



## When It Comes To Tax, Is It A Business Or A Hobby?

There are key differences between having a hobby and running a business, and they're mostly to do with your tax, insurance and legal obligations.

It's important to understand the characteristics of businesses and hobbies to ensure you correctly determine your activities.

### Are You In Business?

While there is no single, defining factor that determines whether or not you are in business, some of the factors that you still need to consider include:

- You intend to make a profit – or genuinely believe you will make a profit from the activity – even if you are unlikely to do so in the short term.
- You've made a decision to start a business and have done something about it to operate in a businesslike manner, such as:
  - registered a business name
  - obtained an ABN.
- You repeat similar types of activities.
- The size or scale of your activity is consistent with other businesses in your industry.
- Your activity is planned, organised and carried out in a businesslike manner.

This may include:

- keeping business records and account books
- having a separate business bank account
- operating from business premises
- having licenses or qualifications
- having a registered business name.

## The Benefits Of Running A Business

If you run a business you can:

- apply for an ABN to use in your business transactions
- have the flexibility to manage your time and work your own hours
- register a .com.au website or a .au website once you have an ABN
- access to government information, services and concessions for business
- establish a business identity when selling to customers and other businesses
- claim tax deductions for business expenses against your taxable income.

## Is It A Hobby?

A hobby is a pastime or leisure activity conducted in your spare time for recreation or pleasure. While you may create a business from the starting point of a hobby (such as crocheting or painting, etc), that is not the primary purpose of the hobby.

## The Benefits Of A Hobby

Having a hobby allows you to:

- gain personal enjoyment and satisfaction from the activity
- gift or sell your work for the cost of materials
- do it in your own time or when people contact you
- have no reporting obligations of a business

## What Are The Differences?

The key differences between a business and a hobby are as follows:

- **Declaring Payments:**
- You do not need to declare the amount made from your hobby to the ATO. However, you will need to declare your income to the ATO in your annual return as a business.
- **Claiming Tax Deductions:**
- You cannot claim a deduction for any losses from your creative work if it is a hobby. As a business, you can claim for deductions on your expenses and generally need an ABN to do this.

### Keeping Records:

You do not need to keep records of your hobby for the ATO, however it's good practice to keep records in case your circumstances change. You must keep records for your business for tax and other obligations.

### Licences & Permits:

Generally, you will not need to hold licences and permits for your hobby. However, you may need licences and permits specific to your type of business.

### Australian Business Number (ABN) eligibility:

As a hobby, you are not eligible for an ABN for a hobby, however if you sell goods or services to businesses, they may ask you for an ABN when they pay you. You can use a Statement by a supplier form to avoid the business withholding an amount from the payment to you for not having an ABN. The statement lets the business know that you are selling the goods or services as your hobby.

As a business, it is not compulsory for businesses to register for an ABN, however getting an ABN is free and makes running your business easier, particularly if you have to register for other taxes like GST. Without an ABN, other businesses must withhold 47% from payments they make to you for tax purposes.

### Selling Goods

If you're selling goods, you'll need to comply with Australian Consumer Law (ACL). Your customers have automatic rights if they buy a product that breaks easily, doesn't work or doesn't perform as generally expected.

If you are not certain about whether your activity would be classified as a business or hobby, you can seek professional advice from an accountant, legal expert or business adviser, who can help you determine what exactly it is that you're running.

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