Hobby versus For-Profit Activity

Self-Study Course

Learning Objectives: By taking this self-study course, learners will be able to:

1. Determine what information is needed from a client to decide if the activity is a hobby or a for-profit activity.
2. Describe the 9-factor for-profit test.
3. Analyze a client’s situation to determine if an activity is a hobby or a for-profit activity.
4. Apply the tier test to a hobby activity.
5. Determine when filing Form 5213 is advantageous for a client.
6. List components included in a typical business plan.
7. Advise clients with a profitable activity about whether the activity is a hobby or a for-profit activity.

Agenda

1. **Hobby Loss Rules**
   - Facts and circumstances determination (IRC §§183, 212 and 162)
   - Importance of an annual client conversation

2. **For-Profit Determination Factors**
   - Nine factors

3. **Taxation of Hobby Income**
   - Order of deductions: Tier 1, Tier 2 and Tier 3
   - Treatment of losses

4. **For-Profit Presumption**
   - Election on Form 5213
   - Multiple activities

5. **Other entities**
   - C corporations
   - S corporations

6. **Business Plans**
   - Components

7. **Self-Employment Tax**
   - 2-prong test