

Who is this Guide For?

Artists wanting to understand the true costs of an artwork and how much profit they made from a sale

What does it cover?

Identifies a full cost approach to

- Calculate actual profit from the sale of an artwork
- Estimate an artist's hourly rate of pay

AN OVERVIEW OF HOW TO WORK OUT PROFIT FROM AN ART SALE

This approach goes beyond the direct costs related to making the art. It makes you think about all those other costs that a professional artist aiming to make a living from their art will need to recover and/or pay somehow – or go out of business.

The basic approach to calculating profit takes the money you get for a sale and then

- **Deducts** all the DIRECT COSTS i.e. the materials and media used to create the artwork
- **Deducts** the COST OF SALES (e.g. commission, shipping, travel etc)

= INCOME AFTER COST OF SALES

- **Deducts** other OPERATING OVERHEADS (e.g. fixed costs relating to studio expenses, internet connection etc)
- **Adds back** all allowed expenses/tax allowances (e.g. depreciation on capital assets)

= GROSS PROFIT BEFORE TAX

- **Deducts** any relevant business / sales tax

= NET PROFIT AFTER TAX

- **Deducts** personal tax and pension contributions

= NET INCOME AFTER TAX and contributions

The latter is the sum of money that is equivalent to a pay packet in a conventional job where the employer deducts tax at source. It's the sum earned from the sale that you can actually spend on stuff that isn't connected with making art e.g. buying food and paying rent.

It's a proxy - but it's also an eye-opener!

If you divide it by the number of hours you took to create the work then you can arrive at a realistic notion of what your hourly wage might be.

So – that's the overview.

Now we do it slowly and unpick it by bit.

I've split out all expenses incurred from all expenses allowed for tax purposes. This enables a review of what is/is not allowed as an allowable expense (or a tax allowance) in the current tax year.

HOW TO WORK THE "COST PLUS" APPROACH BACKWARDS

Let's start from the beginning – with the price you sold the art for. Then we start to deduct all the costs – one by one

STEP 1: FIRST IDENTIFY THE INCOME FROM THE ART SALE

what price the artwork was sold for – gross of any discount (*this is a cost of sale just like commission*)

STEP 2: NEXT WORK OUT DIRECT COSTS

- **Start with your set price** (or price per square inch multiplied by your most frequent size of image sold)
- **Deduct** the costs of making the artwork. Another way of looking at this is you are about to find out how much money should be deducted from the sale to replace the materials you've just used up. So deduct the notional cost of raw materials. This isn't an exact science - you are allowed to use approximations! ;) (*You could try working out a notional sum per square inch*)
- Direct costs are variable in the sense you don't incur them unless you actually use art media and supports. For the purposes of this calculation we'll assume you buy in just enough for the artwork produced – and ignore the stock of at materials that are sitting on the shelves.

= **Income net of direct variable costs**

STEP 3: NEXT WORK OUT YOUR COST OF SALES

- **Deduct** commission or sales fee at whatever percentage or sum is applied by the exhibition, gallery or vendor
- **Deduct** any specific cost of sales items that are unrelated to price or size (*eg advertising; entry fees; cost of printing catalogues; transport/courier etc*). You might want to share these across however many other artworks they cover - but be realistic about how many you actually expect to sell.
- then deduct the cost of matting/framing

= **GROSS PROFIT AFTER COST OF PRODUCTION.** This is the sum available for

- your wages and
- payment of your fixed costs of making art (eg studio, insurance)

STEP 4: IDENTIFY YOUR TOTAL FIXED COSTS RELATED TO ART

For example: rent of studio space; depreciation of capital cost of equipment; professional insurance; professional fees; internet and computer costs)

Next step - divide your fixed costs by an estimate of the number of works (or units) you sell each year and deduct the proportionate share. This is much easier to work out if you typically produce work that is all the same size. If you produce work in different sizes and price bands then work out a way of equating them all to a unit of fixed costs (e.g. small work = 1 unit; medium sized work = 3 units and large work = 5 units)

= **GROSS PROFIT before tax and deductions and tax allowances**

Copyright [Katherine Tyrrell](#) – all rights reserved for commercial purposes. You may use this guide for educational purposes only.

You may NOT copy it or use it commercially in a workshop or other fee-paying context

without the written prior agreement of and a license being granted by Katherine Tyrrell

MAKING A MARK – the blog <http://makingamark.blogspot.com> | MAKING A MARK PUBLICATIONS <http://www.makingamark.co.uk>

Remember that in cash terms this is what drives the cashflow until such time as you get the benefit of the expenses you can set off against tax. It's a useful place to start when you need to think about how much working capital/cash buffer you need to have to be a full-time artist.

STEP 5: NOW ADD BACK ALL ALLOWABLE EXPENSES

This is where you have:

- identified an expense which you are allowed to claim as a tax allowance or is allowed as an expense to reduce your tax bill. This is where getting help from a tax adviser with what's allowed and what's not allowed can be very helpful. Artists who have understand their tax accounts and what you can get deductions for are also helpful – but always double check advice from artists as they can sometimes have curious ideas as to what's allowed.
- you kept the receipt!

= **GROSS PROFIT before tax and deductions**

STEP 6: DEDUCT ALL RELEVANT BUSINESS TAXES AND ANY INTEREST PAYMENTS DUE

The last deduction of all are the relevant financial outgoings due from the business e.g. payments of a business loan interest and payment of all relevant business taxes (i.e. NOT personal tax). *ALWAYS Remember that every country's tax system is unique and what applies in one country might not count in another.*

= **NET PROFIT** after Business Tax

STEP 7: CALCULATE TAKE HOME PAY

Now we need to work out much net income you 'take home'

- First work out **how much you need to be contributing from each sale to your pension fund** - because you are planning on having an old age when you just paint for pleasure!
- Next **deduct tax at the variable percentage rate**. (You may well have a tax allowance but let's assume for the purposes of this exercise that this basic sum is generated by other income which absorbs that allowance.)

= **NET INCOME which you get to spend!** This is how much money you made from that sale of an artwork!

STEP 8: CALCULATE AN HOURLY WAGE

Divide the Net profit after Business Tax by the number of hours you work on the artwork to generate the **gross hourly wage** for that artwork. This is equivalent to the hourly rates of pay quoted for other jobs and is the figure to use when comparing income to other occupations. This website purports to give an indication of the [median hourly rate for a graphic artist/designer](http://www.payscale.com/research/UK/Job=Graphic_Artist_%2f_Designer/Hourly_Rate) in the UK.

(http://www.payscale.com/research/UK/Job=Graphic_Artist_%2f_Designer/Hourly_Rate)

Frightening isn't it? Try also reading [The art income shock](#) by Robert Genn.

©Katherine Tyrrell version 1.0 January 2013 You can find more '[Making A Mark Guides](#)' with advice on sketching, blogging and the art business on <http://www.makingamark.co.uk>

Copyright [Katherine Tyrrell](#) – all rights reserved for commercial purposes. You may use this guide for educational purposes only.

You may NOT copy it or use it commercially in a workshop or other fee-paying context

without the written prior agreement of and a license being granted by Katherine Tyrrell

MAKING A MARK – the blog <http://makingamark.blogspot.com> | MAKING A MARK PUBLICATIONS <http://www.makingamark.co.uk>