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## *Here's What Taxpayers Need to Know About Paying Taxes on Their Hobby Activities*

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Many individuals are engaged in hobby activities that are also a source of income. For example, some individuals started selling handmade items during the pandemic. These individuals must report this income on their tax return.

A hobby is any activity that an individual pursues because he or she enjoys it and with no intention of making a profit. This differs from those that operate a business with the intention of making a profit.

### **In determining whether an activity is a business or hobby, taxpayers must consider nine factors.**

- Whether the activity is carried out in a businesslike manner and the taxpayer maintains complete and accurate books and records.
- Whether the time and effort the taxpayer puts into the activity show that the taxpayer intends to make the activity profitable.
- Whether the taxpayer depends on income from the activity for the taxpayer's livelihood.
- Whether any losses are due to circumstances beyond the taxpayer's control or are normal for the startup phase of the taxpayer's type of business.
- Whether the taxpayer changes methods of operation to improve profitability.
- Whether the taxpayer and the taxpayer's advisors have the knowledge needed to carry out the activity as a successful business.
- Whether the taxpayer was successful in making a profit in similar activities in the past.
- Whether the activity makes a profit in some years and how much profit it makes.
- Whether the taxpayer can expect to make a future profit from the appreciation of the assets used in the activity.

All factors, facts and circumstances with respect to the activity must be considered. Additionally, no one factor is more important than another.

If a taxpayer receives income from an activity that is carried on with no intention of making a profit, they must report the income they receive on Federal [Form 1040, Schedule 1, line 8](#).

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