

## What to do with taxes if I sell a painting?

**First...** Decide if you are a business or a hobby

A business is a for-profit entity and a hobby is a not-for-profit activity. A business has a primary purpose of “income or profit” and is engaged in a profit- or income-seeking activity with “continuity and regularity.”

**How often does the IRS audit to see whether this is a business or a hobby?** not often, but

triggers are: If the activity has large expenses with little or no income  
If losses are being used to offset other income on the tax return  
If the activity results in a large benefit to the taxpayer  
If past years don't show any profits...then it is a hobby not a business

### IRS Nine Factors Test

1. Do you keep good business records, have a business checking account, and generally run your activity like a business?
2. Do you put time and effort into marketing and other activities to bring in customers?
3. Do you depend on the income from this activity for your livelihood?
4. Are your business losses beyond your control or typical startup losses?
5. Have you changed methods of operation to be more profitable?
6. Do you have business expertise and hire competent business advisors?
7. Have you been successful in similar businesses in the past?
8. Do you make a profit and how much?
9. Can you expect to make a profit on assets used in this activity in the future?

### BUSINESS

1. Do you intend to sell your work?
2. Do you rely on this income to eat and pay rent?
3. If you lose money doing this activity, was it within or beyond your control?
4. Have you made profits in the past year?
5. Have you changed your practice in order to improve profitability?
6. Do you expect to see profits in the future? (IRS wants to see a profit 3 out of 5 yrs.)

Sole proprietorship: Check Clerk of Courts or State's Dept. of Revenue or IRS sites for specific requirements.

1. Start a separate business checking account to **keep expenses separated**.  
Record all sales and save all receipts!
2. Register your business with VA as an LLC
3. Comply with all state and federal tax laws, including collecting sales taxes and paying annual state business renewal fees or franchise taxes.
4. Have regular business hours or maintaining a business website

Expenses you can deduct: (check out [Artwork Archive](#) for recording business info)

1. Advertising - ads, business cards, fliers, fb ads, website costs
2. Business insurance - keep track of payments
3. Commission & Fees -
  - a. paying a gallery and the percentage they take for sales
  - b. fees for call-for-entry, applications, legal advice, outsourced book-keeping, business consultant as well as model or contractor fees (photographers, farmers, assistants, PayPal, Square, etc.)

4. Legal & Professional Services
  - Get a professional to help you with your tax preparation & write off fees
5. Materials & Supplies
  - a. Brushes, canvases, paper, easels, paint, tools...etc.
  - b. Large equipment such as camera, special tables, storage...anything used over a period of years.
6. Meals & Entertainment
  - a. Coffee with a client, lunch with a collaborator, dinner with a business partner; these are 50% déductions. Keep your receipts, snap a photo of the event, make a note of the date and time of meal.
7. Office Supplies
  - a. Paper, pens, staples, paper clips, foudres, art for the walls, mouse for your computer....etc.
  - b. Cell phone and internet costs can also be recorded. If phone used for both personal and business, estimate % of use for business.
8. Professional Development
  - a. Dues paid into an art organization
  - b. Online courses, conférences, books, workshops or residency fees
9. Rent & Lease
  - a. Any space rented outside your home for your work.
  - b. If in your home, you can deduct a % of overall expenses for that space.
10. Repairs & Maintenance
  - a. any repair or maintenance costs for your equipment or office space.  
Ex: Camera repair, kiln repair, printing press repair
11. Taxes & Licenses
  - a. If you need a business license for VA
12. Travel Costs
  - a. Out of town to install a show?
  - b. Traveling to a conference with carfare, airfare, hotel costs
  - c. Your vehicle @ \$0.58 per mile to drive to a meeting, pick up supplies, go to an art fair, etc.

Plan ahead:

1. Set aside money for taxes
2. If you receive over \$600 annually from gallery or a side gig, get a 1099-MISC from them and fill this out along with your sales income.
3. Consult a professional, making sure you have copies of everything: receipts, invoices, all sales made and expenses incurred.

## HOBBY

Most of us create art as a hobby, but, just in case, keep all receipts and expenses if your hobby becomes a business during the year. Then let your tax preparer advise you!

Whether your art is a business or a hobby, and if you deduct expenses or not, you must still report the income you received from this activity (and is subject to state and local taxes).

## PRICING your ARTWORK

It's been said:

*When bankers get together for dinner, they discuss art. When artists get together for dinner, they discuss money.*

**Pricing is hard!** It is awkward. So how do you start setting prices for your artwork so you can get the salary you deserve?

1. **Check out comparable art work.** Look for artists that have similar work to yours. How much do they charge for their work? Is there a pattern in this pricing? Be honest when you evaluate your work when comparing it to artists with a similar style, working in a similar medium, with a similar amount of experience, as well as selling within a similar geographical region.

Talk to other artists; ask how much they are selling their work for and why. Have open and honest discussions about money to help guide you and make sure your prices are on track.

2. **Once you decide on a price, be consistent.** Check out a gallery, but remember that galleries often add 50% or more to the price the artist asks. If you are in a gallery, DO NOT privately ask less than the gallery. You could be dropped from them and earn a bad reputation from other galleries.
3. **Separate your feelings from facts.** If you set the price really high because you really like the piece or it holds sentimental value, consider keeping it for yourself.

Some artists price according to size and not on personal value. Have different price points. Sell prints, remembering that an artist print is different from a photographic reproduction of an art work.

4. **Be transparent with your prices.** Don't make it a guessing game with work unmarked and then changing your intended price based on who is asking. Have your prices up front and available.
5. **Stand by your prices and evidence.** Be confident. Have a prepared answer for the "expensive" piece of art work.
  - 1) you've been regularly selling comparable art for that same amount.
  - 2) Point out the provenance from similar sales in galleries, dealers, from your studio.
  - 3) Put their mind at ease by showing them that other people have made similar purchases, that your work is valued and your pricing is methodical and fact-based.