



CARFAC

CANADIAN ARTISTS REPRESENTATION
LE FRONT DES ARTISTES CANADIENS

Preparing for your Tax Return

By Greg Graham for CARFAC Ontario © November 1993.
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While artists, like so many others, are tempted to put off "doing their taxes" until the very last minute, a little bit of advance preparation and planning can avoid a lot of the headaches that we all associate with the process.

From a tax and accounting perspective, the self-employed artist is first and foremost an independent small business. As such, tax preparation begins with an account of business-related expenses and revenue. Accounting procedures do not need to be elaborate, but they must be organized.

It is a good idea to regularly reconcile your receipts and invoices with your bank account, and to review your cash flow. Be sure to follow up with outstanding invoices, and to avoid paying your own bills late so as not to incur interest charges. Keep an ongoing inventory of your artwork, and materials that you have purchased to make it.

Hopefully, you have kept copies of receipts, invoices, transaction records, bills of sale, exhibition contracts, etc., that pertain to your art-related business. The simplest way of keeping track is to use accounting software, and to file paper copies of receipts and invoices separately by category, as they occur, and to keep a summary statement.

Artists are advised to get copies of relevant information bulletins and guides from the Canadian Revenue Agency. A revised tax folio, [Income Tax Folio S4-F14-C1, Artists and Writers](#) has been available from CRA since 2020, and replaces the former Tax Bulletin IT504R2 - Visual Artists and Writers.

To get a better understanding of how this works in practice, let us go through a standard summary of expenses and revenue with reference to common items in an artist's business.

The following is not a complete list of all possible revenues or expenses you may encounter in

your business.

Expenses

Accounting and Legal Costs: If you pay for accounting, legal, or bookkeeping services related to your art practice, you may claim the totals as a business expense. You may *not* however, claim a fee for tax preparation alone. If an accountant is "doing your taxes", get separate receipts for any accounting or bookkeeping that is beyond the simple preparation of the return.

Advertising and Promotion: Artists have publicity expenses. The production of publicity postcards or brochures and expenses borne by the artist for an exhibition opening are common examples. If artists are asked to share any publicity costs with a dealer or agent, they must get receipts for their share. Keep examples of self-generated promotional materials as well as receipts. The costs related to preparing a submission, portfolio, or documentation of your work may also be claimed.

Artists who are constantly hounded for "donations" and reminded that "it's good for exposure" should bear in mind that many businesses claim the supply of goods or services as a promotion or public relations expense, rather than as a charitable donation. If you are planning to do this, make sure that the amount claimed reflects your actual costs rather than your retail price. Promotion expenses are 100% deductible, but charitable donations generally are not.

Membership Dues, Professional Associations, etc: Fees paid to professional associations such as CARFAC and to artist-run centres are allowable business expenses.

Conventions, Symposia, etc: Costs associated with conventions, conferences, symposia, and workshops related to your business may all be claimed.

Transportation Costs: Amounts paid for delivery or transport of art works should be kept separate from "travel" costs for yourself. Also, vehicles (e.g. a van) that you rent specifically to transport works should be accounted for separately from other auto expenses.

Equipment Rental: Did you rent any equipment to produce artwork (e.g. cameras, soldering or welding equipment, etc.)? Short-term rental of facilities such as darkrooms or media arts production or editing facilities may be claimed as either equipment rental or property rental, as long as your accounting is consistent.

Insurance: Allowable costs include business insurance on studios, insurance on inventory, and insurance on delivery or transport.

Interest and Bank Charges: These may be claimed provided they relate to the business. A separate bank account and/or credit card for business purposes will facilitate this.

Electricity, Heat, Water: These are allowable as long as they relate to your business premise. Artists using large amounts of electricity (e.g. in a kiln) or similarly metered utilities may wish to have separate meters for business purposes. Artists who work from home, see notes below.

Management and Administration Fees: Include fees to consultants, agents, etc. If your relationship with a dealer or agent is such that you are paying a fee or commission to them (other than them paying you for sales, less commission and fees), you should claim here. Check with your dealer(s) so that your accounting is consistent with theirs. If you are claiming the commission as an expense, you must also claim the full amount of the sale as revenue (i.e. including the dealer's portion).

Meals and Entertainment: These may be claimed only if incurred to establish a business relationship in the pursuit of profit. Only 50% (with a few exceptions) of the actual costs may be claimed, including applicable taxes and tips. If you are claiming this, keep very careful records of who, why, what, where, and when.

Office Expenses: These may include postage, stationery, telephone, etc. Long distance charges should be noted for business purposes. Any "expendables" such as labels, envelopes, etc, used in the "office" rather than "studio", should be claimed.

Taxes: Property taxes as they apply to business premises, business taxes, and any PST, GST, and/or HST expended should be accounted for. GST registrants or artists claiming PST rebates should already have these accounts.

Rent of Business Property: Artists renting a premise (studio, workshop, darkroom, etc.) other than in their home, should claim costs associated with it. Many artists may rent a studio for a short period of time and work from home at other times, or they may "time-share" a facility with others. Account for the actual costs apportioned to you.

Salaries: Salaries of assistants, technicians, models, etc. that are employed by the artist must be claimed. In many cases, the artist as employer may have to account for deductions at source (taxes, EI, pension) on behalf of employees. If you hire regular or long-term staff, get an *employer number* and information kit by contacting your local tax office.

Travel Expenses: Any travel expenses related to business are allowable expenses. Travel to make art (e.g. painting excursions), to market (e.g. attend exhibition openings, meet buyers), or to do art-related research (e.g. visiting a museum) may be claimed. Expenses for accompanying family or companions are not generally allowable unless they have a business purpose for accompanying you (e.g. Is your spouse also your agent or model?).

Specific expenses related to use of your home or personal automobile for business purposes should be accounted for separately.

If using your home as a business premise, you must keep receipts for rent, heat, power, taxes, and mortgage interest and apportion the same only to those areas used exclusively for business purposes. You cannot claim a home studio that is also used as a bedroom. To apportion costs, take the percentage of the total area used for business purposes and apply the same percentage to the total household costs. (see Resources below). Use of a home telephone for business purposes may be apportioned on a ratio of time used for fixed costs. All business-related long-distance calls may be claimed.

Similarly, use of a personal automobile must be specifically accounted for. A log of auto usage for business purposes should be kept, recording kilometres driven and for what purpose. At year-end, this is used to calculate the percentage of total use, and all operating costs of the auto (gas, maintenance, registration, insurance, etc.) may be apportioned accordingly (see Resources).

In addition to the general business expenses, artists must keep very close account of the specific expenses related to their practice:

Art Supplies: (Material Expense) may include the costs of canvas, paint, paper, film, zinc plate, clay, etc. According to your practice you should account for materials used such as steel, marble, concrete, lumber, preservatives, chemicals, and so on. Many artists use materials not generally thought of as "art supplies", which should nevertheless be claimed if used in the production of artwork.

Processing Expenses: include amounts paid for film processing, subcontracted fabrication, etc. These will vary according to practice.

Framing, Mounting, and Installation Costs: may need special categories according to the nature of the art practice.

Research Materials and Resources: may include books, software, magazines, etc., if applicable to practice.

Model Fees and Costuming Expenses: may need special consideration if they occupy a significant portion of your costs.

Capital Equipment: includes any major purchases that are used in your business for production or on-going operation. These may include cameras, kilns, computers, presses, power tools, etc. A separate account must be kept as capital equipment is "depreciated" as an expense over time (generally five years).

Income

An artist's revenue is also dependent on the nature of the practice; however, some common items to be included are listed below:

Sales of Works of Art: You should report all income from sales of artwork. Depending on arrangements with dealers and agents, this will either be the price you actually receive, or the full selling price. If reporting the full selling price, be sure to deduct commissions and agent fees as an expense.

Copyright Licensing

Reproduction Royalties: Any royalties from use of copyright reproductions (ie: print, digital, audio-visual, reprography) must be reported. Keep "advances" separated from residual payments.

Exhibition Royalties: This includes "artist fees" that artists are paid for public presentations of their work. It is a category of copyright royalties that should be separately reported from reproductions, especially if they are significant.

Copyright collectives provide a statement of any royalties they collect on behalf of their members.

Honoraria: Fees for speaking, public appearances, and other professional services fees must be reported as income. However, any costs related to such activities may be claimed as expenses.

Merchandising Income: This may come from "spin-off" merchandise related to your art, such as reproductions, industrial applications, etc. Often these may be licensed and claimed as copyright royalties. *Do not report the same income twice.*

Grants and Awards: These are claimed as income. The first \$500 of a grant or bursary is not taxable. Any reasonable expenses incurred to fulfil conditions of a grant or bursary are fully deductible, with some exceptions (See [Income Tax Folio S4-F14-C1, Artists and Writers](#) for further details).

The differences between your art-related expense and your art-related income determines either your loss or profit on your art-related business. A loss may be claimed against other sources of income provided your art-related business includes activities undertaken in pursuit of profit, rather than personal endeavour. Special consideration is given to artists in determining whether the "activity is undertaken in a sufficiently commercial or business-like manner." See [Income Tax Folio S4-F14-C1, Artists and Writers](#) for matters to be considered in this regard.

Artists wishing to claim a donation of a work of art are reminded that the definition of qualifying *donee* for a "Canadian Cultural Property" is restrictive. The maximum tax advantage requires certification by the Canadian Cultural Property Review Board. Institutions such as Art Galleries and Universities usually qualify but must request the certification. Further details are provided in [Income Tax Folio S4-F14-C1, Artists and Writers](#).

Resources

In addition to the General Tax Guide, the following may prove useful:

[S1-F2-C3, Scholarships, Research Grants and Other Education Assistance](#)

[S1-F3-C2, Principal Residence](#)

[S4-F2-C2, Business Use of Home Expenses](#)

[S7-F1-C1 Split-receipting and Deemed Fair Market Value](#)

[IT-407R4 Disposition of Canadian Cultural Property to Designated Canadian Institutions](#)

[IT-521R Motor Vehicle Expenses Claimed by Self-Employed Individuals](#)

Just as every artist's practice is individual, therefore the accounting must be geared to the reality of the practice. Specific questions that cannot be answered by your local tax office may be referred to CARFAC, and we can help refer you to an appropriate specialist.

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