

TAX TIPS FOR CRAFTERS

A collection of articles by Barbara Brabec,
republished from her HandmadeForProfit.com blog (now closed).

© 2010 by Barbara Brabec, All rights reserved.

[Barbara Brabec's World](#)



Illustrations by Ken Clubb were originally published in *Crafts* magazine to illustrate Barbara's monthly column. Used by permission of PJS Publications Inc., a K-III Communications Company. Copyright © 1987-1996 *Crafts* magazine.

Individuals:

This PDF document may be shared with others
by email without special permission.

Website Owners/Bloggers:

If you would like to offer this collection of articles as a FREE download on your website or blog, simply request permission from Barbara by [email](#) or phone: 630-717-0488.

IN THIS DOCUMENT:

- [Are You "In Business" or Not?](#)
- [Hobby Income Defined](#)
- [Business Bookkeeping: Records That Will Keep the IRS Happy](#)
- [Resale Tax Number](#)

Are You “in Business” or Not?

Q: A reader asks, “At this time I do not foresee having enough income to allow me to deduct any business expenses. Are there advantages to being a registered business that I’m missing out on by maintaining a hobbyist status?”

The two main disadvantages of treating your activity as a hobby instead of a business are that (1) your profit margin on finished crafts will be less because you cannot buy supplies and materials at wholesale prices; and (2) you cannot give your hobby business a business name unless you register it with local authorities. (More information on this topic will be found in the collection of articles titled “Crafts Business Management Articles.”)

There is nothing wrong with selling to support an art or craft hobby, but if you decide you want to work at home only as a hobby, you are still required to report your hobby income on Schedule C of Form 1040, and list all the expenses you incurred to earn this income. If you end up with a profit, you’ll have to pay taxes on it. If you end up with a loss, however, you are not entitled to a deduction, but you can deduct expenses up to the amount of your hobby income.

[\[Back to Top\]](#)

Hobby Income Defined

Q: How does the IRS treat hobby income, and at what point does a “hobby business” become a “real business” in the eyes of IRS?

A “hobby business” becomes a “real business” in the eyes of IRS at the point where you can state that you (1) are trying to make a profit, (2) are making regular business transactions, and (3) have made a profit at least three years out of five. There have been exceptions to the last rule. In the end, the most important factors are the amount of time you devote to your activity, plus the way you present yourself to the public as being engaged in the sale of products or services; also the way you keep records of your business.

NOTE: If you do not meet IRS criteria, your business will be ruled a “hobby” and any loss you may have deducted against other income will be disallowed. (You can show a loss only on a business, not a hobby.)

[\[Back to Top\]](#)



BUSINESS BOOKKEEPING: Records That Will Keep the IRS Happy

It's well and good to fear the IRS, but it's not difficult to make them happy if you keep the right kind of business records. Surprisingly, you may use any type of bookkeeping system you wish, so long as you avoid "comingling of funds." That means you need a separate checking account for

your business. *You must not deposit crafts income into your regular checking account or write business-related checks from that account.* If you choose to ignore this IRS ruling, you run the risk of losing all the tax deductions previously taken on your Schedule C tax form, and you'll have to pay additional taxes as a direct result.

Note that you do not need an expensive business checking account, but merely a separate account through which you can run all business income and expenditures. *If you open a second personal account for your small business, just put your name on it—ONLY your personal name, not your husband's name or the name of your business.* This will be sufficient for IRS record keeping purposes and keep your bank costs low. These checks will cost less if they are ordered from a service such as [Checks in the Mail](#).

Many home businesses use single-entry bookkeeping systems that keep paperwork, figure work, and headaches to a minimum while still providing all the information needed to properly manage a business and prepare accurate tax returns. Very small businesses may find that all they need is a standard record-keeping book such as the *Dome Simplified Monthly*, which can be found in any office supply store. There are also a wide variety of easy-to-use accounting packages that will make your bookkeeping fun. (Many crafters have told me they love QuickBooks.)

TIP: All home-business income must be reported on a Schedule C form. If you need more information on this topic, and want to know how to maximize all your legal home-business deductions, see my tax strategies eBook [here](#).

P.S. Did you know that "bookkeeping" is the only word in the English language that has three double letters in a row?

[\[Back to Top\]](#)

Resale Tax Number

An excerpt from *The Crafts Business Answer Book*
© 2006 by Barbara Brabec.

All sellers of goods must obtain a resale tax number (also called a “sales tax number,” “tax registration number,” “seller’s permit,” and other similar names) from their state’s Sales Tax Bureau, Department of Taxation and Finance. (Hobby sellers are not exempt from this law, regardless of how few sales they make.) Your reseller’s permit (or “tax exemption certificate”) will bear the special number that identifies you as one who is qualified to buy goods in the wholesale market without paying sales tax. Always take your tax certificate with you when you exhibit and sell in any show since a tax agent may ask to see it. (If you sell at shows in more than one state, you will need a separate tax exemption certificate for each of those states, and there will be a fee for this.)

Your resale (or sales) tax number doesn’t entitle you to avoid sales tax on small purchases of supplies at the local hardware store or crafts shop, but it does enable you to avoid paying sales tax on wholesale purchases of supplies that will be used to make products for sale. When considering whether to sell to you or not, your resale tax number is the first thing a wholesaler will want from you.

###



Barbara Brabec

Visit [Barbara Brabec’s World](#) for a wealth of articles and resources on many topics related to home-business startup, management and marketing. Check the Table of Contents for each of Barbara’s [home-business books](#) to see which ones might be most helpful to you. All of them include advice from Barbara as well as from many successful business owners and industry pros in her network.

Excerpts from Barbara’s crafts books will also be found on [The Author’s Den](#) website in the [Crafts/Hobbies department](#).

[\[Back to Top\]](#)