

# BUSINESS TIPS TAXES FOR WRITERS

## Hobby Writing: Pros, Cons and the IRS

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## Hobby Writing

Do you call yourself a hobby writer?

At the end of this presentation, I'll convince you that the LAST thing you want to be is a hobby writer!



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## Pros of Hobby Writing

- Easy to manage
- Paid occasionally
- Pleasurable
- Low stress



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## Cons of Hobby Writing

- Cannot deduct hobby expenses
  - Except as Misc Itemized deductions over 2% of Adj Gross Income
- All income is taxable as Misc Income
- Unpredictable income

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## Deduction for hobby expenses

Form 1040 page 1

18	Farm income or (loss). Attach Schedule F . . . . .	18	
19	Unemployment compensation . . . . .	19	
20a	Social security benefits 20a	b	Taxable amount . . . . .
21	Other income. List type and amount <b>Hobby Income</b> . . . . .	21	1000
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶	22	65000

Schedule A Itemized Deductions

21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ▶	21	
22	Tax preparation fees . . . . .	22	150
23	Other expenses—investment, safe deposit box, etc. List type and amount ▶ <b>Hobby expenses</b> . . . . .	23	550
24	Add lines 21 through 23 . . . . .	24	700
25	Enter amount from Form 1040, line 38 [25] 65000	25	
26	Multiply line 25 by 2% (.02) . . . . .	26	1300
27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27	0

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## Hobby Writing and the IRS

Why does the IRS tax hobby income?

***“All income is taxable unless specifically excluded by the tax code.” (IRS.gov)***

It's against the law not to report all income to the IRS.

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## Definition of a Hobby

- Motive: profit or pleasure?
- Amount of time and effort
- Expertise
- Business-like manner
- Other sources of income

See p. 12  
in Business  
Tips and  
Taxes for  
Writers

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## Definition of a Hobby

- Prior history of profits or success

The IRS presumes that an activity is carried on for profit if it makes a profit during at least **three of the last five** tax years, including the current year (IRS.gov)

If you made money in 3 of 5 years, it is NOT a hobby.



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## Hobbyists pay more in taxes

<u>Hobby</u>	<u>Business</u>
Income \$1,000	Income \$1,000
Expenses \$550	Expenses \$550
Change in AGI: \$1,000↑	Change in AGI: \$450↑
Change in tax: \$150 ↑	Change in tax: \$68↑ + \$63*

\* self-employment tax (15.3% of profits)

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## Hobby Loss Rules

- A business can have losses for several years, a hobby cannot
- “If an activity is not for profit (i.e. a hobby), losses from that activity may not be used to offset other income.”*** (IRS.gov)

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## Hobby Loss Rules

If you have a business with year-after-year losses the IRS can reclassify your business as a hobby and not allow the prior-year losses



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## What to do?

If you're a business

- Operate in a business-like manner
  - Keep records
  - Get professional advice
- Keep a submission log as evidence of work
- If you had true losses, take them.

Chapters Two  
and Eight in  
Business Tips  
and Taxes for  
Writers

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## What to do?

- If you're a hobby writer
  - Pay your Uncle Sam
  - Don't expect any tax deductions
  - Don't make money (!)
  - Enjoy writing for pleasure



## Conclusion

Know the consequences of being a hobby writer

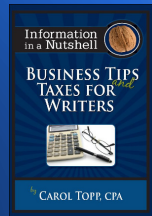
- No losses
- All hobby income taxable
- Expenses may not be deductible

Consider running as a (micro) business

- Tax benefits
- Prestige

## Shameless plug

Hobby Income  
Writing as a Ministry  
Business Structures  
Financial Planning  
Taxes  
Record keeping  
Inventory and sales tax



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