

Hobby versus For-Profit Activity

Self-Study Course

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

1. Identify information that the IRS uses to determine whether an activity is engaged in for profit.
2. Analyze a client's situation to determine if an activity is a hobby or a for-profit activity.
3. Identify types of deductions permitted for a hobby activity, where they are deducted, and in which order they are taken.
4. Determine when filing Form 5213 is appropriate for a client.
5. Recognize components included in a typical business plan.

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

8. Review of Relevant Court Cases