



(Keep It Simple, Stupid)

# Hobby or Business

## It's Still Tax Time

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Well, we can now KISS (Keep It Simple Stupid) goodbye to another year and with that, surprise!! — it's tax time again. (Didn't we just do that a few months ago? Boy how time flies when you're having such a good time).

I don't mean to alarm anyone, you do have until April 15th to complete all the necessary IRS filing forms and can even ask (by filing for) an automatic extension and additional extensions if justified, necessary and authorized.

But there is NO extension to pay your personal income taxes and for the self-employed, you must have paid 90% of your estimated taxes on a timely basis over the prior year or face a penalty. I can see you now, you non-KISSers you, on April 15th with all those dog eared papers around you and a stupid look on your face like "Alfred E. Newman" saying "What Me Worry?"

Hopefully you have listened over the years and have adhered to the time proven secret formula I have shared — KISS Record Keeping. If so, you will find yourself going out to dinner with your refund on April 15th, foot loose and fancy free of any worries.

### Now for the Substance

The IRS requires you to report all income you receive, and if it goes into your bank accounts it will be identified as taxable unless you can prove otherwise. Now I've written about this before but one more time will not hurt.

What about a cash Christmas gift? What about the sale of a bird? What

about the income from the yard sale? Surprise! All these incomes could be subject to tax if you can not prove that they should not be.

How do you do this? KISS Record Keeping, of course. First, if you are a hobby bird breeder then any sale of a bird *could* be offset by the expenses incurred to keep and or purchase/raise the bird. Voilá, it is not taxable. But you had to have the records to prove it! (Note: KISS Record Keeping is important. Good luck on the gifts and the yard sale).

### Now, For More Substance

What records should I keep and what can I discard? I always answer this question with a KISS answer. You need only keep two (2) types of records: #1 Income,; #2 Expenses-generated creating the income.

Here is the complicated answer. *You need to keep all records, journals and ledgers with backup receipts along with bank statements and canceled checks, loan documents, gift records, credit card statements, banking transactions, that can clearly identify all income and deductible expenses in legible condition for a period of not less than three years three months and fifteen days unless a waiver of the statute of limitations has been agreed to or the service suspects intent to defraud the government.*

WOW! It hurts to have to think that hard. O.K., back to the tax return. If you are a small bird business then you will need to include with your 1040 and other supporting forms, the

Schedule "C" Form or, if you operate a bird farm, the Schedule "F" Form (You should consult an Accountant or a Tax Specialist to determine which schedule would best accommodate your type of business).

Whether you are going to prepare the schedule yourself (similar, as we accountants say, to do-it-yourself brain surgery with a weed eater), or whether you are going to have a specialist do it, you will still need to remember KISS. Start with your uncomplicated (Simple) record of income (sales). Total this from each monthly envelope you labeled at the start of the year and which now contain sales receipts of records for each month.

Next, take the 12 (for a full year, January through December) envelopes full of each month's expense receipts or records, (these also would have been established at the first of the year per the KISS Record Keeping) and total them in like categories, i.e. cages and caging material as one, feed as another, etc. There is not a set number of categories that you must use but you will find some of the more common ones already listed on the Schedules C and F.

This is where the tricky part starts. Do you transfer your information on to the IRS Forms or do you embark on a search for a high priced accountant who is learned in such matters? It is your call but either way, at this point you are organized and ready for the preparation of your return or the substantiation that you truly do have a hobby not subject to the filing requirements. Also your records are in order and prepared for storage just in case you may need them to refer to some day if you are selected for audit.

There is still more to the transferring of your information onto the Schedule C or F Forms. You must deal with items such as capital asset identification, depreciation methods and lives, etc.

I really suggest that you seek professional assistance with something as complex as state and federal taxes. If nothing more, you may consider it sharing some of your wealth with a professional who will, in turn, spend it thereby keeping the economy afloat.

Many Happy Returns ➔