



BLUEBONNET TAX SERVICES LLC

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SMALL BUSINESS OR HOBBY TEST

Small businesses are audited frequently due to taxpayers not understanding the difference between a small business and a hobby that makes extra income. Here are a few questions to ask yourself to determine if you are truly a small business and need a Schedule C:

- Whether the activity is carried out in a businesslike manner and the taxpayer maintains complete and accurate books and records.
- Whether the time and effort the taxpayer puts into the activity show they intend to make it profitable.
- Whether the taxpayer depends on income from the activity for their livelihood.
- Whether any losses are due to circumstances beyond the taxpayer's control or are normal for the startup phase of their type of business.
- Whether they change methods of operation to improve profitability.
- Whether the taxpayer and their advisors have the knowledge needed to carry out the activity as a successful business.
- Whether the taxpayer was successful in making a profit in similar activities in the past.
- Whether the activity makes a profit in some years and how much profit it makes.
- Whether the taxpayers can expect to make a future profit from the appreciation of the assets used in the activity.

If you have a loss for more than 3 out of the last 5 years, you might actually have a hobby and need to file your income on Schedule 1. Bluebonnet Tax can help you with this! Book your appointment today!