

WEALTH MANAGEMENT · JUL 20, 2022

# Monetize Your Music Catalog? 5 Things to Consider



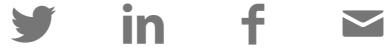
Recording artists are tapping their catalogs for cash as the market for investible music rights grows. What should musicians know about the benefits and drawbacks?

When the pandemic shut down touring and live events, it cut off an important source of income for professional musicians and forced many to rethink how they manage their finances. Fortunately, some artists still had a valuable, income-producing asset: the publishing rights to their music.

Today, many of music's most celebrated icons—and plenty of successful emerging artists—are monetizing all or part of their music catalogs. “For working artists, tapping the value of your catalog can deliver a big liquidity boost that may help you achieve near-term financial goals,” such as buying a home or even financing a new music project, says Sandra L. Richards, Head of [Morgan Stanley's Global Sports & Entertainment division](#).

And there's a growing market of buyers: Public and private funds have been obtaining music royalty rights and selling them to investors, many drawn to the income these funds may provide, with potentially low correlations to other financial assets. Investors spent more than \$5 billion on music-rights acquisitions in 2021 alone.<sup>1</sup>

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At Royalty Exchange, a marketplace for buying and selling music rights, there's been a 50% increase in artists looking to monetize their music catalog every year since 2016, says CEO Gary Young. “The music industry is growing again, and the fact that catalogs are making most of their money from streaming means that the income continues on for a long time,” Young says. “The investors are interested in purchasing that income. And the assets these musicians created are increasing in value, so supply and demand are growing in tandem.”

For musicians who want to tap their music catalog for liquidity, it's important to first understand the pros and cons, as with any major financial decision. Here are five key questions you should ask:

## How can this help me reach my financial goals?

Maybe you're looking to purchase a home, pay for a loved one's education or even finance a new album. Whatever your priorities are, having a clear sense of your goals and how monetizing your catalog may help you reach them is key. One of the first steps in the process is to work with a consultant who specializes in music rights to determine the value of your catalog. Once you have that information, you can discuss with your Financial Advisor how you could use that cash to make progress toward your financial goals.

## Should I sell all or part of my catalog?

Whether you're interested in selling the rights to an entire album or maybe just the rights to a song for a TV commercial or for the latest TikTok trend, the choice is yours, but the decision will likely have varying impacts on your present and future earnings.

“We typically look for the deal for the artist that involves selling the smallest amount of their creative works possible to accomplish their goals,” Young says. “A lot of songwriters out there are attached—and rightfully so—to the things they have put their creative energy into, so they want to maintain some interest in it.”

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## Are there alternatives to selling?

If you want upfront access to future potential royalty earnings but you don't want to sell all or part of your catalog, there are select companies that offer advances based on the performance of the royalty streams. Such companies never take ownership of the copyrights, which means you'll continue to receive regular royalty income plus the funding you may need now.

Another option is leasing out the rights to your catalog. Common deals give all or partial rights to investors for set terms of 10 or 30 years. The financial benefits of the deals vary depending on the terms and the value of the catalog, and the right deal for you will also depend on your financial needs.

## What are the tax implications of a sale?

In general, profits from the sale of music rights are taxed as capital gains, meaning that in most cases, you'd pay a maximum tax rate of 20% on your proceeds. Royalties, on the other hand, are typically taxed as ordinary income, at rates up to 37% depending on your income.<sup>2</sup>

So, selling a catalog—and essentially swapping royalty-payment income for a one-time capital gain—could have an important long-term impact on your tax liabilities. Since there are many variables involved, it's important to consult with a tax advisor about the tax consequences of tapping your catalog for income.

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## Do I have the right team in place for this type of transaction?

Whether you've decided to sell or go an alternative route in monetizing your catalog, having a team of trusted professionals is essential to help put you in the best position to thrive. In addition to industry experts, attorneys and accountants, a Morgan Stanley Global Sports and Entertainment Director can help you navigate the process and better understand how the sale may fit into your financial plan and overall investment strategy.

Connect with a Morgan Stanley Global Sports and Entertainment Director to determine if monetizing your music catalog is the right move and how it may bring you closer to your financial goals.

### Footnotes

<sup>1</sup> “At Least \$5 Billion Was Spent on Music Rights Acquisitions in 2021. Could 2022 Be Even Bigger?” *Music Business Worldwide*, Jan 10, 2022: <https://www.musicbusinessworldwide.com/at-least-5-billion-was-spent-on-music-catalog-acquisitions-in-2021-could-2022-be-even-bigger/>

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