

The Million Dollar Minute

By Douglas Niedt

Copyright Niedt Publishing LLC

Taxes

I'm Douglas Niedt. Thanks for joining me for this million dollar minute. I'd like to talk about Taxes.

As an entrepreneurial guitarist, you will most likely be self-employed. The self-employed are hit hard by taxes. We pay an additional 15% self-employment tax above the usual federal and state tax. There will be no withholding on your income so you may need to make quarterly tax payments. It can all be a killer. Be aggressive in attempting to reduce your tax burden, but don't cheat. As I state many times in my book, don't mess with the IRS. They will pursue you and crush you. They are very serious about taking as much of your money as they can!

The good news is, as a self-employed individual, a ton of your expenses are tax-deductible. In other words, you will subtract these expenses from your income, therefore lowering your taxable income. You are taxed on the income that remains, *after* the deductions. Note that some of these deductions must be prorated according to business versus personal use. Others must be prorated according to the percentage of business use of your residence. The rest are deductible in full. Here are a few:

1. Office supplies (paper, printer cartridges, pencils, paper clips, etc.)

2. Computers
3. Computer monitors (you should be using dual monitors—you won't believe how much they will improve your work efficiency)
4. Computer peripherals (cables, thumb drives, routers, speakers, earbuds)
5. Printers
6. Fax machines
7. Software
9. Furniture, lamps, file cabinets, bookshelves, CD shelves
10. Instruments and equipment
11. Strings
12. Instruments and equipment insurance
13. Instrument repairs and maintenance
14. CDs, sheet music, and books you purchase
15. Internet access fees
16. Credit card processing services
17. Website hosting services
18. Online storage services
19. Concert tickets
20. Music magazine subscriptions
21. Business postage
22. Advertising
25. CD production and manufacturing

And there are many many more I list in my book and in articles on my website, milliondollarguitarist.com.

In general, the IRS doesn't want you to be able to deduct expenses within a short period of time. They like to drag it out as much as possible. That is where depreciation comes in, and you have to deduct your expenses over a period of three or more years. For the entrepreneurial guitarist, we usually want to deduct as many high start-up costs as possible to lower our tax liability. This is where first-year expensing comes in. Unless you spend an extraordinary amount of money in business purchases, you will usually be eligible for Section 179 first-year expensing, which means you can deduct the total cost of your purchases in one year and get the maximum benefit as quickly as possible.

Even if you use an accountant to do your taxes, I highly recommend that you thoroughly familiarize yourself with the basics of the tax code and with the mechanics of filling out tax forms. Read *J.K. Lasser's Your Income Tax* and try using *H&R Block's TaxCut* or *TurboTax* software on your computer.

Just remember, the only catch with general business deductions is that the expense must be business-related. Physical items must be used exclusively for business purposes. Do *not* attempt to deduct personal expenses—that is fraud. If you are audited, be prepared to defend your deductions. If your deductions are taken honestly and sincerely, they are usually allowed. If they are disallowed, your taxable income will be higher and you must pay the extra tax due on that income. Possibly, you may have to pay a small penalty. But you won't serve time at Club Fed! As long as you're being reasonable and honest, most of your deductions will be allowed—you won't go to jail for being aggressive in your business deductions. Do *not*, however, understate or ever attempt to hide income. That is a definite no-no and can lead to heavy fines or an extended stay at Club Fed.

Just because many of the things you buy will be tax-deductible doesn't mean you can go buy whatever you want. You don't want to spend money you don't have. Don't go crazy. Buy only what you need. Be frugal. Spend your money wisely. As an entrepreneurial guitarist, operate on a shoestring budget as much as possible. You've probably heard, "It takes money to make money." Baloney. Ignore that worn-out phrase. *The sweetest financial success comes when you make money without spending a dime to do it.* Pure profit has a taste like no other.

My book contains extended discussions of taxes and your finances. They may not be the most interesting things for a guitarist to read about, but understanding them is crucial to your making a million dollars playing the guitar. You want to keep as much of that money for yourself as possible. Don't let it slip away. Don't end up living your life as a starving musician.