

The Business of Writing

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I. Business Structure: Is your writing a hobby, a ministry or a business?

Hobby: Is writing a hobby? The IRS considers several factors:

- Profit motive
- Business like manner keeping records
- Your expertise or getting expert advice
- Time and effort spent

Why does it matter? Income reported on tax return. Expenses on Itemized deductions (Sch A) subject to 2 % of AGI. *Losses not deductible.*

Tip: Treat writing as a hobby if income is truly unexpected and irregular and under \$600/year.

Ministry: No tax category called “ministry,” except full blown 501c3 tax exempt organization. Ministry usually for-profit business that breaks even.

IRS may classify your business as a as hobby if losses occur in more than 3 of 5 years, so no losses allowed.

Tip: Run as a for-profit business, file Schedule C and try to break even or show a small profit occasionally.

For Profit:

Sole Proprietorship: Easy and very common for writers. Royalties go on Sch C Profit or Loss from Business *not* Schedule E Rent and Royalties.

Partnerships: Like being married, but not in love. Even verbal agreements can be considered partnerships. Be careful. Get agreements in writing.

S and C Corps: Consider S Corp if income is over \$40,000/year. Author becomes employee of Corp. Consult CPA and small biz lawyer.

LLCs: limits liability to the business' assets. Good idea if you are concerned about risk/liabilities.

Tip: Run your writing business as a sole proprietor and avoid partnership agreements

II. Record keeping:

Spreadsheet on paper or computer. See www.CarolToppCPA.com for 5 short articles and samples. Record every expense by *category*. Sum at end of month or quarter.

Common categories for writers: office supplies, mileage, cost of goods sold, shipping, Misc (professional development)

Record mileage. I use a calendar and Google maps.

III. Taxes

Deductions unique to authors.

“Research fees” are a business deductions. Writers do not have to amortize or depreciate book expenses like small business buying equipment. Authors can deduct book expenses as incurred.

<http://www.forwriters.com/taxes.html>

Tip: If you are an ongoing sole proprietorship, incurring ordinary and necessary expenses relating to doing business during your tax year, you may simply write off your expenses in the year incurred exactly like any other small business.

Tax and financial advisor blog for self-employed people including artists and writers
<http://junewalkeronline.blogspot.com/>

Watch out for:

- Mixed use business and personal for internet, computer, etc.
- Business use of the home if portion of home is regularly and *exclusively* used for business.
- Using a personal trip (with hope to write a book about it) as a business deduction. See “Authors and the Internal Revenue Code” by Linda Lewis (attorney) at <http://www.eclectics.com/articles/taxes.html>

IV. Problems with Book Selling

Inventory: Must be meticulous! Must count inventory at end of year. No guessing!

Difficult to accumulate the cash to purchase inventory. Careful planning.

Solution: Go digital! I use Clickbank to collect payments and arrange downloads.

Shipping: Expensive, time consuming, takes space and gas

Solution: Print on demand. I used Aventine. Look into Lightening Source and Create Space.

Sales tax: Collect on in-state sales and when you go into a state (at conventions)

Usually pay every 6 months, unless very large sales.

Solution: Digital products. Sales tax is collected by the reseller like Clickbank.

Tips:

- *Get an EIN (www.irs.gov for free) and keep your SSN secret*
- *File for fictitious name registration aka DBA (Doing Business As) in your state if you have a business name or a website under a different name.*
- *Spend one hour with a CPA before you get too far along.*
- *Find a CPA that will teach you how to read or prepare your tax return.*