
Business or Hobby?

Hobbies, also called not-for-profit activities, are those activities that are not pursued for profit. A business activity is carried on with the reasonable expectation of earning a profit.

If you are not sure whether you are running a business or simply enjoying a hobby, here are some of the factors you should consider:

- Does the time and effort put into the activity indicate an intention to make a profit?
- Do you depend on income from the activity?
- If there are losses, are they due to circumstances beyond your control or did they occur in the start-up phase of the business?
- Have you changed methods of operation to improve profitability.
- Do you have the knowledge needed to carry on the activity as a successful business?
- Have you made a profit in similar activities in the past?
- Does the activity make a profit in some years?
- Do you expect to make a profit in the future from the appreciation of assets used in the activity?

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).

If your activity is not carried on for profit, allowable deductions cannot exceed the gross receipts for the activity.

Deductions for hobby activities are claimed as itemized deductions on Schedule A, Form 1040. These deductions must be taken in a particular order.

If you are conducting a trade or business you may deduct your ordinary and necessary expenses. An ordinary expense is an expense that is common and accepted in your trade or business. A necessary expense is one that is appropriate for your business.

For more information on this topic, you can contact this office, or go to <http://www.irs.gov/pub/irs-pdf/p535.pdf>.

Nadine M Lord EA CFP

**Individual, Business and Estate
Tax Preparation**

30021 Tomas, Suite 300
Rancho Santa Margarita CA 92688

Phone: 949-766-7808
Toll Free: 800-350-1299
Fax: 949-766-7809
www.NadineLord.com

Nadine M Lord EA CFP
949-766-7808
Toll free 800-350-1299
Email: NadineLord@cox.net