



Regions Wealth Podcast

Episode 25: Money on Music Row: Financial Planning for Music Industry Professionals

The ability to earn a living as a musician or performer is a lifelong dream for many, but for those who've made it, financial planning can be a challenge. From juggling multiple sources of income and royalties to planning for taxes and saving for retirement, those in the music industry have a lot to manage. In this episode, Senior Vice President and Private Wealth Advisor Lisa Harless joins us to discuss financial planning for music industry professionals.

Episode Transcript

Sarah Fister Gale:

Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host, Sarah Fister Gale. The ability to earn a living as a musician or performer is a lifelong dream for many, but for those who've made it in the music industry financial planning can be challenging.

From juggling multiple sources of income and royalties to planning for taxes and saving for retirement, those in the music industry have a lot to manage. Joining me remotely is Lisa Harless. She's a Senior Vice President and Private Wealth Advisor for Regions Bank. Lisa, thanks for joining us today.

Lisa Harless:

Thanks Sarah. I'm excited to be here.

Sarah:

In this episode of Regions Wealth Podcast, we're discussing financial planning for music industry professionals. We've taken some frequently asked questions from a bunch of people and developed a character who needs your help. Let's listen.

Cheryl:

"Hi, my name is Cheryl. My daughter, who I'll call Kelsie, is an up-and-coming singer-songwriter here in Nashville. I've been managing her career full time since she was young. Over the last few years, Kelsie's career has really begun to take off and my role has started to shift from "stage mom" to full-blown manager. While I'm confident in my ability to manage her career, I don't know if I'm the right person to be managing her money. Speaking as "mom", I think she needs professional support and guidance. The reality is, this industry is fickle. While she's doing good now, we can't predict the future — we can only plan for it."



Sarah:

Lisa, given that you're based out of Nashville, this is right in your wheelhouse. In what ways do you typically work with music industry professionals?

Lisa:

Yes, Sarah. Regions has a team of bankers and wealth advisors dedicated to understanding the music industry. How the revenues flow, who the players are. Our client base includes everyone from the songwriters to the entertainers, recording engineers, producers, video directors, anyone who derives their income from the music industry. Those are the folks that we work with. Many of our clients are self employed and that carries its own challenges and nuances.

Sarah:

At what point in their career should music industry professionals start working with a financial advisor?

Lisa:

My recommendation is that they would do that early on, I mean right from the outset. They can meet with a financial professional, get a game plan, then find out what aspects of their career they need to be thinking about. For example, they could meet with an entertainment banker and entertainment wealth advisor who understands their industry, the unique cash flows, challenges they'll have. I think something that's unique to the music industry professionals is that they're likely going to need a business manager. So that's the person that they will hire to oversee all aspects of their financial world. And as Regions Entertainment Bankers, we work very closely with the business managers. Because the business managers are the ones who are helping the clients getting their bank accounts established, setting up insurance, negotiating mortgage terms, often reviewing contracts before the attorney takes a look. A business manager is a very key person within the music industry.

Sarah:

Wow. So it sounds like finding someone with real industry experience is key to a successful financial relationship.

Lisa:

Sarah you're exactly right. Having seasoned professionals with experience in this industry is absolutely paramount. As an entertainment banker, I've been instrumental in introducing so many of my clients to the folks who can help them. For instance, songwriters will want to affiliate with one of the Performing Rights Organizations. We refer to those as the PROs. It's important for my clients to have a personal relationship with someone at a PRO. I'll also introduce them to a wide range of connections from entertainment attorneys, to the



entertainment accountants. The client can interview each of them and then find one that they work best with.

Sarah:

You mentioned the importance of a business manager. What should someone in Kelsie's position know about working with a business manager?

Lisa:

When an entertainment professional hires a business manager, they're hiring someone to work with them 12 months a year. There's typically a monthly fee for that service. Sometimes it might be billed as a percentage of earnings. For many up and comers like Kelsie, right now, she might not be able to afford a business manager. And I know her mom, Cheryl has been instrumental up until this point. But once she can afford one, oh, the business manager will play a key role. That business manager will make sure the bills are paid, all funds are accounted for, taxes are current. The thing I like about having a wealth advisor and a solid business manager is you have two sets of eyes looking out for you. Then you've two key members working together on your financial team to help maximize your banking relationship.

Sarah:

So which comes first, a business manager or an entertainment banker?

Lisa:

In many cases with the newer up and coming artists, singer-songwriters many times it is the banker, the wealth advisor or the entertainment banker that is that first introduction. Many times the bank will have resources available to the client as part of their banking relationship. And then once they are to the point where they have the resources and need a full time business manager, then we can help with that introduction and transition them.

Sarah:

That makes a lot of sense. OK, let's listen to a little more of Cheryl's story.

Cheryl:

"Kelsie's doing good financially and has been able to live off of her earnings as a musician. However, I do have a few concerns... the type of things that aren't really front-of-mind for her as a young adult. For example, the importance of financial planning. She needs to have a plan for those times where she might be without income for a long period. Now, I'd say that the impact of coronavirus really helped her see the light on this one. She's been staying afloat without her usual income from live performances, but only because her papa and I were diligent about saving all of the money she earned before she turned 18. Without that savings fund, she would've been in a really tough spot.



And then there are the other things, like retirement planning. Her income is ever-changing, and due to the nature of her work, the future is unknown. I want to make sure she's making the right moves now so that, regardless of what happens in her career, she'll be on-track for retirement. Oh, and, of course, taxes. We're working with our normal family accountant for those, but is he really the right person to be managing that for us?"

Sarah:

That seems like a great place to start. Let's talk about the basics. How is financial planning unique for those in the music industry and what factors do they need to keep in mind?

Lisa:

One way it's unique is the income is very cyclical compared to say a salaried employee who knows exactly how much they're going to earn. That employee may have a 401(k) company retirement plan they're contributing to. The music industry in contrast has so many clients who are self-employed. There's uncertainty when it comes to financial planning. Now for some of our clients, this doesn't scare them whatsoever, but what's key is that because our clients are sole proprietors, they are their own business. Many times, our clients will set up an LLC, say for asset protection. But for the most part, as I said, our clients are their own business. They will have to be very proactive in taking control of their retirement planning. I know many of my clients are looking for ways to even out cashflow. So we've talked about Kelsie — she's a singer-songwriter — she might want to try to get a publishing deal from a music publisher who would pay her a monthly draw in exchange for a commitment to write a certain number of songs each year. The publishing company could then work to amp up revenue potential. That monthly draw would help her have some stability on a monthly basis. She'll still need some solid guidance from her accountant because that draw is an advance against potential revenue the publisher hopes to make on her songs. So that is one of the neat ways I've seen independent artists get some stability with that monthly cash flow. Another thing that I have definitely seen during this pandemic is that I've had many clients who have gotten other jobs. Our clients have been glad to have jobs that they could fall back on. The touring scene, as you all know, stopped in mid March due to the COVID situation. That impacted entertainers and anyone involved with the touring industry, regardless of their career level. Some of my clients have turned to what we would deem as standard jobs to help offset that loss of earnings and have had to be even more creative during this pandemic.

Sarah:

So, I think you make a really good point. That so many entertainers think of themselves as artists, but it's really important that they also think of themselves as a business. Does helping your clients shift their mindset, maybe make it easier to think about where they can save and how they can reinforce their financial future?



Lisa:

That's a great point. It is a key role of mine as their wealth advisor to help them think about retirement issues, retirement savings. When our clients are focused on getting by month to month, that's often their key objective. It's just getting by particularly in the early stage survival is the goal.

Sarah:

OK, let's talk about retirement. As Cheryl mentions, Kelsie's income could be inconsistent throughout her career. What steps should she take to make sure she's prepared for the future?

Lisa:

The next step will be to make sure they're setting aside money for their taxes. A money market fund is a perfect vehicle for that, but it's key that they begin contributing to that personal IRA each year. That may be a Traditional, Roth or SEP, but again, that wealth advisor or that business manager will be guiding and encouraging them to show them how easy it is to set up an IRA to start that retirement savings. And we all know that the earlier in our careers that we start saving the greater the opportunity for retirement savings. And I know there are other opportunities that our songwriter clients have for building income streams in retirement. As a songwriter, they're going to develop and grow a catalog of songs. And those songs have the potential to generate revenues throughout retirement years. We affectionately refer to that as "mailbox money". That's when they've written a hit maybe in 2020, and it will keep making money for decades to come.

Sarah:

So Lisa, when it comes to taxes are there special considerations for music industry professionals?

Lisa:

Yes, there are. I would say the most important consideration for music professionals is they need to make quarterly tax estimates and payments to the IRS. With music professionals they are juggling so many different things. There are various income streams, they may be going in different directions with touring. And I'll point out too, that an entertainment accountant being involved in their life would be very helpful. I know Kelsie's mom has been helping with a lot of things. They may have been using the family accountant for some of their tax returns. I would encourage her to go ahead and get an entertainment accountant to help her with her annual standard tax return. The beauty of working with an entertainment accountant is they could give her some tips early on for maximizing legitimate write offs, helping understand the importance of quarterly estimates. Another thing I'm thinking about in response to that is some of our seasoned songwriters have a catalog of songs that at some point they can sell for a lump sum of cash.



A very important consideration is that once that happens just as with the sale of other assets, that's going to be taxed as a capital gain. Our clients that do plan to sell a catalog of songs, they're going to need to set aside money in that money market account for the capital gains tax. So that would be another big concern. Another thought that comes to mind is the impact of all of this in the music industry to their borrowing power. I've got clients many probably like Kelsie who are currently renting or waiting till the day till they can get that first condo or home and have that sense of home ownership and independence. But the problem is many times that income is based on the Schedule C of their tax return. And depending on how aggressive they've been with the write offs that can affect their ability to be qualified for an auto loan or a mortgage. What we like to do on the front end is help a client evaluate their write offs, let them know how it could have a negative impact on their borrowing power. And then give that front end guidance of how they need to plan now to achieve those financial goals that they're going to be striving to meet.

Sarah:

So it sounds like if you're a music industry professional, you really need a specialized accountant who understands how income is generated in this space.

Lisa:

I couldn't agree with you more on that, Sarah. Because working with an entertainment accountant gives you the opportunity to learn nuances about entertainment accounting. And if you're having him prepare your regular tax return that you would have another accountant or an accounting service provide that cost is going to be very comparable. But the beauty of talking with that entertainment accountant in the preparation of that annual tax return, you're going to find out all types of tips that will help you going forward. He'll tell you which receipts to maintain for your write offs. He'll help you understand and help you project those quarterly estimates. Working with the specialized entertainment accountant from the get go will be well worth every dime and dollar you spend on that expense.

Sarah:

That's a great tip, Lisa. OK, let's pause here and listen to the final portion of Cheryl's story.

Cheryl:

"As her career grows, things become more complex. Kelsie's working on her first album, and she's also in talks for a few other projects. I just don't think I'm equipped to manage royalties and these multiple sources of income. Kelsie thinks I'm capable of handling it all — bless her heart — but I'm a realist. You always hear these horror stories of musicians, and actors who hit the big time and then wind up losing it all because they never figured out how to properly manage their money. I just want to make sure Kelsie will be OK, regardless of what happens in her career."



Sarah:

So Lisa, could things like royalties and multiple sources of income impact Kelsie's approach to financial planning?

Lisa:

Absolutely, Sarah. In the music industry, there are multiple types of royalties. A song's ownership is evidenced by a copyright. When it comes to most royalties, royalties are paid to the songwriter and the song publisher. An artist who writes their own songs, they're really amping up their opportunity to generate even more royalty income. There are performance royalties. We've talked about Performing Rights Organizations, the PROs. The collection agencies that collect the royalties for performances, radio, streaming. There are what we call mechanical royalties on the sale of CDs, vinyl, the physical download of a song. There's another type of royalty that's paid through SoundExchange for artists. I think what's important to know is the person who's earning royalties from airplay is the songwriter and the publisher. When you look at the different types of income the royalties are going to the creators and the publishers of the songs. Now Kelsie might get a publishing deal with a publishing company. If she could write a hit for another artist, for example, her opportunity for income could really escalate.

For an entry level artist, there's always an opportunity to sell a hard copy of a CD say at a live performance, at a venue or a club, makes a great souvenir. Streaming royalties are another big thing in today's world, but unfortunately they're not yet the key source of revenue. The artists are relying on such a diverse range of revenue sources, touring being key, corporate sponsorships, the merchandising, all those cool tees that you've bought at the concerts over the years, Sarah. These are revenues that can impact their financial plan. So Kelsie's wealth advisor can help ensure that she's tapping into any and all of these potential revenue sources. Now another big consideration with our entertainment clients, and this is really similar to how it works in professional sports. Unfortunately, the average career span can be brief. They may have a massive song hit, but then their career tapers off. Our clients really need to ramp up and amp up their savings because there are no guarantees.

Some people love certainty, but I'm telling you, my music industry clients are willing to take the risk without the certainty because they're following their passion. They are following their art, their heart. They need to save like crazy while they're in those good income earning years. Another good thing about having a solid business manager is that business manager can help ensure that all the royalties are being collected. I've had instances over the years where the business manager might request an audit to be done of royalties, to ensure the client's being fully repaid. And I've seen some of my clients collect large six figure sums of past due royalties, so that's a very critical thing to know about. And all of this Sarah, is just showing the



importance of having the right people in place who can advocate for you financially and help protect your financial posture.

Sarah:

That's so interesting. It sounds like you're saying the right industry wealth advisor isn't just managing your money. They're helping you make sure you get all the money you deserve and to tap into some opportunities to make a little more.

Lisa:

That's exactly right. It's going above and beyond. And when you have a music industry wealth advisor with this experience, we know what to look for when we're looking at those income statements and revenue sources. And there have been times I have pointed out to maybe a performing recording artist. I'm saying, "I don't see any royalties from SoundExchange, have you registered?" And they said, "You know what? I meant to do that." And I'll give them the website link and they'll get signed up. ~~And yeah,~~ and yeah, they'll have another revenue source to consider.

Sarah:

So Lisa, at the end of each episode, we like to ask for some key takeaways. What are some key takeaways you'd like to share with performers or music industry professionals like Kelsie?

Lisa:

Well, the first thing I would say is build a solid team of specialists to help you meet your financial goals. Start with an entertainment banker or wealth advisor who understands the nuances. Secondly, I'd encourage Kelsie and all of us to live within or beneath our means and don't spend money until we have it. And then thirdly, I would say network, network, network. In the music industry, networking is key. The more people you know, the greater your success in connecting with people who can help further your career.

Sarah:

Those are all great words of advice. Thank you so much, Lisa Harless, Senior Vice President and Private Wealth Advisor for Regions Bank. This is a fascinating topic, and I've enjoyed hearing about it.

Lisa:

My pleasure, Sarah. Always great to talk with you.

Sarah:



And thank *you* for joining us today. Each episode of Regions Wealth Podcast covers a different financial challenge, so be sure to check back, and visit regions.com/wealthpodcast to explore past episodes.

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