

AbaF

Managing lump sum payments

Practising visual artists generate income in a variety of ways that can include:

- art sales from exhibitions
- art sales from gallery stockrooms
- commissions
- sponsorships
- grants
- prizes or awards
- residencies

Some artists may also supplement their income through full, part time or casual work. As most artists' income is derived from exhibition sales or commissions which are irregular in nature, it is essential that they learn to manage and budget their income in a professional way.

Most artists exhibit annually with one major show and hope to sell sufficient works to be able to see themselves through to the next show.

In discussing strategies for the irregular nature of income for artists, it is important to distinguish between the different stages of an artist's career:

- emerging artists
- mid-career artists and
- established and or financially secure artists.

Different strategies need to be put in place at different stages of an artist's career.

Emerging artists

Generally, artists who are commencing their careers find it difficult to earn sufficient income from their art to sustain themselves. It therefore becomes necessary to supplement their income by seeking full, part time or casual employment.

At the early stages, emerging artists often have difficulty saving and will often lead a hand-to-mouth existence, until their careers take off. Most have to economise, share studio facilities and other costs in order to survive.

The proceeds of their art sales often go towards paying off debts that they have incurred from family or credit cards, rather than being able to budget and plan for the future.

Most emerging artists incur losses in their first few years. Provided they meet the Australian Taxation Office guidelines for "losses from non-commercial activities" or are under the \$40,000 income limit, they are eligible for some income tax refunds, which can also assist in paying off any debts and or reinvesting in their art practices.

It is difficult to budget, when income is not only sporadic but also low and in these circumstances, common sense should prevail. For example, it is often a good idea for an artist to open a separate bank account to place money from a grant for a specific project. This account can then be accessed specifically for the grant project and make it easier to budget and acquit because it is not being used for general living expenses.

Mid career artists

Mid career artists have established a exhibition history, developed a reputation and are often represented by a commercial gallery. However, they are not guaranteed regular sell-out shows.

Most of them still need the security of a regular income from other forms of employment.

It is during this period that artists need to be aware of their costs and expenses of mounting an exhibition, their monthly overhead costs, as well as their living expenses. This will allow them to budget and plan their commercial life.

When these artists have a commercially successful exhibition, or are in receipt of prizes or awards, they need to consider the income tax implications, the GST implications and to provide for liabilities in these areas. It is often recommended for artists to have separate bank accounts to manage GST liabilities and tax.

Established artists

Established artists are those who are able to live totally from the proceeds of their art sales. They are often in receipt of large amounts of income from their art sales or from prizes.

In these cases, it becomes essential that consideration be given to GST liability and income tax liability and provision is made that funds are available to meet these liabilities, even if they are not due immediately.

Artist often need to re-consider their business structure as it might be advisable to become a company if employing staff or to reduce tax liabilities.

Major issues to be addressed

No matter what stage an individual's career is at, it is important that the following issues are considered and managed appropriately. These include:

- Goods and Service Tax (GST)
- income tax
- superannuation
- gifting
- commissions

Some artists get themselves into financial trouble by not providing for GST and for income tax. Making allowances for GST and income tax are important aspects of managing lump sum payments effectively.

GST

If the artist is registered for GST, then 1/11th of the sale proceeds must be remitted to the Australian Taxation Office.

At times, there is a substantial timing difference between the receipt of the funds from the sale of artworks and the eventual payment to the Australian Taxation Office. It is not uncommon that by the time payment of the GST is due, the artist has spent the funds.

It may assist some artists to open a separate bank account and deposit approximately 10% of the proceeds into this GST bank account.

Income tax

An artists' liability for income tax is not only determined by his or her income but also by the expenses incurred in the production of the work [which includes studio costs, administration costs, travelling expenses and similar costs].

In addition superannuation contributions and gifting of artworks under the Cultural Gifts Programme can have a substantial impact on the tax liability.

This makes it even more important to plan and to provide for the tax liability resulting from all the above considerations.

Superannuation

Some artists may wish to avail themselves of the ability to make superannuation contributions that will lead to a tax deduction and thus reduce the artists' income tax liability.

Subject to certain conditions, the artist will be allowed to claim either \$50,000 [if aged under 50 years of age] or \$100,000 if aged over 50 years of age, as a superannuation contribution. However, there may be circumstances where it is not advisable to contribute the full amount.

Superannuation contributions are a forced saving for retirement which may not be suitable for everyone. For example, a young artist may not be willing to lock away a large amount into his superannuation fund, which cannot be accessed until the taxpayer has reached the retirement age of 55 years of age.

He or she may have other priorities, such as purchasing a house, paying off a mortgage or other debts.

Gifting

Under the Cultural Gifts Program, a deduction is available for the market value of the artwork gifted, if donated to an approved institution, such as public art gallery, museum or regional Gallery.

In addition, under the philanthropy programme, similar deductions are available, where the artwork is donated to a recognised charitable institution.

Naturally, these deductions are governed by guidelines, which artists must adhere to in order to obtain a tax deduction, such as:

- the work gifted must not be trading stock, but must come from the artist's personal collection;
- the work must have been held for at least 12 months.

Commissions

Artists are often awarded commissions for large projects, such as sculptures or artwork for a building or public space, where the cost of producing the work can be quite substantial.

It is important to factor in the costs that are part of manufacturing the commission, be it a mural, sculpture or other artwork.

It is essential that artists are aware of the costs involved in producing the commission and in fact ensure that the costs are locked into a contract so that there are no cost over-runs.

Conclusion

Visual artists need to budget, they need to adopt a financially professional approach to their project and above all get guidance and assistance from competent financial advisors.

Disclaimer

This is not advice. Readers should not act solely on the basis of the material contained in this fact sheet.

Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that formal advice be sought, before acting in any of the areas covered in this Fact Sheet.

References and further reading

- Australia Council for the Arts, *Artsworld: A report on the Australians working in the arts*, Sydney, June 1997
- *Australian Master Tax Guide*
- Australian Taxation Office – www.ato.gov.au
- Rupert Myer, *Report of the Contemporary Visual Arts & Crafts Inquiry*, Commonwealth of Australia, Canberra, June 2002
- Throsby & Thompson, *But What Do you Do for a Living?*, Australia Council for the Arts, Sydney, December, 1994

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