

## Four Things to Remember about Hobby Income and Expenses

From scrapbooking to glass blowing, many Americans enjoy hobbies that are also a source of income. A taxpayer must report income on their tax return even if it is made from a hobby.

However, the rules for how to report the income and expenses depend on whether the activity is a hobby or a business. There are special rules and limits for deductions taxpayers can claim for hobbies. Here are five things to consider:

- **Determine if the activity is a business or a hobby.** If someone has a business, they operate the business to make a profit. In contrast, people engage in a hobby for sport or recreation, not to make a profit. Taxpayers should consider [nine factors](#) when determining whether their activity is a business or a hobby, and base their determination on all the facts and circumstances of their activity. For more about 'not-for-profit' rules, see [Publication 535](#), Business Expenses.
- **Allowable hobby deductions.** Taxpayers can usually deduct ordinary and necessary hobby expenses within certain limits:
  - Ordinary expense is common and accepted for the activity.
  - Necessary expense is appropriate for the activity.
- **Limits on hobby expenses.** Taxpayers can generally only deduct hobby expenses up to the amount of hobby income. If hobby expenses are more than its income, taxpayers have a loss from the activity. However, a hobby loss can't be deducted from other income.
- **How to deduct hobby expenses.** Taxpayers must itemize deductions on their tax return to deduct hobby expenses. Expenses may fall into three types of deductions, and special rules apply to each type. See [Publication 535](#) for the rules about how to claim them on [Schedule A](#), Itemized Deductions.
- **Use IRS Free File.** Hobby rules can be complex, and [IRS Free File](#) can make filing a tax return easier.
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### Additional IRS Resources:

- [Publication 525](#), Taxable and Nontaxable Income
- [Publication 529](#), Miscellaneous Deductions
- [Publication 334](#), Tax Guide for Small Business
- [Publication 17](#), Your Federal Income Tax