

Hope everyone had a great week! It went by fast for me. Too fast. Isn't it great to have a side job and get extra money? I know that I enjoy extra money. At what point though, do you have to claim that extra money? Is it self employment income or is it hobby?

I love tough decisions. The first answer is easy. Income is income is income. It needs to get reported no matter what. The second of self employment or hobby is a lot harder to break down.

If you are in a business to make money and have a profit, then odds are, you have Self Employment income and can enjoy all of the benefits as such with the deductions. You need to have a clear definition of what you are doing, show that you are trying to make a profit and keep detailed records for all of it. Odds are, if you have a full time W-2 job and work 40-60 hours a week, you need to do a reality check. Just document, document, document. There is a general rule that you need to turn a profit within three years to continue to take the business deductions. If you don't then it will become a hobby. It is better to do the switching on your own, and not let the IRS decide for you. Talk to a Tax Pro.

Hobbies are things that you earn very little money, and USUALLY have very little expenses. This would be songwriting, weekend craft shows and things of the like. It could also be race car driving, because the expenses will always out weigh the income. You have expenses, you have winnings. Hobby income goes on line 21 under Other Income. The expenses (only up to the amount of income) are reported under Schedule A, Miscellaneous Deductions, subject to the 2% limit.

Still confused and not sure which you are? There is a form – an “Election” to make that says that this may or may not be a hobby or business, but you are asking that the IRS make that determination at a later date. This gives you a little more wiggle room than those first three years.

No matter, you want to consult with a Tax Pro so this goes off the right way, and you don't get burned in the end.

If you have any questions, please contact me at kristhetaxlady@gmail.com!