



It is important to understand the differences between a hobby and a business for tax, insurance and legal purposes among other things. For one thing, there will be certain tax and other obligations that start once you are in business.

However, it's a myth that there is a dollar threshold to be in a business (some people can have very expensive hobbies). What matters is whether, as a whole, your activity is "commercial", with an aim to make a profit. Once you are in business, there are dollar thresholds that can affect what you can claim for tax purposes.

Characteristics of a business

There is no single factor that determines if you are in business, but some of the factors you need to consider include:

- 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, or

- obtained an Australian business number (ABN)
- You intend to make a profit or genuinely believe you will make a profit from your activity (even if you are unlikely to do so in the short term).
- You repeat similar types of activities, and the size or scale of your activity is consistent with other participants.
- Your activity is planned, organised and carried out in a businesslike manner. This may include:
 - keeping records and account books
 - having a separate bank account
 - operating from dedicated premises
 - having licenses or qualifications
 - having a registered business name.

If you aren't in business yet, it is important to keep these factors in mind as your activities change or grow, so you'll know when you need to register for tax and other business responsibilities.

Characteristics of a hobby

It is generally accepted that a hobby is a pastime or leisure activity conducted in your spare time for recreation or pleasure.

With a hobby:

- you achieve personal enjoyment and satisfaction
- you can gift or sell your work for the cost of materials
- you can do it in your own time or when people contact you
- you don't have the reporting obligations of a business.

If you determine your activities are a hobby then you do not have any additional tax or reporting obligations. However, if your activity is a hobby you may need to meet certain requirements to transact with a business. When making a purchase a business generally collects the seller's ABN. If the seller can't provide an ABN, then a business must withhold the top rate of tax from the payment for any total more than \$75 for tax purposes.

Since you're not in business and therefore not entitled to an ABN, you need to provide justification that the payer need not withhold tax. This can be done by providing the payer with a "Statement by a supplier" form.

Changing status changes obligations and opportunities

Income-earning hobbies can sometimes grow into businesses, so it's important to monitor any change in income or practises so that you're aware of your obligations before they happen.

Once your hobby becomes a business, you may need additional licences and permits specific to your type of business. For example, if you're running a home-based business, you may need council approval to operate from your residence depending on the type of business.

But being a bone fide business also means that you will have access to many more tax deductions and other concessions than would otherwise be the case. We can advise you on this if and when that time comes.

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