

Hobby Rules Unfair

By [Gina L. Gwozdz, CPA](#)
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Karen from Michigan asks:

I just read your post about [hobby income](#). The rules seem somewhat bizarre, in that it seems as if someone who is deliberately trying ***not*** to make a profit -- merely asking to be reimbursed for the cost of raw materials for something she makes to give to another person -- would end up paying income tax on what is essentially a reimbursement. I desktop-publish fanzines -- amateur collections of stories and art. The standard price in the fanzine community is calculated at 10 cents per black and white page plus one dollar for every full-color page: in other words, people are charged just the cost of running one off at Kinko's (not counting the binding). No one is supposed to make a profit off of the community. I didn't mind putting in hundreds of hours on a labor of love -- even though I definitely spent more on ink and toner and paper than I took in --, but it's disconcerting to find that because I'm the one who did the copying work, the payments I got -- essentially reimbursements -- are "income." The next time someone asks me to run off a copy of one of the zines I publish, I may have to decline -- I can't afford to pay the government \$3 for each zine. Yet I can't declare that it's a business, because on the first page of each zine, it clearly states that there's no intention to make a profit.

Is this really the way it is? If a jewelry maker makes a necklace for a friend and asks the friend to just pay her back for the raw materials, is the jewelry maker stuck with having to pay taxes on that "income"? If an amateur photographer photographs a friend's wedding for free, but the friend pays him back for the film, the photographer has to pay taxes on it? Something about this doesn't seem right.

My reply:

Hello Karen! Thanks for writing.

I agree that I don't think the rules for reporting hobby income and expenses are fair. Your income would be reported as "Miscellaneous Income" and your expenses would be reported as "Miscellaneous Itemized Deduction", which has various limits and most do not receive a benefit from it. This usually results in exactly what you stated, you're reporting the income (the reimbursements) and no expenses. This is just one of the reasons why, in my opinion, a good tax consultant is worth their fees. They will tell you how to make the most of situation such as this.

The advice I provide my clients who are in a situation such as yours is to convert your hobby into a legitimate business, because that is the best way to get around these rules (in my opinion and yes there is another way). I realize you said that this publication is not for profit and that is not their intent, but YOUR intent can be to make a profit. Once your intent is to make a profit from doing the same thing, in your case, desktop publishing, then you can report your income and expenses on Schedule C, showing a loss and taking a loss until you do finally make a profit. I consider it my job to help my clients find ways to try and make a profit (or increase their profit) in the future and make sure they document their efforts trying to make a profit. For your situation, these things would include (the rest of which you read in my [other article](#)):

1. Finding someone who has made a profit from desktop publishing and asking them to be your mentor.
2. Make yourself some business cards and disperse them, documenting as best as possible where they have been dispersed.
3. Advertise your business and skills seeking additional work.

Obviously more than the 3 things above would need to be done, but that is an excellent start.

Gina L. Gwozdz is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.