

IS YOUR PASSION A HOBBY OR A BUSINESS?



Have you ever thought about turning your hobby into a business? It's a great idea, but there are some important things you need to know, especially when it comes to your taxes. The IRS has rules to determine whether what you're doing is a hobby or a business and it can get a bit confusing. But don't worry, we've broken down the rules for you.

IRS Definition of Hobby and Business

A business is an activity done with the intention of making a profit. It doesn't matter if you do it full-time or just on the side. On the other hand, a hobby is something you do for fun or relaxation, not with the primary goal of making money.

Now, let's look at some factors that can help you figure out if your activity is a business or a hobby.

Time and Effort

Do you put in time and effort with the intention of making a profit?

Dependence on Income

Does your income depend on this activity?

Losses and Start-Up

If you face losses, are they due to things beyond your control or just because you're starting up?

Improving Profitability

Have you tried changing how you operate to make more money?

Knowledge and Expertise

Do you have the know-how to run this activity as a successful business?

Past Profits

Have you made money doing similar things in the past?

Profitable Years

Does this activity make a profit in some years?

Future Profits

Do you expect to make money in the future, maybe from assets you use in this activity?

As you can see, this can be quite subjective. But there is a "safe-harbor" that can help you out.

The safe harbor states that if your activity makes a profit in at least three out of five consecutive years, the IRS will assume you're running a business, not just a hobby. This doesn't guarantee anything, but it does shift the burden of proof to the IRS if they question you.

A few more considerations to keep in mind:

- **Good Recordkeeping:** Whether it's a hobby or a business, keeping good records is crucial.
- **Form 1099-K:** If you receive more than \$600 for goods and services, your payment processor might send you a [Form 1099-K](#).
- **Taxable Income:** Any money you make from selling goods or providing services, even if they're your personal items, counts as taxable income and must be reported on your tax returns.

So, if you're thinking about turning your hobby into a business, it's important to know the difference for tax purposes. Keep these factors in mind, and if you meet the safe harbor requirements, it can make things easier. Just remember to keep

good records and report your income properly. Happy hobbying or business-ing!

Our BMF [Advisors](#) can help you in determining whether your activity qualifies as a business or a hobby, ensuring proper tax reporting and assisting with recordkeeping to meet IRS requirements.