see if that stop gap job works for you in the long run.

J: About how many artist clients do you work with?

S: I don't really know. I never counted. There are people who make a living selling their art and people who make a living in art related areas. Many people make a living as graphic artists. In the old days, basic graphic art used to be called paste up and mechanicals. Now it's fancier, because it's on a computer, but graphic art is certainly an alternative for many people.

J: So, they developed some sort of business or they worked for a business?

S: Often they fall into it. For example, the art handlers get jobs working at museums and art moving companies. Then when they get older, they can't or don't want to do it. This is why I am calling for people to have consciousness about what their alternatives are.

You asked how many people make a living as artists, but the art market is fickle. It's fashionable and some people, if they hit it big enough, can ride the fashions. There was a novel by a woman who won the Nobel Prize, Doris Lessing, called "The Golden Notebook," that was written in the early sixties. She writes about fashion in the culture. What people don't understand is that art is cyclical. You can be riding the heavens, and five years later, let's hope you have a tenured teaching job, because your ability to sell art might have dried up, you dried up, or something happened. People assume that they are going to keep wanting to create, but things happen. So, I say that people should be conscious about the ways they are going to make a living even if they've begun selling their art.

J: One of the things that I talk about in my book is developing multiple income streams, so that you are never ever completely dependent on one source of money. I also talk about adjuncting which you had mentioned. Frankly, I liken adjuncts to migrant laborers.

S: And apparently, seventy percent of new hires are adjuncts.

J: If it's a goal to teach full time, doing a couple years of adjunct teaching will maybe get you the credentials or the wherewithal to land a full time job, but it shouldn't be a lifetime career choice.

S: We agree.

J: How many of the artists that you work with make a living solely from a studio practice?

S: Not that many, and many of the others have a lot of shows where they earn very little money. Many artists who come to me have resumes that go on for pages. Having shows that don't earn money is good for exposure and can get you teaching jobs but—

J: But they don't pay your taxes.

S: Nor your rent. And then of course, there are the people who do make money from their art and continue to do so. And then, there are the people who I just mentioned, who for a few years make good money and then the sales falter or fade away. So, it all varies. And that's the problem with assuming that just because I did something this year, it's going to repeat next year in the same way.

J: In my book, I tell artists that they have to be better than average financial managers and not completely hapless as the myth of the visual artist makes them.

S: Well, artists often say that they are stupid in this regard and therefore exempt.

J: What do you mean by that?

S: They say, "I can't do this! I'm an artist. I'm inept. I'm not good at it. I can't do it!" and, I go, "Wait a minute!" When I go somewhere with an artist or discuss shows with artists, I am forever taken aback by what they've seen and I haven't. For instance, I was talking with a young artist about a drawing show we each had just seen. Drawings are my particular interest. Besides that, he and I agreed on certain things in this show. He was conscious of every single thing in that exhibit. He saw things that I missed. I believe somebody who can be conscious of every single detail in a drawing show is also able to be conscious of their spending, earning, and income. Often, many artists feel inadequate about their money abilities or would rather not deal. But the art world is not a place that will take care of you just because you want it to. Artists must take care of themselves because usually no one else will. Just saying you're no good at something doesn't mean that you should avoid it. Because there is no avoiding it.

My mother was a designer, and maybe it's my karma to do thousands of tax returns, because my mother often chose to ignore the realities of things. It's like being in the middle of a wide river, and you are in a rowboat or maybe a small sailboat. You have to know about the currents and where you want to go or you may not get there. Even in normal jobs, and even now there is no normal job. Everyone must consider themselves self-employed even if they work in a corporation. You never

know if your industry is going to be taken out or your division is going to be laid off. Artists have to be aware. For artists to meet their long term artistic goals, it is not only important to see their place in the art world and how they are going to function within it, but also important to concentrate on their personal goals and do money management. They should pay attention to their taxes and how their money works.

J: So, they need to have like a bigger picture in mind about their finances beyond what they have to do this month.

S: Let's take two scenarios of people coming in to do their taxes. The first person has paid in their quarterlies or estimates all year. It may not have been easy for them to come up with the money each of the four times they had to do it. When they do their taxes, they might discover they owe just a bit more but they have it, because they planned on it and put aside for it. The second person didn't think about taxes and spent the money. He or she suddenly owes \$5,000, \$10,000, \$20,000, or whatever. What a stressor! I would ask artists to answer some questions. If you were to wake up in the morning and owe \$10,000 on April 14th, do you think you could get up and make art? Do you think you could sit there or lay there or however it is that you fashion your ideas? Do you think you'll have the peace and calm to develop an idea?

J: No, I would avoid it as much as possible. I would be thinking about it constantly and that would take up all my emotional energy.

S: That's what I'm talking about. And that's why money management is so important.

J: Why do you think money is such an emotional topic? I mean marriage counselors say that it's even more of an issue in marriage therapy than sex is.

S: Money is a form of energy just like sex is and emotional relations are. And money has to do with class. You turn on TV and see a society and economy based on having people overspend and run themselves into credit card debt, so they can seem to be what they can't afford. You've got a society that treasures \$1,000 shoes and \$10,000 dollar dresses. And you're wondering how you're going to have your money to last when your next check is coming in.

J: Or your friend drives by with their new car, but you don't know that they are really just leasing it and haven't paid for it.

S: Artists aren't exempt from looking at how other people are doing and having feelings about it. Many artists work two or three jobs. You're so tired that you and your partner are fighting. You don't want to be fighting. All you both want to do is get along and make your art. Or you don't have a partner and you are just so tired. You want to make your art, and you can barely pay your rent, let alone your quarterlies. You go to a party and see this person who you went to art school with. This person's no better than you, no worse than you, except he has a huge loft. Okay, let me explain this secret of the art world. There are trust funds, there are parents and there are spouses. There are some other forms of illicit income too, but what happens in the art world is that rich kids get to make art, get to go to graduate school, walk out without hundreds of thousands of debt, and have a

great space to live and make art in. People from poor and middle class homes walk out with debt, have to work hard just to stay in place and don't have anybody to buy or rent them a loft.

J: I have to say, in one of my classes this year, we were having a discussion about student loans and talking about how much debt people have and, afterwards, one of my students came up to me and said, "I'm really embarrassed. My family is sending me to graduate school. I don't have any student loans." He felt terrible that he couldn't actually participate in the discussion. I said, "Whoopee for you. Don't feel terrible. What a wonderful opportunity your parents are giving you!"

S: It makes him a modern day Henry James character.

J: In a way. So, in fact, I just wrote about it this morning. Artists graduate from college with their peers who are going off into entry level jobs in business, medical, legal, and all sorts of fields with the same questions of how to develop their professional career and the same amount of debt. However, those in other professions are taking entry level jobs that provide them a good income.

S: What the difference is, and let's be real, is that the people who are reading your book have a dream to make art. And it's a passion and there's nobody who is reading this book who doesn't wake up thinking of something they want to make in some way. For me, I had this dream for many, many years where it was the most important thing in my life. Anyone who has it has the possibility of self fulfillment, which is rare to attain in other things. You can get satisfaction in public life, you can get it in service or in other places, but it's just different. Doing my radio show is different than writing fiction. I get satisfaction from doing radio, but writing something that you actually are proud of is very different. And so, making art, I presume is the same—

J: Well there's the sense that writing fiction is the same—

S: The life and concerns of an artist are different than the life and concerns of somebody who is beginning to climb a corporate ladder, so that one day they might have a house in Easthampton.

J: Well, as I have said, people don't go into to the arts for easy money. It's a calling. It's a passion. It's something that many artists say, "Well, I am doing this, because I really can't do anything else. This is what I have to do." And so, one does feel, as an artist, a little stuck, because, shoot, they have to do it and figure out how to fund it. I advise emerging artists to try to start separating out these emotions, to just see money as a resource that you can use. It buys you things. It buys you time. It buys you space. It buys you supplies.

S: The making of money for the artist should also be a source of satisfaction. I believe that if you are art handling now and you are saying, "Oh I hate my job," you have to reconsider. I think you might think about doing anything that you hate. I believe that we each get one lifetime. So, you've got to be really careful about how you live that one time and not just regard money as how am I going to buy some more charcoal or whatever it is that you need to buy. Instead, you have to think about how to make the money thing as important for you as possible. How can you make it satisfying? Which is why before, I was calling for consciousness in what you call multiple income streams. How

can I figure out which stream to follow so that I can not only do my art but also wake up in the morning not dreading doing the other job?

J: So, why is money so emotional? Do people get emotional when they come to you?

S: Money can be very stressful. I always keep tissues very close at hand. People cry. People get stressed out. I can sometimes tell if two people are going to stay together and it's not magic. I watch what happens when one of them has gotten themselves into a bind. If the other one doesn't give support, it doesn't surprise me that within a few years that couple is no longer together.

What does the word, "failure", conjure up? What does the word, "success", conjure up? Money is emotional because, if you let it, it signifies your place in society or your sense of self worth. At a primal level, it signifies if you are going to be able to eat. It may signify that, because you have sold a lot of art, you are therefore an artist. People come to me who have sold very little art. Are they artists? I'd say they are artists. If you say you are an artist, you are an artist. I'm not going to make that decision. But the IRS might if they say you are involved in art as a hobby.

J: What are the basic things that artists should be doing to take care of their financial life? Is there a kind of checklist? I have an exercise about financial tracking and seeing, in black and white, exactly what they've spent and exactly what they've earned, so they can start seeing what the different categories are and how they might mess with them.

S: What you are calling financial tracking is what I call cash flow. It's money in, money out. Keeping track of the money in, money out, what you need to spend, and what you want to spend is the very core of it. And it's the thing that people like to do the least. I know that I don't tell people to do something that I haven't done at least once. When I first started telling people to keep track of every penny, not just the big things, but also the ATM stuff, in a little book like the 12 step Debtors Anonymous folks do, I couldn't find a notebook to get started in three days of searching in NYC. This was when Canal Street, which is a few blocks from where I lived, had three stationary stores. But I couldn't find a notebook. I didn't want to do it. Whether we like to do it or not, I recommend financial tracking. If you are conscious of how you spend, you will spend less and have more control over what you do spend.

The trick to spending is to spend under what you have. Charles Dickens, to paraphrase, said he who is rich earns 20 pounds and spends 19 pounds and some pence. He who is poor is somebody who earns 20 pounds and spends 20 pounds and some pence.

Spending more than you earn can create an endless problem. The trick is to keep your spending down to where you don't have to worry about it. Freelance earning can be very up and down. How often have you had years which weren't as good as the previous year, but you are spending more than the previous year? If you continue that, you are going to end up in debt. Something you can do before the year starts is to look at the year that you spent the least and spend to that. The reality is, as people earn more, they are going to spend more. The advice, however, is to keep the spending as minimal and to save. How many people who are 25 really believe they are going to get to be 60? You can say the world is going to come to an end and I can run out of money at the age of 59, because

the world is going to come to an end before that. But, what if you're wrong, because the world doesn't end? There you are at 60 wanting to retire in a few years but knowing you have saved nothing and very little and you will have to work until you drop.

What I advise is that you should think about retirement and think about risk, and the word insurance. Insurance is one of those topics that many people would rather not think about, speak about, or hear about. On my radio show, the station's sound engineer, who normally listened attentively to my program, averted his head the time I spoke about insurance. I mean, he literally turned away from both my guest and me. He couldn't listen. And he says I'm making this up. But I'm not. Insurance is a subject people are just really averse to. Do you have enough health insurance? Do you even have health insurance? Insurance is required on your car. Do you have insurance on you? You have a family. Little kids who would be left unprotected? Do you have life insurance? It's hard to get disability insurance and it's terribly expensive, but have you taken care of the risks? That's a whole area people just don't want to go to. Another question to ask is do you save enough?

J: What does that mean? Save enough?

S: I don't want to say what it means to normal financial planners, because then that will get everybody nervous. My feeling is if you have nothing in the bank, we should speak about emergency funds. If you have nothing, then one week of emergency funds is enough for the time being until you can get two weeks. If I say everyone should have six months to a year of living in an emergency fund, that's going to be an unimaginable number for many people, because they are in debt or they are living paycheck to paycheck. And so, enough is more than what you are doing now. In the long run, it is not enough to put \$2,000 or \$3,000 into an IRA and think that's going to be a sufficient retirement plan for you. It's just not. However, if you're putting nothing in, \$3,000 this year is better than nothing.

J: It's a step in the right direction.

S: Because that is what you need to do. You need to keep building in the right direction. I don't know what enough is, but I do know it is age related. If you had started putting 10% of your income aside at the age of 20, that might be enough because of compounding of interest, dividends, and growth. But I'm here to tell you, if you are sixty years old and you want to retire at 65, it is highly unlikely that putting a few thousand dollars or a few percent away a year is going to be enough. The percentages go up in astronomical ways as you age.

J: And what other pieces of advice do you have specifically for artists, because you do the business taxes and small business taxes for artist?

S: Keep all your receipts.

J: How about if you paid by credit card?

S: You have to have a receipt anyway. I did an audit for an artist who had a lawyer for a father who insisted you just needed the credit card statement and I said, "No. You need the receipt for what the actual item was." The IRS agent agreed with me.

J: Keep your receipts, even if on a credit card.

S: Absolutely. Keep all your receipts. And a simple way to do that is just keep all your receipts in your left hand pocket or your right hand pocket, then stick them in envelopes, and then at the end of the year, just spread them out on the table among different categories. You can get a list of artist expenses at my website www.freelancetaxation.com.

J: And how long do you have to keep paperwork?

S: It depends. If you own property, then you need to keep records for the length of time you own that property. If you have bought assets like books and tables, you should keep those receipts for seven years. Traditionally, people say you can toss out paperwork after three years, and for most things, that's right. I personally think you should keep receipts for seven years just because it's easier. The reason is that if you're depreciating seven year assets, you will be asked for those receipts and you won't have them if you've thrown out your receipts after three years. You should keep your tax returns for your entire life, because you never know when some governmental agency is going to ask for a tax return for a year they say wasn't filed. They'll say you didn't file it and you'll have no evidence if you threw it out. It doesn't happen often, but it happens often enough that it's a problem. I'm not saying to keep all your records, because that takes up too much space. For urban people, that's not possible, but actually having a tax return from thirty or forty years ago takes up some space, but not a whole lot. I do it. It's kind of fun to look at, but that might be my professional bias.

J: When you work with artists, what would you say are some of the common mistakes that artists make?

S: Not filing their taxes.

J: Not filing. Why don't they file?

S: There are many reasons. I can't guess the psychology. Some people feel they should be able to make their art and do what they want and not be bothered. Another common reason is, "I didn't make enough to pay tax." If you are freelance, all you have to make is \$400 net to have to pay tax because that's where self employment tax begins. When I ask groups what that number is normally they say \$7,000, \$10,000, or \$20,000. Also, people often get themselves into a muddle, because they know they owe money, and they just stop filing. Instead of facing the problem then, they put the pillow over their head. Or they put the letters from the IRS under the pillow. And sleeping gets a little lumpy and bumpy. Why does somebody do that? Because they're scared? Because they can't imagine how they're going to fix the situation and still have enough to live? Also, I remember a guy who was a perfectionist who didn't file for years. He worried about every penny he was going to take on his telephone bill, so he didn't file because he couldn't figure out that number. I think

another real reason is some people don't prioritize doing their taxes. Somehow, taxes will take care of themselves. People have things to do and they say that taxes are not the most important for them. The bottom line: Taxes don't take care of themselves. You must take care of them.

J: And what other mistakes do artists make? So, not filing is number one.

S: Not keeping records. That's a big one. Someone said to me, "I just throw away my receipts." And I said, "Why do you do that?" And he said, "Oh." He didn't have an answer. You've got to have records.

Another mistake is not putting money aside for taxes, not paying quarterlies. There's always a reason not to pay. I earned too little. I couldn't catch up. How should you figure out what to pay? There are different ways. You can base your estimates on the previous year, divided by four, and pay consistent amounts throughout the year. You can figure out the percentage of your income you paid in taxes and then put in a percentage of everything that you have made as you make it and pay it in quarterly as estimates.

J: That's what I do. I just take everything and put a percentage of it in another savings account.

S: And you figured that out by looking at the percentage that you paid the previous year. And then you put it in the other account and you don't use that other account for anything but taxes.

J: Yeah. I do my own withholding so to speak.

S: That is a system that works for some people. The critical part is that not only do you fund this tax account but you don't use that account for anything else. You don't use it for Christmas gifts. You don't use it for rent. Then it's a system that works.

J: What I like about that system is that I am conscious of my spending and earning. It means that I never worry about having the cash to pay my quarterly taxes.

S: To live in harmony with yourself, you must think about money in a way that allows you to live smoothly. This system can allow the tax aspect of your life to flow fairly smoothly. If you don't think about it and you owe, you will stress about money. And your life will not be in harmony. I believe that this money stress can be terribly onerous and can be avoided. I go out speaking about money and do my radio show to help people minimize their financial stresses. Life has enough stresses without having money stress as a constant.

J: So, not paying quarterlies, not filing, not keeping records—

S: Not being conscious. Not being conscious of when things are due. Not being conscious of processes about money. This isn't just taxes, but it's everything. Taxes and money are just intertwined. Earning and taxes go together. And then there's spending. Certain artists seem to have a proclivity to spend. For instance, let's take photographers. Photographers love equipment. Now I don't know what it is. Does somebody become a photographer, because they have a gene that says,

“buy, buy, buy,” or when they become photographers, does this gene get developed about how if they don't have that camera, they cannot take the proper picture. I can ask a photographer, “How much do you want to put into your retirement plan?” Often I get a funny look and then a shrug, “I don't have any money to put in this year. But I have a new camera.” I'm not against buying new equipment if you really need it, but I believe someone should spend in relation to what they make. Ask yourself: Do I really need that new camera? It's one thing when the world goes digital if you don't have a digital camera. But do you need that \$20,000 digital camera? Do you really need it? Can you make do? And their answer often is to ignore the reality of having other cameras and to say “Yop! I need that camera.” And I wonder what will happen when these photographers get sick or when they get older and have little to no retirement funds.

J: For emerging artists, when should they start filing a Schedule C [Profit or Loss from Business or Profession]?

S: When they start selling. Even a few works of art. Now, when you say an emerging artist, what's an emerging artist? An emerging artist is not an executive who wants to take a vacation, write a book about cooking in Provence, and deduct it. An emerging artist, I personally don't use the word emerging because usually—

J: Okay, so an artist starting out of art school. I identify emerging as generally the first decade out of school.

S: Your having gotten yourself a degree from an art school shows professional training. After that, the year you start selling art and you've decided you have professional intent, you can file a Schedule C. I don't believe it's a good idea to file a Schedule C with no sales on it. And that means that there's no income on the Schedule C.

J: So, even if it is just a small drawing for a couple hundred dollars.

S: I would prefer to show more than one sale, however small. There's a 1977 case involving a woman named Gloria Churchman. It's Churchman vs. the Commissioner. She was married to a rich man and she had sales and took losses for a number of years. What we're talking about here is the hobby loss question. The IRS says that you have to make a profit in three out of five years— the court said Gloria Churchman was entitled to take her losses because she was an artist who showed that she intended to make a profit and that she carried out her business in a business-like manner.

J: And a lot of accountants who aren't familiar with artists' taxes will hold their artists to the standard of profits in three out of five years.

S: Yes. There are very few artists who make profits three out of five years. Gloria Churchman won even though she took these losses.

J: For how long had she taken losses?

S: For at least a decade. She had consistent sales. She had works in museums. Her resume was very long. She was a working artist and she carried out her business in a business-like manner. It's just that she spent more on her art than she made from art. The IRS has since come up with a nine factor determination on hobby loss. I've never had a problem with the hobby loss question, because the people that come to me or who I coach when they get audited are professionals. You can tell when someone is a professional. They eat, drink, and live their art. They have resumes. They have work. They are trying to sell. The major determinant is, "Are you trying to sell and make a profit?" The person who is sitting in his or her studio who says, "Oh, I'm not ready to sell," is not ready to file a Schedule C, because they are not in business. It's when that person is trying to make a profit. Trying to make a profit means not just making the work but actively selling it. So, if you read this book determined to be an artist and you go out and try to sell work on an ongoing basis and actually do, that's the day you can file a Schedule C. For some people, they file a Schedule C in the year after they leave art school. And for others, who are working on their art for purely personal reasons and who may never feel the impetus to go out and sell their work, it may be never.

I wouldn't go into the IRS and say my primary motive is aesthetic. You go in and say this is my life. I'm going to make a living off of it. That's how you get through the hobby loss problem. Depending on the agent you get at an audit, you might be able to win according to different standards, but I would recommend you demonstrate that you have a profit motive and that you've carried out your art life in a business-like manner. .

J: How do you treat grants and money that an artist is awarded?

S: Grants are taxable.

J: That's one of the biggest questions I have artists ask me all the time.

S: Before 1986, you got a \$300 a month exemption for grants, and if you didn't apply for a grant, you didn't have to pay tax on it. The question was: Did you put your name in for the grant? A Fulbright, you put your name in for, the Guggenheim, you put your name in for, but a MacArthur, you didn't. The MacArthur people walked away with their money tax free. Also the system for deductions used to be different. It used to be that if you got a \$10,000 grant, you could subtract all the expenses before you declared it. And you could very often put zero income and write a note showing how you calculated it. But in 1986, that changed. Now there's no exemption and you've got to declare all your grant money and depending on how you declare your grant, you then take expenses.

J: So, the bottom line is grants are taxable.

S: They are very much taxable. Not scholarships for tuition, but grants as we know them like Fulbrights, MacArthurs, Pollock-Krasners, and prizes.

J: Let's talk about when artists donate their own work to a nonprofit institution, like a museum. That's a question many artists ask me about. They think they can use the value of the art as a deduction on their taxes.

S: Think Richard Nixon.

J: Richard Nixon?

S: Yes. He gave his manuscripts and, if I remember correctly, they were valued at about 1.2 million dollars which now would be the equivalent of many times that.

J: You mean he got a deduction for that?

S: Yes. And that made people in Congress so mad that they then said if somebody makes something, they can only deduct their materials. So now, Richard Nixon could only deduct the cost of his paper as his basis. The problem is he probably already deducted the cost of his paper on his taxes, so his basis was zero.

I got a list of deductions from a writer about some first editions he had given away. I had to call and ask, "Are these your books or somebody else's?" They were all books written by him. And I had to explain the story to him, and why he wasn't able to take any of the deductions he thought he could.

What some artists do is to buy works by other artists and have other artists buy their works. If you buy somebody's work for \$500, the work goes up to \$2,000, and you've held it for more than a year before you give it away, you may have a \$2,000 deduction as long as it's not your own work and the museum you give it to is willing to accept it. A gift from the original artist doesn't work, because you will have the same basis as the artist or zero basis. While there have been moves in Congress to change the basis for contributions of art works by the creator, it has not yet passed.

J: It got very close this year though recently.

S: Unfortunately, close doesn't count.

J: So, artists who are asked to donate work for an auction or for a benefit can't subtract the value of that donation from their taxes on their Schedule A.

S: Correct.

J: Many artists get started with Turbo Tax or some sort of tax program and do what is somewhat more complicated than a simple 1040 form. But then, there often comes a day where you really want more professional advice. What are the ways that one should find an accountant or a tax preparer that would understand the specifics of an artist's tax return rather than a straight forward small business?

S: Doing taxes is a stylistic kind of thing. There are people who are very aggressive. There are people who don't care if they do it right and just want to get it done.

J: But isn't their name on the form?

S: I am talking about clients as well as tax preparers. And then, there are people who are very conservative and want to go to somebody who knows a lot about the area. Some people want to go to the cheapest person they can.

J: So, you need to find your style.

S: It's like picking an attorney. It's like picking a doctor. How do you pick any professional? With difficulty. My own feeling is when you have a friend who says, I really think my tax preparer's great. You should find out your friend's style, because asking the accountant may not work. Too often the accountant is going to say they are conservative when they're not.

J: So, what kinds of questions do you ask of the friend?

S: When you think about doing taxes, ask yourself, "Why is this person good?" Is it because they get you everything back? If you say that you wanted \$3,000 back, you got \$3,000 back, and you didn't give the preparer any expenses, but your return lists the expenses that resulted in your refund, is that a good preparer for you? You know that that preparer made stuff up. Now me, if you told me that you want an accountant where you get money back and you haven't any legitimate expenses, but your old preparer put things in anyway—if that's your consideration, then someone like me who wouldn't dream of doing taxes like that is the wrong person. If you want somebody who follows the law, takes advantage of what the law allows, and understands what artists can and can not do, then someone like me is a good choice. Just remember that whatever is on the tax return represents what you are saying you made and spent. If you've exaggerated your expenses or underdeclared your income, you will be responsible for the taxes and penalties and interest if you're audited and these things are discovered. You are filing a document that not only has monetary consequences but also can have legal consequences for you.

J: Couldn't you ask an accountant or tax preparer what their result has been in their last audits?

S: That might work but a sad truth is that the answers you may get might not be accurate. I would ask the people who are referring, "What do you know about this person and why do you like them?" and you can get a sense of their style. We are doing this interview in New York, and there are many people here who have artists for clients. If you live somewhere where an artist is as unknown as a polar bear, then maybe you should go out of town. If there isn't anybody near you, hire somebody in an urban area where there are art accountants. But I think you will learn what their style is after going to somebody once. If they say, "Don't worry about it honey. You don't have to come in with a list of expenses. We'll figure it out." That's not going to stand up anywhere. If you get told, "Okay. Here's a list of expenses. You've got to add up your stuff and come in." That sounds reasonable. If you say, "I have some questions. Do you mind if I ask them?" And the preparer says, "I don't have time for that," you might want to go to someone who will answer your questions in a way that satisfies you.

Also, I think personalities matter. If you get along with somebody, that's a plus. If you think they're not paying attention to you, I don't think that's good. I think you have to resonate. They don't have

to be your best friend, because they're not going to be in most cases, but it's like going to a doctor. It's like going to an attorney. What do you want in a professional? What are your standards? Ask yourself that. It's true for accountants as well.

J: So, don't necessarily shop around for the cheapest price. You need to get somebody that's a comfortable fit with you in your level of risk and tolerance that you feel is representing your interests honestly.

S: There are ranges in prices in every area. What's your ability to pay? If you are just starting out and you have no money, it's not likely that you're going to be able to afford a mid priced accountant. You might have to find somebody who is just starting out. Understand though that this choice could well mean that you've chosen someone who might know less than someone who has been doing taxes for a number of years.

I have a client that, when she first came to me, had a complicated business return. She went to somebody who charged much less than I would have. I've wondered how somebody could do taxes so cheaply. When my client sent me her previous tax returns, I understood. The return wasn't done correctly; it was sloppy, incomplete and didn't balance. It was done on the quick. If somebody's doing this stuff for very little, you may get what you paid for.

If somebody's charging x and somebody else is charging $x + 100$, and you like the $x + 100$ person better, figure out a way that perhaps you go to them once or twice. You're not indentured to the person. You can go to somebody else the following year. There are some people who like to go to new people every year like they are going to learn something new from each new person. Maybe that works for them. There are others who, once they find somebody, they don't want the preparer to get sick or die, because they feel that God knows what's going to happen if that preparer isn't available.

My own feeling is for many people, it's the one time a year that they talk to somebody about money. I believe the conversation can be picked up better with somebody they've known for many years than with a stranger. Also, understand that tax preparers are humans. I once heard a statistic that 18% of people left their accountant if they made as much as the slightest error. Now when you find the accountant who does not make an error, let me know, because we all make errors sooner or later. We are all imperfect beings, and working 12-15 hours a day during tax time, errors are going to be made.

J: So, when you get your tax returns back, should you check over all the figures? And make sure they are identical to what you gave?

S: Yes. Make sure they are what you want. That is why you are getting a copy. And if you are doing a paper return, you don't send it in until you have checked it. If you are doing e-filing, you've got to send back the e-filing authorization. It's your responsibility. What you want the accountant to put on the tax forms should be communicated in writing. That will lower the amount of errors. Don't keep changing your mind about something and if you do, put it in writing. Errors will happen. Hopefully not too many. But many of the errors come from client figures. A common error is in the dollar amount of estimates paid. Too often clients say, "I paid what you told me to pay." Too often they've

forgotten that they didn't pay what had been on the forms to pay. Pull out the checks and see how much you actually paid and when.

J: How does one deduct home studio?

S: With difficulty if you aren't making any money. The basic form for filling out taxes for self-employed people is the Schedule C. Home office used to be deductible by everybody who filed this form. Too many people did it, and the IRS limited the deduction. Home office is now on a separate form. You figure out square footage of total use and of business use. Business use must be exclusive use. That doesn't mean the dining room table used from 9-12 in the morning. It means the table that is used 24 hours a day. And it doesn't mean an area that's a walkthrough to get to the bedroom. It's exclusive. Exclusive is exclusive. You fill out a separate 8829 form and on that goes utilities, not phone, but gas, electric, and water, rent, mortgage interest and taxes, repairs, and insurance. If you are making a profit on your Schedule C, you can deduct that portion of your home office. If you are not making a profit on it, the money doesn't get taken that year. It gets carried forward until you have sufficient profit to be able to take it. If you have an outside studio, and that doesn't mean that it's outside your house on your land, but a studio that you own or rent, under a separate deed or contract, then you can deduct and take a loss on that.

J: Well Susan, we've covered a lot of territory in this interview. I know we can't solve all the artist's tax issues, but you have certainly given a lot of great information. Thank you. I wish every artist had someone like you to talk to once a year.

S: Thank you.

Susan Lee has prepared taxes for freelancers and artists for over twenty years. She is a Certified Financial Planner™ as well as a Registered Investment Advisor.

Her website, <http://www.freelancetaxation.com/>, gives freelancers and artists basic information that will allow them to take advantage of their self-employed status and meet the challenges inherent in freelancing.

She has written articles for, as well as spoken to, freelancers and artist organizations including Graphic Artists Guild, National Writers Union, Editorial Freelancers Association, Music Cares, Artists in the Market Place, among others.

*She has a weekly personal holistic financial radio show, **You And Your Money**, on WBAI-FM in NYC at 10:30am EST on Friday mornings. You can access it on the home page of this website or at wbai.org.*