

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, there is a limit on the deductions you can take.

You must include on your return income from an activity from which you do not expect to make a profit. An example of this type of activity is a hobby or a farm you operate mostly for recreation and pleasure. You cannot use a loss from the activity to offset other income. Activities you do as a hobby, or mainly for sport or recreation, come under this limit. So does an investment activity intended only to produce tax losses for the investors.

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](#).