

The Writer & Income Taxes - What You Need to Know¹

Mary Lois Sanders

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Every writer who earns royalties or fees for his/her work (books, magazine and newspaper articles, speaking appearances, etc.), must keep GOOD records of expenditures & income related to these activities.

The Hobby vs. Business Determination

In order to know how to report the income and expenses from your writing activities (and how to be prepared to defend your reporting in the event of an audit), you must first ask yourself the million-dollar question:

Do my writing activities constitute a business or merely a hobby?

The Definitions You Need

Before we delve deeper into this exciting subject, let's make sure you understand a couple of terms.

- "Gross" (i.e., "gross income", "gross revenue", or "gross profit" – all are synonymous) means the total amount of payments received by an author without any offsetting deductions for expenses.
- "Net" (i.e., "net income", "net revenue", "net profit" – again, synonymous) means the gross income amount less deductible expenses. If the deductible expenses exceed the gross income, the result will be a "net loss".

Important: Is writing your hobby or your business? - Factors the IRS considers when making this judgement:

1. Do you operate in a business-like manner?
 - a. Are you a member of one or more professional writing organizations, like SCBWI – Society of Children's Book Writers & Illustrators; FWA – Florida Writers Association; RWA – Romance Writers of America
 - b. Do you network and promote yourself and your work with business cards, newsletters to readers, websites, blogs, online networking sites, etc.
 - c. Do you keep records of your submissions and responses?
 - d. Do you maintain a file of your published clips, if any?

¹ Writer's Essential Tax Guide. D.O. Kelly. See Bibliography

- e. Do you invest in your business by purchasing equipment, supplies, and services that enable you to work effectively and efficiently?
 - f. Do you subscribe to writing magazines, newsletters, read books on craft and the business of writing, and attend writing-related conferences, seminars, and classes?
 - g. Do you seek speaking gigs, and school visits (for children’s writer)?
2. Do the time and effort you put into your writing indicate an intent to make money?
- a. What is your state of mind when you are writing? Are you going for publication or just write because you love to write, with no thought to publish and sell?
 - b. Still, if you put significant time into your writing the IRS tends to consider this as your wish to make money and considers this a business, even if you’ve not yet made a penny for your work
 - c. This effort includes attending classes and conferences, which you must invest in, i.e., deductible expenses.
 - d. Keep a work log, i.e., write down the hours you work and on what. A Submission Log would have the following headers: **Title of work, Summited to; Day/Date; Response**

Work Log Example

TITLE	DATE	TIME	ACTIVITY
Online	1.4.2016	8 – 11 am & 2 – 6 pm	<ul style="list-style-type: none"> • Checked Facebook Writers Groups for news of writing contests, workshops, craft chat. • Touched base with LinkedIn writers Group activity. Sent email Blasts to WLOV membership about tax seminar at Wed’s mtg. and a reminder of the Showcase forms. • Sent emails to other writer’s group leaders and authors in the central FL area about the upcoming Book Lovers’ Showcase, Feb 6th.
Writing	1.5.2016	11 am – 5 pm	Finished the Tax seminar PowerPoint presentation for WLOV mtg on Wed., 1.6.2016

- c. Do you depend on the income from your writing for your livelihood?
- d. Are your losses due to circumstances beyond your control or are they normal for a startup business?
- e. Do you change your methods of operation in an attempt to improve profitability?
- f. Think critique groups, contests, outlining, commandeering a table in the corner of a quiet coffee shop to write – cell phone OFF?
- g. Do you have the knowledge needed to carry on a successful writing business? Can you show the IRS that you seek learning opportunities to improve your craft and expand your knowledge and you are in good shape.

And others – get the book to read further.

The “3 OUT OF 5 YEARS” Rule – MYTH!

- You may have heard that federal tax law stipulates an activity constitutes a business only if it was profitable in three of the last five tax year. This “rule” is the tax rule that ISN’T!
- If your writing constitutes a business, you are entitled to deduct your losses no matter how many years in a row you have a loss. This applies especially to newer writers, but goes for all of us.

Income and Expenses – Keep Records, i.e., Profit or Loss from Business.

1. Income – What you are paid by anyone for your writing skills, including honoraria for speaking, royalties, sales, advances – all paid to you in the calendar year.
 - a. You report as “Cash”* all payments actually received during the year the service or sale was completed. This does not include money received in a later year for a contract signed in the current year.
 - b. Royalty payments, whether from the publisher or agent, are reported to the IRS and to you on Form 1099-Misc. whether for \$10 in sales, or \$600 in services.

2. Expenses – Keep Records
 - a. Expenses – Expenses are considered paid when you buy by check or credit card, even if the check or bill doesn’t clear until the following year. (This doesn’t apply to phone orders.)
 - b. The buy is complete only when the transaction goes through. If that’s in January of the following year, you hold that expense for that year’s expense, not the year you are reporting.

3. Expenses Allowed: It's wide open!
 - a. Use Schedule C to report (Remember, this is a one-size-fits-all-businesses form.
 - i. Some categories are not related to writing at all.
 - ii. Others are. But read all the rules!
 - b. Be sure to: Save receipts and other documentation for support of your deductions.
 - c. For instance, on January 1st of each year, write down the odometer reading. This will help you calculate your travel mileage for the year more accurately.

4. Many Writing expenses don't fall into a category except "Other expenses"
 - a. Dues in professional writing organizations
 - b. Conference or contest entry fees,
 - c. Subscriptions to writing magazines,
 - d. Purchase of research materials for your writing projects
 - e. Advertising your books (website & blogging fees, domain fees, conventional ads, etc.
 - f. Books you purchase from fellow writers to read and analysis or as a goodwill gesture to build rapport and network.

5. Travel Category: Keep mileage records for each trip and All Receipts!
 - a. Travel to and from critique group and local writers meetings; lunches.
 - b. Conference travel, meals, lodging ...
 - c. Record your Odometer reading on January 1st in order to compute the year's mileage.

Don't forget to order: *Writer's Essential Tax Guide*. Kelly, Diane O., CPA/Attorney at Law. ISBN-13:9781495464225. From Amazon.com when it's back online..