

# From the desk of Peter S. Muffoletto, C.P.A.

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## Is it Hobby or a Business?

From collecting stamps and woodworking to crafting and quilting, people have all kinds of hobbies, and most of these hobbies never turn a profit.

For hobbies that do earn income taxpayers must report it on their tax return as the government wants to share in the joy of you making a profit from your efforts.

A business operates to make a profit while in most cases people enjoying their hobbies are not necessarily profit motivated.

People pursue hobbies for sport or recreation, and not necessarily for profit.

There are a number of factors when determining if an endeavor is a hobby or business. No single consideration is the deciding factor, but taxpayers should review all of them when determining whether their activities are a business.

**Here are the things taxpayers should evaluate to decide whether they have a hobby or a business:**

- Whether the taxpayer carries out the activity in a businesslike manner and maintains complete and accurate books and records.
- Whether the time and effort the taxpayer puts into the activity show they intend to make it profitable.
- Whether they depend on income from the activity for their livelihood.
- Whether any losses are due to circumstances beyond the taxpayer's control or are normal for the startup phase of their type of business.
- Whether they change methods of operation to improve profitability.
- Whether the taxpayer and their advisors have the knowledge needed to carry out the

activity as a successful business.

- Whether the taxpayer was successful in making a profit in similar activities in the past.
- Whether the activity makes a profit in some years and how much profit it makes.
- Whether the taxpayers can expect to make a future profit from the appreciation of the assets used in the activity.

**If an activity has had several years of sustained losses the probability is that there is no profit motive therefore the endeavor would be considered by the government to be that of a hobby, but should an endeavor start to reach the level of an enterprise where profits are sustained over a number of years, that endeavor by definition would be classified as a business which income taxes would be due and payable.**

**Another determining factor is whether an enterprise has employees which in that case the enterprise would be definitely considered a business which for payroll tax purposes all employee taxes would be necessarily be required to be reported and paid, but that factor may not change a hobby status to that of a business if losses continue to be sustained.**

**Bottom line, if the bottom line of the enterprise is profitable the government wants to share in the joy of your enterprise, and then share your wealth with others.**

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