

TaxInsight



Hobby Income

If you earn money from sources other than your main job, how do you know whether it's considered business income or hobby income? The distinction between the two makes a big difference in your taxes, especially with the new tax law. To distinguish between a business and a hobby, ask yourself the following nine questions:

1. Do you keep accurate books and records for the activity? If so, you probably have a business.
2. Do you have expertise in the area or hire experts? If so, this is evidence you have a business rather than a hobby.
3. Do you devote a significant amount of time and energy to the activity? The more time you spend on the activity, the more likely it is that you have a business.
4. Do you expect assets to increase in value? If so, then it's likely you have a business.
5. Do you have other, similar businesses? If you have several similar activities that you treat as businesses, this activity will likely be treated that way too.
6. Have you lost money on the activity? Too many years' worth of losses increases the likelihood that you have a hobby.
7. Does the activity generate a profit? If the activity produces a profit for three out of the last five years, it is more likely a business.
8. Do you have substantial income or capital from other sources? If you don't depend on income from the activity for your livelihood, it's likely a hobby.
9. Do you get personal pleasure or recreation from the activity? If you participate in the activity for fun, you most likely have a hobby.

You must report hobby income on your tax return, but hobby expenses are limited. In prior years, you could claim hobby expenses as a deduction, but there were two limitations. The expenses were deductible only up to the hobby income. And even then, those expenses were allowed only to the extent that they were greater than 2% of your adjusted gross income (AGI). Now, after the *Tax Cuts and Jobs Act*, none of your expenses are deductible.

Important Tax Information

Unless extended, here are a few upcoming due dates:

- March 15 – Partnership and S Corporation Returns
- April 17 – Individual Returns
- May 15 – Exempt Organization Returns

Tax Note

Remember, if you win your office NCAA pool, your winnings are taxable income!

Did You Know?

During the NCAA basketball tournament, businesses experience up to \$1.6 billion in lost productivity.

Quote Corner

“The game isn’t over till the clock says zero.”

~Paul Pierce

