
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 his or her work. Does this automatically make his or 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 for “hobby income.”

Hobby Income

Income, even from a hobby, has to be reported to the IRS. Hobby income is usually reported on the individual’s 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

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

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.

Hobby Expenses

In the last days of 2017, Congress passed the Tax Cut and Jobs Act introducing the most expansive tax reform in 30 years. This bill affected hobby writers. Starting in tax year 2018, all Miscellaneous Itemized Deductions subject to the 2% of Adjusted Gross Income are eliminated. That was where hobby writers and hobby bloggers could deduct any expenses from their hobbies. There are no more deductions for hobbyists starting in 2018 (until 2025 when the Act expires).

That means if you are receiving any money in pursuit of writing or blogging, then you should treat your writing/blogging as a business so you can deduct the expenses. The rest of this book explains how to treat your writing/blogging as a business.

Example

Mary from our example above includes her hobby income of \$250 on Line 21 Other Income of the Form 1040. Mary's expenses related to this hobby income are paper, ink, and postage. Mary's hobby expenses cannot be deducted. She receives no tax deduction for her hobby-writing expenses.

Many hobby writers pay the printing costs to see their books in print. 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 (Hobby Income) on the tax return.

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) as Other Income (Hobby Income) on Line 21 of his Form 1040 tax return. Any other writing expenses unrelated to the book production costs are not deductible as hobby expenses as of 2018.

Did you catch that? Hobby writers cannot deduct their hobby expenses (except Cost of Goods Sold) beginning in 2018. But, unfortunately all hobby income must get reported. So my advice to hobby writers is that if you are making money from writing consider your writing a business (and keep reading this book!).

No Hobby Losses Allowed

The IRS does not allow hobby losses on the Form 1040 tax return. This was true even before the Tax Cut and Jobs Act of 2017 eliminated the deduction for hobby expenses. A business can have a loss and it can be deducted on a tax return, but not a hobby loss. If Tom, the hobby writer from our example above, only sold \$50 of his books, but paid \$150 to have them printed (his Cost of Goods Sold), he cannot deduct his loss of \$100 (\$50 sales - \$150 Cost of Goods Sold = \$100 loss). He would report zero hobby income.

Confusion over the 3-of-5 Rule

I've heard this question many times from authors,

"Carol, I read that if I don't make a profit in 3 of 5 years,

the IRS will convert my business to a hobby and I won't get to deduct any expenses."

Here's how I explain that pesky 3-of-5 Year Rule. The actual IRS words on the subject say:

"An activity is presumed for profit if it makes a profit in at least three of the last five tax years, including the current year."

— Source: www.irs.gov/uac/Is-Your-Hobby-a-For-Profit-Endeavor%3F

The IRS is saying if you make a profit, you're a business. The IRS is not saying that if you don't make a profit, then you are not a business. Nor is the IRS saying that you must show a profit or else you'll be considered a hobby. They are stating that if you do show a profit, you will be considered a business. That's all. Don't read into the IRS's statement more than what it says.

A business can lose money every year and still be a legitimate business. Of course, the IRS (and you) may wonder if it is worthwhile to continue in a business that loses money every year, but it can happen.

Remember the old television show *WKRP in Cincinnati*? Well, I live in Cincinnati and about 10 years ago a low-wattage television station branded itself as WKRP in Cincinnati. It airs old shows like *The Munsters* and *Little House on the Prairie*. The local paper ran a story about the owner who said the business didn't make a profit for many, many years, but he kept it going. He obviously had other businesses that made a profit so he could feed himself, but WKRP in Cincinnati lost money for more than 3 of 5 years. The IRS did not reclassify it as a hobby.

Business Taxes and Tips for Writers & Bloggers

It was clearly a business, just a business that lost money in many (or most) years.

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 are not tax 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.