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11 MISTAKES ALMOST ALL MUSICIANS MAKE AT TAX TIME

Musicians' songs seem to become a little bleak as the new financial year rolls around as there's a lingering threat that you will have to face head-on: tax time!

Many musicians feel like they are walking into a trap each year with the ATO constantly changing reporting guidelines and closely monitoring every move of business owners. So, grab a drink and brace yourself because we are going to outline 11 mistakes almost all musicians make at tax time to help you face the ATO going into the next tax season

#1: USING ONE BANK ACCOUNT FOR PERSONAL AND BUSINESS

One of the most common mistakes is mixing personal and business expenses. The Australian Tax Office requires that businesses operating as a company, partnership, or trust have a separate account for business transactions. Comingling the expenses isn't cool and can lead to fines and penalties. Think of it like playing a guitar solo in a different key – it's gonna be weird, and probably not in a good way! Setting up a separate account should be one of the first things you do as a band or self-employed musician.



#2: NOT LEVERAGING THE RIGHT BUSINESS SETUP

As a business owner, you are tasked with choosing the right setup. The business structure your music business retains will determine how you report and pay taxes. When looking to minimize your tax burden, consider switching setups to reduce your self-employed taxes. Truly – your structure is everything and is the first point of the process that can influence how much tax you may have to pay.

#3: SKIPPING RECEIPTS

We've all gotten into the habit of throwing out receipts. This can come back to bite once tax time rolls around. When businesses are audited by the ATO, they are often required to provide substantiation of expenses, which is a fancy term for proving you actually paid it. And to quickly debunk an age old myth – using bank statements as proof of purchase isn't always going to cut it with a stiff ATO auditor. Skipping receipts on large purchases can land your business in a tough spot with the ATO potentially removing your deduction altogether and increasing your taxable income which in turn, means paying more tax!



#4: MISSING THE BENEFITS OF PROFESSIONAL INCOME AVERAGING

Musicians are one of the select groups that can take advantage of professional income averaging. This tax option isolates your professional income and taxes it at a special concessional rate, which is based on the rolling 5-year average. This results in less taxes paid compared to reporting all income as regular self-employed income. Special income averaging is a very complex tax area however it can be highly advantageous to a musician trying to minimize their tax payable. To determine if your business is eligible, reach out to one of our team members.

#5: HAVING POOR BOOKKEEPING PROCEDURES

Who likes data entry? Most musicians have a creative mind, meaning sitting behind a computer and entering expenses isn't an ideal situation. Despite the burden bookkeeping may place on your time and creativity, it's a necessary component of running a successful musician business. Recording all transactions regularly gives you insight into growth opportunities and helps you be prepared for tax season. You don't want to wait until the week before the tax deadline to look at your bookkeeping. Prioritize it throughout the year to reduce stress and file timely returns. Tax saving opportunities happen quickly, making it vital to be prepared. Xero does this part really, really well.



#6: NEGLECTING TO PLAN FOR TAX BILLS

Money in, money out, right? After you earn your first large commission, you may want to treat yourself. Although it can be nice to buy a new Gibson guitar or a Neve console, you need to be thinking about your year-end taxes. Self-employed musicians are in charge of paying their own taxes. Instead of being shocked by a large tax bill, plan throughout the year by setting up a separate savings account or working with the experts at Amplify 11 to create tax projections and planning for the year-end tax season BEFORE it happens.

#7: THROWING OUT INVOICES

Similar to keeping receipts for all expenses, you want to retain invoices from customers. This helps ensure that you are reporting accurate revenue. The worst case scenario for musicians is guessing what their income actually was. Not only can this lead to overpaying in taxes, but it can also trigger a letter from the ATO. Side note – not invoicing all together means that promoters and agencies may be withholding more tax from your gig payments than necessary. Creating invoices from a template sucks and again, Xero is really going to be your best roadie in this case.



#8: MISCLASSIFYING WORKERS



Hiring a band help or another musician means your business is growing, but it also creates a new tax challenge. Independent contractors work for themselves, much like you, while employees work in someone else's business. The categorization of these workers impacts how they get paid. When you have employees, you are considered an employer and will need to remit payroll taxes while independent contractors handle their own tax situation. Misclassifying workers can result in back taxes with fines and penalties.

#9: NOT UNDERSTANDING HOW YOU ARE TAXED

Your goal as a musician is to make money, right? Performing artists that are consistently playing gigs and making money can no longer consider their business activities as a hobby. Although you may be thinking “cool, I have a musician business,” running a business comes with tax implications.

The ATO requires you to report all income that you earn from gigs even if your Great Aunt gives you \$250 to play at her birthday. The ATO has the authority to send musicians to jail in severe instances of non-compliance. We think your music probably sounds better when it's not behind bars. Unless you are Johnny Cash – then you are free to go.





#10: FILING OUTDATED CONTACT INFORMATION WITH THE ATO

Each time you change addresses or switch phone numbers, you need to update the information on your returns. Out of sight, out of mind doesn't apply to the ATO. If they can't get ahold of you, they will make a decision on your behalf, which is generally unfavorable. Most items and inquiries from the ATO can be easily solved, so make sure they can reach you!

#11: BRUSHING OFF PROFESSIONAL HELP FROM INDUSTRY EXPERTS

Last, but certainly not least, many musicians brush off professional help. At Amplify 11, we are creators just like you. This gives us firsthand insight into the tax dos and don'ts that your business should be following. From registering your business with the ATO to calculating when and how much tax to pay, we do the dirty work so you can focus on what you do best.

Hiring an accountant is not a decision to take lightly. The more expertise and knowledge that they have in your industry, the better they will be able to help you. By working with our team at Amplify 11, we can help you stay out of jail and put your business on track for success. Reach out today to learn more.

Need help with tax and business planning? Call (02) 4715 1000 or visit www.amplify11.com.au





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Tax time is dreaded by everyone, even us. As creative business owners and musicians, we understand the struggles you face in your photography business when it comes to taxes. This is why our team at Amplify 11 takes an innovative approach compared to your local accounting firm down the road. We understand the tax deductions and tax strategies that you can benefit from because we use them too! To talk to one of our team members about your photography business, reach out today!

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