
CHAPTER 1

WRITING AS A HOBBY

Many authors start writing as a hobby and do it for the love of writing. They may have a blog or occasionally submit an article to a magazine, but making money is not a strong motivator—writing for pleasure compels them. Occasionally, a hobby author may receive payment for her work. Does this automatically make her a professional author? Perhaps not, but the income must still be reported as earned income on the tax return. The Internal Revenue Service (IRS) has guidelines to help hobbyists know where and how to report income.

Hobby or Business?

How do you know if you have a hobby or a business? There is no set dollar threshold that changes a hobby writer into a professional. It depends primarily on your motivation for writing. The IRS has a few factors to consider:

- The time and effort you spend in the activity can determine hobby status. Spending significant amounts of time writing might imply that your writing is more than a hobby and it is a business.
- The manner you conduct the activity such as doing advertising or bookkeeping may mean your hobby has become a business.
- Your expertise and prior success in a similar activity may cause your hobby to be classified as a business. An author with a publishing contract has a business, not a hobby.
- Your profit motive and prior history of profits may indicate a for-profit business, not a hobby.
- Other sources of income may demonstrate your writing is not your main source of income, but only a hobby.¹

The IRS has an article titled *Is Your Hobby a For-Profit Endeavor?* that you can find at www.irs.gov/ by searching on “hobby income.”

Hobby Income

Income, even from a hobby, has to be reported to the IRS. Hobby income is usually reported on the individual tax return (Form 1040) under Other Income (Line 21 on the 2010 Form 1040).

Example: Mary wrote several magazine articles as a hobby but had never been paid. Finally, a magazine published an article and paid Mary \$250. She is thrilled and called her tax preparer to discuss how to report this income. Mary will probably not receive any tax documentation from the magazine for the \$250 payment. Payments to independent contractors over \$600 a year must be reported to the worker on Form 1099MISC. Since Mary received only \$250, she will not receive a 1099MISC from the magazine. It is still her responsibility to report this income even if she does not receive any other paperwork from the magazine.

¹ Source: www.irs.gov/businesses/small/article/0,,id=208400,00.html#appendix01

Hobby Expenses

Expenses can be deducted on Form 1040 Schedule A Itemized Deductions under Miscellaneous Deductions, subject to a 2% of adjusted gross income threshold. This threshold means that a taxpayer can deduct miscellaneous deductions that are *greater* than 2% of their adjusted gross income.

Example: Mary's tax preparer puts Mary's income of \$250 on the Form 1040 under Other Income. Mary's only expenses related to this income are paper, ink and postage. Mary's expenses can be deducted on her itemized deductions under miscellaneous deductions, subject to 2% of her adjusted gross income. As is common with many taxpayers, Mary's miscellaneous deductions were too small to overcome the 2% threshold to be deductible. She received no tax deduction for her writing expenses.

Some hobby writers pay the printing costs of their books. This is considered a cost of selling, or in accounting jargon, the cost of goods sold. The IRS allows a taxpayer to deduct the cost of goods sold from their hobby income. Only the net amount of income is reported as other income.

Example, Tom, a hobby writer, wrote his life story in a book and had 50 copies printed to sell to friends at \$10 each. The printing costs were \$150. Tom received total income of \$500 from sales of his book. He reports hobby income of only \$350 (\$500 sales—\$150 printing costs). Any other writing expenses unrelated to the book production costs are deducted as miscellaneous deductions on Schedule A, subject to 2% of Tom's adjusted gross income.

No Hobby Losses Allowed

For tax purposes, the IRS does not allow hobby expenses to exceed hobby income. In other words, losses from a hobby are not permitted on a tax return. A business can have a loss and it can be

deducted on a tax return, but not a hobby loss. If John, a hobby writer, attended a writers workshop and his expenses of \$900 exceeded his hobby income of \$400, he could deduct his expenses (as miscellaneous deductions) up to the amount of his income, but no more. The extra expenses of \$500 are considered personal expenses that John incurred for the love of writing.

In a Nutshell:

The advantage of considering your writing as a hobby is that you avoid the complications of filing a business tax return. The major disadvantage to hobby writing is that your expenses may not be a tax deduction and hobby losses are not deductible. Overall, a hobby writer rarely expects or is eligible for any tax benefits. If your writing hobby is producing regular income, it is time to consider it a business. Chapter Three discusses writing as a business.