

1. Business or Hobby
 - a. See page “Is it a Business or a Hobby?”
 - b. You do not need income to be a business
2. Types of Businesses – Corporations, partnerships, LLCs and Schedule C
 - a. Most small businesses start as Schedule C. Tax is at the individual level, no special forms, just file with Form 1040. Easiest for small and beginning businesses.
 - b. Corporations – Sears, GM, small corps, S-corps
 - c. Partnership – Two or more persons, can be husband and wife
 - d. LLC – can be taxed as corporation, partnership or Schedule C
 - e. When to change from Schedule C to other? Depends on growth of business
3. What is Gross Income
 - a. Advances, Royalties, Speaking Fees, Contest Winnings, Personal Book Sales, Any Cash Received for Doing Work
 - b. Form 1099 – It’s all income! You might get one from an agent or publisher.
 - c. What is not income? Discounts on seminar fees, reimbursements of travel expenses.
 - d. However, Per Diem travel allowance is income – this is a bulk payment to spend as you please. You will claim as income, then detail expenses.
4. Expenses – Here’s the big question – What can I deduct on my taxes?
 - a. Rule of thumb – **Is the expense related to writing?**
 - b. Expenses can be taken whether or not you itemize on your taxes.
 - c. Obvious expenses – Organizational dues (national and local), seminar fees, contest fees, publications (industry magazines, “how to write” books, reference materials, fees to read publications, etc)
 - d. Agent fees – Might include a detail schedule of printing and postage costs
 - e. Website costs – Domain name fee, hosting fee, web building and maintenance costs
 - f. Postage – mailing manuscripts to publishers, agents, contests. Mailing promo items to bookstores, seminars, etc.
 - g. Office supplies, Paper, ink, envelopes, etc
 - h. Promotion items – business cards, bookmarks, stationery, labels, soap, candy, pens, etc.
 - i. Interest expense – on loans used for business like office equipment, etc.
 - j. Travel expenses for business, seminars, meetings – Not reimbursed – Flights, car rental, taxi, limo, parking, hotel, meals with tips, tips for maids, porters, bellboys, etc.
 - k. Car expenses if using own car – two methods – Mileage (2007 - 48.5 cents per mile; 2008 - 50.5 cents per mile) or Actual expense – gas, oil changes, car washes, maintenance, tires, depreciation, etc. Use pro rata share of the expense.
 - l. Computers and computer equipment (printers, fax, etc) – If you have a computer 100% devoted to writing, you can depreciate the entire computer. If you share it

with the family, then you must keep a log and calculate the business percentage and only depreciate that percentage of the computer.

- m. Depreciation – Fixed assets like computers and computer software cannot be expensed in one year. If an item has a useful life of more than one year, the item must be expensed over that lifespan. The IRS has determined that computers have a useful life of five years, software, life of three years. Desks, chairs, shelving, basic office equipment have a life of seven years. Autos have a five year life. There are tables to determine life and depreciation expense.
 - i. There is an election to expense depreciable property in the first year of service. Ask your tax accountant.
 - n. Internet and phone expenses – yes, but you must breakdown personal use versus business use and only expense the business portion. Unless you have a separate line, then the business line is 100% deductible.
5. Mileage expenses – What mileage is deductible?
- a. To meetings and seminars – yes
 - b. To a bookstore to buy books – maybe? – Are you buying personal books or business books?
 - c. To the post office to send out a manuscript – yes
6. Receipts -- What if I don't have a receipt for some expenses? You must have a receipt for large expenses like plane tickets or a hotel bill. If an expense is small and reasonable (coffee and breakfast \$2.75), the IRS may allow it without a receipt.
7. Research expenses – There is a whole lot of leeway in this category. What you expense depends on how aggressive you are and if IRS believes you.
- a. Romance and other genre fiction books, movie tickets, travel to exotic locations, etc. Keep expenses reasonable and IRS will allow it.
 - b. Don't even try – medical expenses - “character got face lift so did I.”
8. Office in the Home Expenses – If you qualify, you can expense some of your household expenses as business expenses
- a. For your office to qualify – must pass IRS tests. Do you generate income from your office? Is your office 100% used for business and no personal use at all? Exclusivity test is uber-important!
 - b. Qualifying expenses – rent, mortgage interest, real estate taxes, utilities, insurance, maintenance and cleaning, repairs, etc.
 - c. Deduction is a percentage of total expenses, based on square footage.
 - d. Including Depreciation
 - e. All equipment in your office may be expensed or depreciated.
 - i. Shelving, lamps, desk, chair,
 - f. All repairs and decorating of your office may be deducted.
 - i. Carpet, paint, curtains, wallpaper, etc.

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9. Health Insurance – not an expense of a Schedule C. You must be a corporation to take this as a business expense. For Schedule C, health insurance is deducted on page 1 of the 1040. It's a different kind of expense, called an adjustment. Ask your accountant.
10. Employees of my business
 - a. If you have enough business to hire employees, then you really need a tax accountant for more advice than I can give you here!
 - b. Employing your spouse. There are benefits and drawbacks to this.
 - i. Benefits – you can deduct his travel expenses.
 - ii. Drawbacks – you must pay him a salary, file paperwork for having an employee, and pay employer and employee taxes
 - iii. You will definitely need a tax accountant for the paperwork
 - iv. See page “Employees - Other Employment Scenarios Husband and Wife Business”

Example of Excel Spreadsheet to organize expenses:

2008	Date	Dues	Postage	Promo	Office	Web	Publications
RWA	3/7/2008	75.00					
Borders	5/15/2008						62.35
Quickprint	7/22/2008			65.36	14.26		
Bravenet	8/11/2008					85.00	
USPS	9/29/2008		18.50				
NJRWA	10/5/2008	35.00					
Totals		110.00	18.50	65.36	14.26	85.00	62.35

Suggested Reading:

- IRS Publication 334 – Tax Guide for Small Business
- IRS Publication 583 – Starting a Business and Keeping Records
- IRS Publication 535 – Business Expenses
- IRS Publication 436 – Travel, Entertainment, Gift and Car Expenses
- IRS Publication 587 – Business Use of Your Home

All IRS publications are available on the IRS website: <http://www.irs.gov/formspubs/index.html>

I highly recommend using the services of a qualified tax professional.

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Notes:

Is it a Business or a Hobby?

It is generally accepted that people prefer to make a living doing something they like. A hobby is an activity for which you do not expect to make a profit. If you do not carry on your business or investment activity to make a profit, you cannot use a loss from the activity to offset other income. Activities you do as a hobby, or mainly for sport or recreation, are often not entered into for profit.

The limit on not-for-profit losses applies to individuals, partnerships, estates trusts, and S corporations. For additional information on these entities, refer to [business structures](#). It does not apply to corporations other than S corporations.

In determining whether you are carrying on an activity for profit, all the facts are taken into account. No one factor alone is decisive. Among the factors to consider are whether:

1. You carry on the activity in a business -like manner,
2. The time and effort you put into the activity indicate you intend to make it profitable,
3. You depend on income from the activity for your livelihood,
4. Your losses are due to circumstances beyond your control (or are normal in the start-up phase of your type of business),
5. You change your methods of operation in an attempt to improve profitability,
6. You, or your advisors, have the knowledge needed to carry on the activity as a successful business,
7. You were successful in making a profit in similar activities in the past,
8. The activity makes a profit in some years, and the amount of profit it makes, and
9. You can expect to make a future profit from the appreciation of the assets used in the activity.

For details about not-for-profit activities, refer to [Publication 535, Business Expenses](#) .

Employees - Other Employment Scenarios Husband and Wife Business

One of the advantages of operating your own business is hiring family members. However, the employment tax requirements for family employees may vary from those that apply to other employees. Below, we point out some issues to consider when operating a husband and wife business.

How spouses earn Social Security benefits

A spouse is considered an employee if there is an employer/employee type of relationship, i.e., the first spouse substantially controls the business in terms of management decisions and the second spouse is under the direction and control of the first spouse. If such a relationship exists, then the second spouse is an employee subject to income tax and FICA (Social Security and Medicare) withholding. However, if the second spouse has an equal say in the affairs of the business, provides substantially equal services to the business, and contributes capital to the business, then a partnership type of relationship exists and the business's income should be reported on Form 1065, [U.S. Return of Partnership Income](#) (PDF).

Both spouses carrying on the trade or business

If spouses carry on a business together and share in the profits and losses, they may be partners in a partnership whether or not they have a formal partnership agreement. Spouses should report income or loss from the business on Form 1065, [U.S. Return of Partnership Income](#) (PDF). They should **not** report the income on a Form 1040 Schedule C, [Profit or Loss From Business](#) (PDF) in the name of one spouse as a sole proprietor.

If each spouse is a partner in a partnership, each spouse should carry his or her share of the partnership income or loss from Form 1065, Schedule K-1, [Partner's Share of Income, Credits, Deductions, etc.](#) (PDF), to their joint or separate Form(s) 1040. Each spouse should include his or her respective share of self-employment income on a separate Form 1040 Schedule SE, [Self-Employment Tax](#) (PDF). Self-employment income belongs to the person who is the member of the partnership and cannot be treated as self-employment income by the nonmember spouse, even in community property states. This generally does not increase the total tax on the return, but it does give each spouse credit for social security earnings on which retirement benefits are based. However, this may not be true if either spouse exceeds the social security tax limitation. Refer to Publication 553, [Highlights of 2003 Tax Changes](#), for further information about self-employment taxes.

One spouse employed by another

If your spouse is your employee, not your partner, you must pay Social Security and Medicare taxes for him or her. The wages for the services of an individual who works for his or her spouse in a trade or business are subject to income tax withholding and Social Security and Medicare taxes, but not FUTA tax. For more information, refer to Publication 15, Circular E, [Employer Tax Guide](#).