

Statement of Sandra Karas to the House Ways and Means Committee

Introduction

Chairman Neal, Ranking Member Brady, thank you for the opportunity to testify regarding an unintended consequence of recent tax reform. I am a certified accountant and tax attorney in the State of New York. I also serve as the Secretary/Treasurer of Actors' Equity Association, representing over 51,000 professional actors and stage managers who work in live professional theatre, and serve on the New York board of the Screen Actors Guild-American Federation of Television and Radio Artists, which represents more than 160,000 members. I am testifying on behalf of members of Equity and SAG-AFTRA.

I process thousands of tax returns for actors, stage managers and performing artists in the entertainment industry through my personal practice, and through the work I do running a Volunteer Income Tax Assistance (VITA) program at Equity's New York office.

Performing Artists Face Unique Structural Challenges

Professional performing artists like actors, stage managers and musicians are employees, not contractors, who often spend thousands of dollars in income on necessary expenses. What makes the field even more challenging is that, unlike many other employee-classified workers, performing artists incur numerous regular expenses while they seek work. That includes expenses like headshots, video reels, travel to out of town auditions, the costs associated with self-taping auditions and training. Once they secure employment, they are on the hook for another set of expenses, such as agents' and managers' fees. Over the course of the year, these costs range from 20 to 30 percent of an actor's gross income – sometimes even more.

What's at Stake: Performing Artists Face Massive Tax Increases

Since the recent tax reform, I have looked at dozens of tax returns of performing artists and reworked those tax returns under the new laws to see how individuals who work in the performing arts are impacted. The vast majority of members of Actors' Equity and SAG-AFTRA are not celebrities, but rather working and middle-class taxpayers. Unfortunately, starting this year, these working Americans are now facing tax increases. For example, a performer with an adjusted gross income (AGI) of \$40,247 in Washington State who paid \$5,486 in income taxes in 2017 will now pay \$7,099 – an increase of 29 percent. A Pennsylvania performer with an AGI of \$60,660 is paying 27 percent more this year.

As employees, these workers previously used miscellaneous itemized deductions to deduct their expenses. And even with the higher standard deduction in the new tax law, they are grappling with significant, unintended tax increases.

Correcting an Unintended Consequence: Update the Qualified Performing Artist Tax Deduction (QPA)

Signed into law in 1986 by President Ronald Reagan, the QPA, as codified in § 62(a)(2)(B), is a provision of the tax law that allows qualifying performing artists the ability to deduct expenses incurred over the course of their employment. This is an "above-the-line" deduction. Despite countless revisions to the code since 1986, the QPA remains a part of the code, and for good reason. Congress recognizes the valuable role performing artists play in our economy. For example, according to Americans for the Arts, attendees at nonprofit performing arts events spend more than \$31 per person per event beyond their admission on things like parking, babysitting and meals. Still, despite these economic benefits, many actors struggle to make ends meet, often working two or more jobs and constantly looking for the next role. It is understandable that when one thinks of an actor, a rich celebrity comes to mind, but the truth is our average members are working class Americans earning less than \$50,000 a year.

The eligibility for the QPA has remained unchanged since it was passed – limiting the adjusted gross income of the taxpayer to \$16,000. Actors' Equity Association and Screen Actors Guild – American Federation of Television and Radio Artists request that the AGI ceiling of the QPA be raised to \$100,000 for single taxpayers and \$200,000 for a couple filing jointly, with a built-in phaseout to help transition the taxpayer out of the deduction.

Conclusion

The entertainment industry is one of our most vital economic engines, creating and retaining jobs, not just in New York and Los Angeles, but in small- and medium-sized cities across the country. According to the newest data from the International Intellectual Property Alliance, the value added annually by the core copyright industries, which includes the arts and entertainment sectors, to U.S. GDP reached more than \$1.3 trillion. The industry is also booming. During the period 2014-2017, these industries grew at an aggregate annual rate of 5.23 percent.

All of this economic activity requires a skilled workforce. The overall goal of the Tax Cut and Jobs Act was to give middle-class Americans a tax break. Updating the bipartisan QPA – which has been on the books since President Reagan – is good for the economy and in keeping with the goals of tax reform.

Respectfully,

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