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May 2001 - LET YOUR HOBBY MAKE YOU MONEY!

A hobby can be a wonderful thing. Hobbies can reduce stress, help you relax, bring you together with your spouse and other loved ones, and culturally enrich you. Often it's simply time and money that keep us from pursuing a hobby as much as we would like. The solution for many people is to develop a good business plan for their hobby so that it will pay for itself and a little extra besides! As an added benefit, by following some basic rules you can qualify for some lucrative tax deductions!

Marketing is a logical place to start your business planning. Get a clean pad of paper and write down all the ways you have noticed other people spending money on your hobby. For example, if you like mountain biking, you might enjoy writing booklets on great places to ride and placing them on consignment with bike shops or sporting goods stores. Think of how pictures would make them sell even faster! You could also sell information about your training techniques, or perhaps a more comfortable helmet you have developed for your own use. Another alternative would be to develop your own line of biking accessories to sell by direct mail or through the Internet. Just about anything is possible!

Start another page of your paper pad and list the groups of people who would likely be interested in your product or service. Ponder the best ways to get your message to these select people. At this point you will be well on your way to developing a specific product or service that is legitimately marketable to an identified group of people.

Financing plans should come next. Start by developing a simple budget. Make your estimates of potential sales and sales growth low and be generous in your assumptions about expenses. Look at more than one year to see how long it may take to begin earning profits.

Continue your financial projections by considering what your initial start-up equipment, inventory, marketing, licensing, and other costs will be, and what additions to these items are anticipated each year. Contemplate in advance what kind of credit terms you will be offering (cash, credit cards, or 30 day terms to proven customers) and thus how much working capital you will need to carry your credit customers until they pay. This information will give you a good idea how much money you will need to start and develop your business, which in turn will help you find funding sources from yourself and your associates, as well as banks, and others.

There is much more to a good business plan than this brief outline, but armed with the information you gather about marketing and finance, you can get good help to complete the rest.

Tax benefits can be substantial, and are a strong motivator to many people to make their hobbies a good business. Be sure to remember that you must actually operate in a businesslike way to receive and keep your tax benefits. Tax courts continue to look at profitability and documented efforts to become profitable when considering whether to allow business status to your efforts and the deductions that can come with them.

These tax benefits can include the ability to deduct the costs of eating out and entertainment, if you are doing it with a current or potential customer, supplier, or other business associate, and you document the business discussion that occurred at that time. You can deduct reasonable travel expenses, including airfare, car mileage (34.5 cents per mile for 2001), hotels, meals, tips, and so on, when the trip is made primarily for business. This means you need to be able to show that on over half the days of your trip, you spent over half (4 hours) of each business day (8 hours) actually conducting business, and that the trips contributed enough to overall profits to cover costs. You can deduct cell phone, Internet, computer, and other costs according to percentage business use.

You can hire your dependent children under age 18 who live with you to work in your business, pay them a fair wage for the work done, and deduct that wage as a business expense. Those children will be exempt from social security, Medicare, and unemployment taxes, as well as income taxes in most cases on at least the first \$4,400 in wages. This can be a great way to have children help work for their camp, music/dance lessons, school activities, and related expenses, as well as to save some of the taxes you would otherwise pay on the income used to pay for these activities.

If your business is in your home, and you meet exclusive use and principal location tests, you can deduct a portion of mortgage interest, property tax, insurance, utilities, and related items according to the percentage of square feet of your home used for business. If you choose a child-care business, there is an even better special rule that allows you in many cases to deduct for your entire home according to the hours you are open for business.

There are also potential deductions for retirement, health insurance, and education benefits that you can have your business offer. Remember that any time you can take a non-deductible personal expense and make it a documented business expense, you have benefited greatly!

I hope you have a lot of fun with your business and that you learn to manage it well so it will enhance your family finances while minimizing your tax burden!

If you have a question you'd like to have answered in a future article, please contact me in care of the **Hurricane Valley Journal**.