

## Hobby or Business? Making the Right Tax Classification

Understanding whether your activity qualifies as a hobby or business is crucial for tax purposes. Let's explore the key factors that help make this determination.

### Key Differences:

- Business activities can deduct losses that exceed income
- Hobby losses cannot offset other income
- Hobby expenses (except cost of goods sold) are not deductible for 2018-2025

### Nine Factors to Consider:

1. Business-like operations and record keeping
2. Expertise in the field
3. Time and effort invested
4. Expectation of asset appreciation
5. Success in similar activities
6. History of income and losses
7. Amount of occasional profits
8. Financial status and tax benefits
9. Personal pleasure or recreation aspects

### Profit Presumption Rule:

- Activity is presumed to be for-profit if profitable in 3 of last 5 years
- Horse-related activities need profits in 2 of last 7 years

### Tax Reporting Differences:

- Business income/expenses reported on Schedule C
- Hobby income reported on Schedule 1
- Hobby income must include cost of goods sold
- Hobby activities not subject to self-employment tax

Making the right classification is essential for proper tax treatment and compliance. Consider consulting with a tax professional to evaluate your specific situation based on these factors.

This information is provided to you by Arrowhead Tax Service. We make every effort to provide honest and accurate tax information. Please use your discretion before making any

decisions based on the information provided, every tax situation is different. If you have any questions, please visit our office or call us at 937-543-5770.