



For pleasure or for profit?

8. Your financial status

- a. Only or main source of income
- b. If other substantial income source exists while business losses are large, may indicate hobby, not-for-profit activity

9. Appearances of your enjoyment, pleasure or recreation motive

- a. Cannot be ignored
- b. Yet, is not sufficient enough to be classified as a hobby or not-for-profit

You can beat the odds!

The IRS presumes that an activity is engaged in for profit, if the activity is profitable for 3 years of a consecutive 5-year period, beginning with the first profitable year (IRC 183(d))

Who We Are

About Us

Christina Carter Tax Service is committed in bringing value to our clients by providing quality work in an effective manner that helps them fulfill their governmental filings.

“Solving YOUR Tax and Accounting Problems is What We Do!”

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Hobby or Business?



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What do you mean my business is a hobby?

The IRS does define what a business is.

The Internal Revenue Code (IRC) describes it as “activity engaged in for profit.” Thus, a hobby has the opposite trait – “NOT engaged in for profit.” (IRC 183)

Hobbies mean no write-offs on an income tax return. Just reporting of income, if any.

Whether your business is a sole proprietorship, partnership or an S-Corporation, the following nine factors from IRC 1.183.2 are used by auditors in determining the legitimacy of a business activity.

“The 9 factors used in settling the Hobby vs Business issue”

1. **Manner in which you conduct the business**
 - a. Professional
 - b. Profit motivated
 - c. Maintain complete, accurate books and records
 - d. Separate bank accounts
 - e. Change operating procedures, adopt new techniques, abandon unprofitable methods
2. **You or your advisors expertise**
 - a. Study, research and seek expert advice before starting
3. **Your time and effort devoted to the business**
 - a. Leave another occupation to dedicate most energies and/or time to the venture
 - b. No substantial personal or recreational traits



Home-based Bakery Business?

4. **Your expectation that the business assets will appreciate**
 - a. Such as land, cattle, horses, art
 - b. Can have operating losses, but gain/profit from sale of assets
5. **Your past success in similar or dissimilar businesses**
 - a. Transforming losing businesses into profitable businesses
6. **Your history of income or losses in the business**
 - a. Start-up years losses are o.k.
 - b. Continued losses beyond customary period can indicate hobby or personal pursuit
 - c. Unforeseen circumstances, such as, a recession, theft, disasters can happen
7. **Amount of occasional earned profits, if any**
 - a. Compare profit vs loss years
 - b. History of large losses cannot be ignored