

## Taxes and the Writer

Profitability is a key factor in how the Internal Revenue Service determines whether you can legitimately claim the costs of your writing as business expenses.

### Professional Author

- Make a profit in at least three of the last five tax years, including the current year.
- The time and effort put into writing indicates an intention to make a profit.
- Losses are due to circumstances beyond your control or occurred in the start-up phase of the business.
- Trying to improve income by changing the way you operate.
- Run your business professionally by keeping records and watching for profitability.
- Made a profit in similar activities in the past, predicts you are a pro.

### Hobbyist Author

- Does not meet the for-profit qualification.
- Does not depend on income from the activity.
- Hobby income is reported as miscellaneous income on the personal tax return.
- Hobby income is not subject to self-employment taxes.
- Hobby expenses are no longer deductible.

### Strategies

- Keep thorough and businesslike records of your income and expenses.
- Keep copies of letters sent to and from agents or editors.
- Use a separate business checking account.
- Use a separate credit card for the business.
- Record business and personal use of assets in a logbook.

### Typical Tax Deductions

- Advertising:
  - Ads – design, creation, and placement or media fees of print (newspaper or magazine), TV, or Internet advertising, having book listed at Ingram or Baker and Taylor's wholesale catalogs
  - Branding and logo design
  - Business cards, flyers, brochures, mailers – design cost, printing and distribution costs
  - Promotional items – bookmarks, book bags, tee shirts, pens, pads, etc.
  - Signage and display costs – banners, posters
  - Website costs – design and development, monthly or annual hosting fees
  - Newsletters
- Car expenses: Mileage to meetings, research, and conferences (must keep a log of dates, destination, reason, mileage)
- Commissions: Fees paid to agents
- Dues: Professional associations, writers' groups
- Continuing education related to your business
- Internet access
- Postage and Delivery
- Professional Services: Legal and accounting fees, editor, book designer, photographer, illustrator, copyeditor, website developer, video producer for book trailer
- Reference Materials: Necessary books, magazines, and newspapers
- Office Equipment and Supplies, business software
- Travel and expenses: for a professional freelance travel writer
- Meals and Entertainment Expense

- Deduct at 50% if the event has a clear business purpose, you have records of the discussion and you have receipts for anything over \$75.
- Deduct 100% “if you provide meals, entertainment, or recreational facilities to the general public as a means of advertising or promoting goodwill in the community.”
- Deduct 100% if you rented space for a public book reading party to promote a newly released book.
- Now qualified business income deductions (199A) could apply. – Talk to an accountant.

### **Sales Tax**

- Collected and paid for book sales of your own books.

### **Form 1099-MISC**

- Must send this form to an independent contractor or freelancer you paid more than \$600 on the book project. (Assuming you did not withhold any taxes from their fees.)

### **Self-employment Tax**

- Liable for the entire amount Social Security and Medicare tax, based on the tax year’s percent of your self-employment income.

### **Schedule C on Personal Tax Return – Sole Proprietor**

- File this way unless you have made many sales and have a high income.

### **Incorporated Tax Return**

- LLC – taxed as an S-Corp
- S-Corp – you are an employee of the business and pay yourself a salary and are eligible for distributions.
  - Salary portion is subject to the self-employment tax, distributions are not.
  - Distributions are generally taxable.