DOVETAIL PLANNING SOLUTIONS

ANALYZE · RECOMMEND · SUCCEED

Is My Business Bonafide? Business or Hobby 9-Factor Test (Regs. Sec. 1.183-2(b)

1. How does the business-owner handle the business (business-like i.e., separate books, bank accounts, records, similar to comparable businesses)?

2. Does the business-owner have professional knowledge of the business activity via education, training, or experience?

3. Does the business-owner spend time and effort carrying out the activities of the business?

4. Does the business-owner have an expectation that long-term business assets may appreciate in value?

5. Has the business-owner had success in other such business ventures?

6. Does the business have continual losses or does it show a profit three of the last 5 years? If so, it is presumed to be a "for-profit" business

7. Does the relative amount of profit and losses make sense over time (i.e., does it qualify under Sec. 183(d) as a "for-profit" business)?

8. Does the business-owner's financial status necessitate profit from the business?

9. Does the business appear to have more "recreational motives" than "for-profit" motives?

Note: This is not a definitive list of questions to determine whether your business is bonafide but should serve as a guide.