Hobby vs. Business Checklist

The IRS uses several factors in determining whether an activity is engaged in as a hobby or a business. Business treatment is more favorable in most cases, but ultimately, you must prove that you have a profit motive for the activity. The type of venture, no matter how risky, does not matter as long as you can show an honest pursuit of profits.

Use the following questions to help you determine if you have a profit motive in your activity. 'Yes' answers are good indicators of a profit motive leading to treatment as a business. Keep in mind that no one factor alone is decisive.

	Yes	No
1. Do you keep accurate books and records?	☐	☐
2. Do you have an expectation of profits or gains?	☐	☐
3. Is there a reasonable expectation of asset appreciation?	☐	☐
4. Do you devote substantial time to the activity?	☐	☐
5. Are others employed to carry on the activity for you?	☐	☐
6. Do you have prior expertise in the business?	☐	☐
7. Have you sought advice from qualified advisors?	☐	☐
8. Are profits substantial in relation to any losses or investments?	☐	☐
9. Have you previously turned a similar unsuccessful business into a profitable one?	☐	☐
10. Does your activity operate like a business?	☐	☐
11. Has the activity previously generated significant profits?	☐	☐
12. Is the activity a meaningful part of your overall sources of income?	☐	☐
13. Do profit motives outweigh any personal pleasure or recreation associated with the activity?	☐	☐

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