



Legitimize Your Business in the Eyes of the IRS

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Use the following worksheet to ensure you are meeting the requirements that support your claim to be a legitimate business.

Words of Wisdom

When you understand the criteria that the IRS uses to determine whether an enterprise is a business or a hobby, you can document your business activities and benefit from the allowable deductions to the fullest extent of the law.

For Fun or Profit?

The IRS asks a series of questions when determining whether an activity is a business or a hobby. "Yes" answers (by checking the box) indicate a profit motive and take you another step closer to being considered a legitimate business.

1. Is the business carried on in a business-like manner?

- Do you have a written plan that outlines your business goals?
- Do you have an action plan that will help you attain those business goals?
- Do you document the steps you take to grow your business, such as sales calls, product presentations, and communication with clients?

2. Do you maintain accurate books and records for the business?

Evidence of accurate record keeping includes:

- Do you have separate business checking accounts?
- Do you have separate business credit card accounts?
- Do you use a general ledger or bookkeeping system?
- Do you record all your business transactions?
- Do you maintain your records for an appropriate period of time?
- Do you have all documentation and other support for tax return items?

3. Is enough time and effort being spent on the business to make profit possible?

- Do you have a daily or weekly journal of activity proving that you are spending the time you need to operate profitably?

4. Do you depend on the income for your livelihood?

- Is the business your only source of income?
- If you are working to replace income from your job, have you included this as a written goal in your business plan?

5. **Are losses due to circumstances beyond your control?**
 Yes No
6. **Do you change your methods of operation in an attempt to improve profitability?**
 Yes No
7. **Do you or your advisors have the knowledge needed to carry on a successful business?**
- Do you have the knowledge to operate a successful business?
 - Do you look to your upline for support and advice?
 - Do you have a list of advisors you can call on? Other advisors could include a CPA, lawyer, banker, insurance agent, or financial professionals.
8. **When you sell, do you sell at a profit?**
 Yes No
9. **Is your business profitable in some years?**
 Yes No

Suggested Steps From Vicky

1. Answer the nine questions the IRS evaluates to determine your intent.
2. If you can answer "Yes" to most of these questions, you can probably relax and stop worrying whether your business will be considered a hobby.
3. If you answered "No" to any of these questions, take steps now to make the adjustments you need to get to "Yes."