

Writing is Taxing Panel Discussion - Gencon 2005

Participants: Four currently working authors in "shared worlds" as well as original fiction and short stories. One happens to be a lawyer but not a CPA and not specializing in tax law.

Thoughts on Seminar: This was largely worthless for me as my husband and I run our own business. The entirety of the panel can be distilled into this: get an accountant.

Notes:

First, all of the people on the panel kept repeating one thing - we are not CPAs or tax lawyers please consult a professional if you have questions of any kind because we are NOT.

(Also keep in mind that I am not a tax specialist and that I employ a CPA to professionally prepare my taxes, payroll, and withholding payments to ensure I am in compliance with all updated federal regulations because I am not about to get spanked by the IRS if I can help it. You should do this too.)

What they went over was the following:

When you are a self employed individual or you work for people and they send you what is called a 1099 form at the end of the year instead of a W2, they have NOT taken taxes out of the money in the checks they sent you. If you are a freelance editor, independent contractor, writer, artist, or other such person and you are not on staff of a large company like TOR, WotC, Harper-Collins, etc then you are a 1099 and, as such, will have no money sent to the government on your behalf out of your advance checks, royalty checks, or other such payments.

Because money is not sent in for you, you are required to send in estimated tax payments on a quarterly basis to the federal government. If you have a "job" in addition to being a freelancer, and you don't make much money as a freelancer, you can get around the need for sending in quarterly payments by having your "day job" take more out of your regular paycheck. This is often very easy to do. However, if you underestimate how much tax you owe at the end of the year and you have not made quarterly estimated tax payments the government will fine you and charge you interest on the payments you should have sent in. You will also get stuck on the computer watch list to get flagged later for an audit. Please keep this in mind.

So, from every check you get, you need to set aside part of that money to send into the good old IRS. Depending on your tax bracket this could be as little as 15% and as much as 35%. You should check your previous year's return to find out what your tax bracket is, estimate how much more you will make in the year ahead, and then use that percentage number to estimate your probably tax liability if you do this yourself. However, it is highly recommended that you spend the 150 bucks to get your taxes done by a professional (not turbo tax or H&R Block because writers and artists have a lot of special schedule C and depreciation issues that are not well

covered by either of these and can cost you) who will, in addition to prepping your return for the year will also give you the amount of your estimated tax liability to send in quarterly for the next year. My husband and I do this and it works out great. It would take us a day or more to screw with our taxes and if we turn it over to the CPA they get it done for under 200. My husband bills out at between 100 and 200 an hour and I have way better things to spend my time on than pulling my hair out with tax regs. It's worth the money to save the headache and the time.

The next important thing is that you can deduct things from your taxes. However, if you deduct things you must keep records to prove the validity of your deductions! When self-employed you can deduct everything from printer ink and office supplies to square footage from your home (if you have a room that is specifically for work only), to utilities (in percentage to the square feet of the room you use only for work), to entertainment expenses (that lunch you bought your agent), to books, mags, DVDs, and such (that you buy for research on your novel). Each of these deductions are placed on what is called a schedule C form and can flag the IRS for an audit. As a result you need to keep complete records including all receipts for everything you buy.

Keeping organized records is half the battle and sounds hard but can be very easy. Just get an accordion file and put labels on it for things like, "research," "entertainment," "travel," and whatnot. At the end of each month (or right away) put the receipts into the correct part of the file. At the end of the year you can then turn the folder over to your CPA and TADA! Quickbooks and Quicken all have options to enter receipts for these kinds of things and you can enter them at the end of the year into something, download a copy for your accountant, and they can pull everything right off the file for your taxes. Even easier. **You will also want to keep a mileage log for your vehicle.** If you intend to claim mileage on your taxes you have to have records of what the odometer readings were at start and end of trip, how many miles were driven, what the purpose of the trip was, and that sort of thing. If you don't keep these and you try to claim the miles then you will get into trouble if you get audited.

Keep in mind that the entertainment industry gets audited a lot. Writers and artists are considered part of the entertainment field even though they don't make the money that rock stars and movie stars do (unless you're someone like Rowling). It is best to have your taxes done at least for the first year you make money as a writer by a professional. The problem that will arise is that if you don't make money on a regular basis doing editing or writing and you end up negative for the year with deductions (which often happens when working on a novel because of research and submission fees and various other stuff) then you run into IRS people trying to call what you do a hobby instead of a job. You aren't allowed to deduct things for a hobby. This becomes problematic. If you loose money three years in a row without profit then there are other problems. So, see a CPA! Period!

People will tell you that you only need to keep records for a few years then you can throw them away. Don't believe it. While an initial review of your records for audit will only go back 8 years, if they find something in that eight year period all bets are off and they can go back until

you were born. If you don't have records to back up your stuff they will make things up and force you to pay not only what they think you should have owed but penalties and interest on what you should have sent in compounded from the date it should have been received. You can get thousands and thousands of dollars in fees and interest on a relatively small amount of money this way. **Keep your records for at least 15 years!!!** (As a personal aside, I am the one that brought this up to people. My family has a long history of self-employment and business ownership. My grandparents were audited at least a dozen times in their lives. My grandmother kept EVERYTHING. My aunt and uncle faced the IRS 5 times and actually got money BACK thanks to record keeping. My father refused to pay taxes for 10 years while he and my mother were married. When they divorced and my mother back-filed her taxes the IRS came for him. He lost his business, his property, had liens on his car and belongings. They sold everything at auction, had him in jail for a few months, and basically bent him over without a hand job. And you can never get rid of tax liability. You can file for bankruptcy but it doesn't negate tax debt. You are screwed forever with this stuff. I'm serious. Don't even think about it. Go to an accountant.)

How to prove you are a writer and not a hobbyist is an important subject. You need to keep records of what you do. Keep your rejection slips no matter how much you want to burn them. Have a folder for each year called "rejections" that you can add to the accordion file with your receipts for end of year records. Keep a copy of all submission letters - printed and on file - as well. Having them on the computer is not enough. They need to have dates and be printed because if the computer blows and you lose them you are screwed. Keep a separate area where you work on writing and nothing else. Even if it is only just a desk space that is your writing area this is important. If the IRS comes knocking you can walk right to the desk with your notes and reference books and say "here is where I do my writing." Keep postage receipts for sending out your letters. Keep it all! You may even want to keep a writing log - a hard paper binder where you put down the date, the time you start writing, the time you end writing, and what you were writing (short story, novel with name, etc). This is not only helpful for you if the IRS comes to your door but it also tells you how long it takes you to write different kinds of things. It tells you what your time is worth. If it took you four weeks to write a short story that you get paid, one time, 400 bucks for then you made 100 a week, or 14 bucks a day. If you write that story in two days in four 5 hour shifts you spent 20 hours on it then you made 20 an hour. Much better. If you intend to make your living as a writer then you need to think about the amount of time you spend writing vs what you get paid for that writing. So hour logs can help you find out if you need a day job.

Finally, all of the participants mentioned that joining professional organizations is not only a write off on your taxes but that you can get work from these associations as well as contacts with other writers and lawyers and CPAs that specialize in working with people that do freelance work. SFF.net, Locus, Publishers Weekly, and others were mentioned.

And that's what we covered about taxes. Again, this is just FYI kind of stuff and the best advice I can give anyone that works for themselves in any field is to make friends with a CPA as fast as possible.