

Printed from: www.sbwwm.com

Business or Hobby? It's All About Taxes

Many successful businesses began in garages or around kitchen tables. And many businesses lose money in their early years. However, some ventures that begin with business aspirations never make money and turn into expensive hobbies.

The difference between a money-losing business and a hobby is important at tax time, because you may be able to deduct business losses from other income to help reduce your tax burden. But you cannot deduct hobby expenses.

You may be able to deduct business losses from other income to help reduce your tax burden, but you cannot deduct hobby expenses.



Working for Profit

In order to qualify as a business, the activity must be operated with the intention and potential to earn a profit, even if it is not profitable every year. For any given tax year, the IRS will presume that your activity is operated for profit if it has earned a profit in three of the previous five years, including the current year. If you are just starting your business, you can file Form 5213 and request that the determination be delayed until you have five years of business experience.

If your activity does not pass the three-year profitability test, the IRS will take into account all facts and circumstances regarding the activity in order to determine whether you can deduct business losses from other income. These are some questions you should consider, but no single factor is decisive.

- Do you run the activity in a businesslike manner and maintain complete and accurate books and records?
- Does the time and effort you put into the activity indicate you intend to make it profitable?
- Do you depend on income from the activity for your livelihood?
- Are your losses due to circumstances beyond your control, and/or are they normal in the startup phase of your type of business?

- Have you changed your methods of operation in an attempt to improve profitability?
- Do you or your advisers have the knowledge needed to carry on the activity as a successful business?
- Have you been successful in making a profit in similar activities in the past?
- Does the activity make a profit in some years, and how much profit does it make?
- Can you expect to make a future profit from the appreciation of the assets used in the activity?

Keep in mind that even a small-scale activity that you pursue on evenings and weekends, or after retirement from your regular job, might be considered a business as long as the IRS determines it is operated for profit. For more information, see IRS Publication 535, *Business Expenses*.

This information is not intended as tax, legal, investment, or retirement advice or recommendations, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Broadridge Advisor Solutions. © 2020 Broadridge Investor Communication Solutions, Inc.

Investment and insurance products and services are offered through INFINEX INVESTMENTS, INC.

Member [FINRA/SIPC](#). SBW Wealth Management is a trade name of the bank. Infinex and the bank are not affiliated. Products and services made available through Infinex are not insured by the FDIC or any other agency of the United States and are not deposits or obligations of nor guaranteed or insured by any bank or bank affiliate. These products are subject to investment risk, including the possible loss of value.

NOT FDIC-INSURED. NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. NOT GUARANTEED BY THE BANK.
MAY GO DOWN IN VALUE.

[Back To Top](#) ^