

Eight Important Questions for Hobbyists

Summer is a time many Americans take their fishing poles and gardening tools out of storage. Hobbies – such as woodworking, stamp collecting and scrapbooking – are often done for pleasure, but can result in a profit.

If your favorite activity does make a profit there may be tax implications. You must report income to the IRS from almost all sources, including hobbies.

Here are eight questions that will help determine if your activity is a hobby or a business.

1. **Is the purpose of your activity to make a profit?** Generally, your activity is considered a business if it is carried on with the reasonable expectation of earning a profit.
2. **Do you participate in your activity just for fun?** Hobbies – also called not-for-profit activities – are those activities that are not pursued for profit.
3. **Do you depend on income from the activity?** If so, your activity is likely considered a business.
4. **Have you changed methods of operation to improve profitability?** If so, your hobby may actually be a business.
5. **Do you have the knowledge needed to carry on the activity as a successful business?** People who carry out hobbies just for fun, often don't have the business acumen to turn their not-for-profit activity into a profitable business venture.
6. **Have you made a profit in similar activities in the past?** This may indicate your activity is a business rather than a not-for-profit hobby. An activity is presumed carried on for profit if it makes a profit in at least three of the last five tax years, including the current year – or at least two of the last seven years for activities that consist primarily of breeding, showing, training or racing horses.
7. **Does the activity make a profit in some years?** Even if your activity does not make a profit every year, it still may be considered a business.
8. **Do you expect to make a profit in the future from the appreciation of assets used in the activity?** This indicates your activity may be a business rather than a hobby.

If your activity is not carried on for profit, allowable deductions cannot exceed the gross receipts for the activity. If you are conducting a trade or business you may deduct your ordinary and necessary expenses.

More information about not-for-profit activities is available from your local Enrolled Agent, (enter your name), at (enter your address and phone number.)

If a group of you want to enter a group picture and your names above you may do so, or you can enter the following paragraph:

More information about not-for-profit activities is available from your local Enrolled Agent. You may find an Enrolled Agent near you by visiting the Ohio State Society of Enrolled Agents' web site at www.ossea.org.

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You may modify the last paragraph of the article to suit your needs. Always try to add a picture because it draws attention to the article.