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AN ACCOUNTING SYSTEM FOR THE
ARTIST, DESIGNER, AND CRAFTSMAN

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CANDIDATE FOR THE MASTER OF FINE ARTS DEGREE IN THE
COLLEGE OF FINE AND APPLIED ARTS OF
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This thesis is dedicated to all who make the business of Art pleasurable.

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INTRODUCTION

The purpose of this thesis is to develop a simple working accounting system for the individual artist-designer. The goal is not to inflict on an unwilling user a pattern that chafes and irritates, but a worthwhile system to produce information useful in the conduct of doing "his thing".

The system should be so simple that it can be handled with a minimum of detail and forms.¹ The system should be adaptable to use by artist, assistant, or wife, etc.

The principal technical accounting problem for the artist is that of taxes. A less technical problem, however a real one, is what should the artist charge for his work.²

Since every endeavor or enterprise has accounting requirements which are sufficiently similar, there is a basis for establishing uniform principles. All concerns receive and disburse goods, cash or services, own properties, create liabilities, and earn profits or sustain losses.³ Since these factors are universally similar, they enable certain principles to be universally applied. However, this is not meant to imply that the application to any two cases will always be the same. Each artist may have problems peculiar to himself which must be met by special systems.⁴

¹Marjorie D. Jones, ed., Portfolio of Accounting Systems for Small and Medium-Sized Businesses, Vol. I: Introduction to Systems, by William H. Tanner Jr., (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1968), p. 5.

²Ibid, p. 8.

³Ibid: Advertising Agencies, by Dan C. McKay; Architects, by Thomas J. Kiernan; Associations and Clubs, by Donna H. Sharkey; Auction Galleries, by John J. Welsh; Builders and Developers, by James Ten Hoeve; Dentists, by Richard V. Bibbero; Engineers, by George Keresidis; Interior Decorators, by John R. Malson; Photographers, by John B. Owens; Physicians, by Richard V. Bibbero; Printers, by Arthur W. Pagano.

⁴Ibid, p. 5

Perhaps now is the time to consider yourself being in a business. If you don't then the IRS will insist your endeavor is pleasure and that net income derived is all taxable. You may not claim any losses and few expenses.⁵

My experience and that of others has shown that the artist who considers himself a business enterprise, engaged in an activity for profit has many more benefits than the artist in it for pure pleasure.⁶ It is a technicality, but none-the-less, noteworthy. The artist is not prostituting his values, I believe, by stating he is a business. After all, isn't the business of art a pleasure?

Once a year you are required to pay your taxes. Therefore you should establish a time period for keeping your records for taxes. Most businesses do not begin their operation on January 1, so they adapt a fiscal year policy. This means that their record keeping, over a twelve month period, does not coincide with the calendar year. It would provide problems in extra record keeping if the individual artist did the same. I would strongly recommend you adapt the calendar year for your record keeping. It's simpler, regardless of what time of the year you start your business.⁷

⁵Milton R. Simon, Accountant and Auditor, various personal interviews, 1972-1973.

⁶ Edwin Marcum, "Taxes for the Craftsman", Craft Horizons, (February 1963), p. 56.

⁷Milton R. Simon, Accountant and Auditor, Various personal interviews, 1972-1973.

EXPENSES AND DEDUCTIONS

If your income is in excess of \$400.00, you are liable for a self employment (F.I.C.A.) tax of 7.5% up to \$9,000.00 per year.⁸ This may be paid quarterly or annually. Your local Social Security office will provide you with the local address for deposit of this tax.

As a business you may deduct all costs of materials, paints, canvas, wood, glues, inks, clays, and other items which are necessary to perform your creative activity. Studio, shop rent (or mortgage payments), insurance, heat, light, legal and accounting fees, repairs, maintenance, agent's fees, subscriptions, telephone, books, are all deductible. So is small equipment that has a useful life of less than one year. Any equipment such as potters wheel, saws, kilns, welding equipment that has a useful life of more than one year can be depreciated over the life of that equipment.⁹ You should check with your local IRS for their very liberal depreciation rules.

There is also a term you might apply called "Investment Credit". Depreciable items such as mentioned before, that have a useful life of seven years or more, can be used as credit against your income tax. This is true only in the year of purchase.

⁸ Edwin Marcum, "Taxes for the Craftsman", Craft Horizons, (February 1973), p. 56.

⁹ Ibid, p. 72

You may take 7% of the purchase price and deduct it from your income tax and it does not affect the normal depreciation of that item.¹⁰

Your automobile, van or truck, if used to transport your work for any business reason, may also be deducted. Generally the IRS will accept a \$0.12 per mile deduction on the first 15,000 miles and \$0.09 per mile for over 15,000 miles.¹¹ Most business people use an average \$.10 per mile to avoid extra computations. The more difficult way would be to itemize all specific vehicle expenses (gas, oil, insurance, depreciation, etc.) and take an appropriate percentage deduction when used for business. However, if a vehicle is used a great deal, the business can deduct the cost of the vehicle, insurance, repairs, and all other expenses if it is purchased in the name of, and used exclusively as a business vehicle.

Travel expenses incurred while away from home and studio for any business reason is another deduction allowable. These expenses might involve train or airplane fares, meals, lodging, tips, laundry, telephone, taxi and some entertainment costs. It must be pointed out here, that bringing family or friends along is not a legal deduction. The IRS has stringent regulations regarding this.

¹⁰Ibid, p. 56.
¹¹Ibid, p. 72.

Educational expenses such as tuition, books, travel, etc. are deductible if the subject or subjects are taken to improve or maintain skills necessary to your profession.

If your studio or shop were part of your living quarters, you may deduct the percentage of the space used for work. The total cost of running the premises such as rent, mortgage payment, gas, electric, is not deductible, only the percentage of the cost which relates to the percentage of the premises that is a working area.

In the past, an artist donating a work of art to a charity could deduct the market value of that art from his taxes. This is no longer the case. The artist may now only deduct the cost of materials in that work. He may not even deduct his time.

Also under business expenses, which are deductible, would be the artist taking a temporary job away from his studio and home. A typical situation might be a teaching position offered the artist out of town. As long as he maintains his original home and/or studio, he may deduct the cost of transportation to and from school as well as his cost of living while at that school. It is in a sense a business trip and would generally include the same expense deductions.¹²

¹²Ibid, p. 73.

As I have already stated, businesses can also sustain losses. Expenses in excess of income are deductible. I think it wise to consider yourself an employee of your art business. You should estimate your expenses early, and make regular paychecks to yourself, as well as regular estimated tax payments. It is one way of looking ahead to see if you might make a profit or sustain a loss. Either way, you might be able to make adjustments in your work and living habits to avoid the latter.

Historically, artists have lean and fat years. If you have had moderate success financially for a number of years and then an exceptionally profitable year comes, you might have a serious tax problem. The IRS sometimes allows a tax break for that year. It is called income averaging. To qualify, you must add up your taxable income for the previous four years, compute 120% of that total, and subtract it from your current higher taxable income. If your result is \$3,000.00 or more you are eligible.¹³ I would suggest you check with your local IRS for the forms to fill out.

¹³Ibid, p. 72.

The actual daily keeping of records should be second nature to anyone in business. For the artist I suggest a simple process that I have used successfully for almost 13 years. Whenever a purchase is made the receipt is marked for reference and placed in a folder labeled "Accounts Payable". This folder is a regular manila file folder that will take 8½" x 11" papers, and is marked for the current calendar year. A second folder, also marked for the current calendar year, is labeled "Accounts Receivable". This folder contains copies of all invoices made during the current calendar year. A third folder is used for each project activity. These project folders I label numerically. The first number will be the year (73), the second number will be the month (5), the last number will be the day I received or began the project (12). The final number system 73512, will quickly tell me that in 1973, I began work on that project May 12th. It also gives me a marking reference system that I apply of purchase receipts as well as invoices. I will also include in the project folder a daily accounting of time spent. This may be on a separate paper or on the inside back cover of the folder. If I need to estimate a similar project in the future, I now have a quick reference to expenses and time spent.

Most businesses expect to be paid for their services or products within 30 days. Therefore you might expect not to be paid for your work until 30 days after the date of your invoice. This means that once a month you should check and pay your bills from your "Accounts Payable" folder.

The "Accounts Payable" folder will at the end of the calendar year, contain your record of all expenses and bills that would constitute all your tax deductions. The "Accounts Receivable" folder will, at the end of the calendar year, contain a record of all the monies you have received and earned.

With this folder system you have a remarkably simple accounting and record keeping system as well as a way of making better estimates in the future.

It is now a matter of taking the "Accounts Receivable" and the "Accounts Payable" folders to a local tax man for your yearly tax preparation.

CLASSIFICATION OF TYPICAL ACCOUNTS

The following typical classification list is for the artist who wishes to use a ledger book or to make out an annual report to himself or others.

Classification of typical Accounts

Balance Sheet Accounts

A. Assets

1. Current: Cash in Bank
 Petty cash
 Tax savings account
 Accounts receivable
2. Fixed: Automobile, van or truck
 and Allowance for depreciation
 Furniture and fixtures
 and Allowance for depreciation
 Studio or shop property (if owned)
 and Allowance for depreciation

B. Liabilities

1. Notes payable (loans)
2. Accounts payable
3. Federal payroll taxes (estimated)
4. State payroll taxes (estimated)

C. Net Worth

1. Artists investment
2. Artists withdrawals
3. Artists advances
4. Net profit or loss

Income and Expense Accounts

A. Income

1. Artists' fees and commissions
2. Teaching or lecture salary

B. Expenses

1. Salaries
2. Rent on studio property and land
accumulated depreciation
3. telephone
4. Insurance
5. Interest on notes
6. Studio or shop supplies
7. Postage and/or freight
8. Bank service charges
9. Legal and accounting fees
10. Work materials
11. Utilities
12. Donations
13. Dues and subscriptions
14. FICA tax
15. Unemployment taxes
16. Personal property taxes
17. Other taxes
18. Automobile or van depreciation

19. Furniture depreciation
20. Automobile expenses
21. Studio or shop maintenance and repair
22. Promotional
23. Travel
24. Miscellaneous