

## I.R.S. for Writers

by Georganna Hancock

### **DISCLAIMER**

The author is neither an enrolled IRS agent nor an attorney. The information contained herein is personal narrative and not to be construed as tax advice.

### **INTRODUCTION**

My relationship with U.S. income taxes began in 1961, the year I first attended college. I have prepared a federal tax return myself every year since then. I have never been audited nor had any deductions questioned. The information I offer in this article is based on my own experiences and the help available to anyone with a lot of patience to wade through IRS forms, explanations and publications. Sometime in the 1980s, computer tax programs were invented, rivaling sliced bread; but even if you have someone else prepare your taxes, you'll come out better off if you understand what you need to do as a writer.

### **BUSINESS FORM**

It is not necessary to get a tax number, form a corporation or come up with a business name in order to operate a freelance writing business. This includes writing books. You don't need an attorney. If you're doing it alone, as most of us are, your business form is a sole proprietorship. You will have to use Schedule C, Profit or Loss From Business, with your Form 1040 tax return. Sorry, can't use the short form if you run a small business unless you have a high amount of deductibles. "If that amount does not exceed \$5,000, and if your business did not have a net loss, you should be able to use the C-EZ instead of Schedule C," says the IRS.

If one or more other persons are involved, say you have a co-author or a co-writer arrangement, your business is a partnership. The IRS says, "Partnerships file Form 1065, *U.S. Partnership Return of Income*, to report income and expenses. The partnership passes the information to the individual partners on Schedule K-1, Form 1065. The partners report the information and pay any taxes due on Form 1040. Because partners are not employees of the partnership, no withholding is taken out of their distributions ...."

See IRS Publication 334, Tax Guide for Small Business, available from the government's tax website at <http://www.irs.gov/pub/irs-pdf/p334.pdf> for details about filing the Schedule C and Schedule C-EZ. You can also download copies of tax forms, schedules and instructions.

## **INSURANCE**

Some people think that if they incorporate their business or form a Limited Liability partnership, they will be immune or protected in the event of a libel lawsuit. Not true. If you're the only stockholder(s), you are personally liable for your company's actions. I've been a professional writer for almost four decades, and I have yet to be sued for libel. Threatened once, but the guy didn't know what he was talking about. If you are worried about being sued, carry a higher level of liability coverage. You may be able to get this as part of your homeowner's insurance, however asking about it will alert your agent that you are possibly running a business from your home, and your rates might increase, even without the extra coverage. Insurance companies are funny that way.

## **RECORDKEEPING**

It is vitally important that you keep accurate records for everything about your business. A business journal can be handy, as well as setting up a filing system for every piece of paper or electronic file associated with your freelancing. In fact, I'd go so far as to say that in the beginning, you should keep receipts from **all** purchases, at least until you decide what items you will count as deductible writing expenses for the tax year. I've managed to deduct every piece of office equipment (including all computer-related hardware), as well as a foreign sports car. Some years I could expense those items and for others, I amortized the deduction over several years.

Of course, your recordkeeping won't be solely for tax purposes. You'll need to keep track of prospective markets, where and when you send out queries and submissions, when you expect to be paid and if and when you receive payments (and the amounts). I won't even go into organizing the results of research, but documenting your activities may come in handy when you prepare your tax forms and especially if the IRS questions any deductions.

Keeping good, verifiable records is important for the way in which the IRS defines a business. If you can't prove that you are trying to make money, a string of losses could put your activities into the "hobby" category. Expenses and losses

for hobbies are not deductible. The IRS says, "An activity is usually considered a business if it makes a profit during at least three of the last five tax years, including the current year." This is a very important distinction. You can show a loss for the first three years of your freelance career. Any time you hit the fourth year and try to file the Schedule C or Form 1065, you'd better show a gain or risk an audit and having your business declared a hobby.

What can you do to preserve this 3:2 ratio of losses to gains? You can't manufacture income, but nothing prevents you from **not** claiming deductions and generating a fiscal loss in a critical year. Yes, it's perfectly acceptable and not even a tax loophole. No one can force you to consider an expense as a business deduction. That is entirely in your control. Do you begin to see the value of good recordkeeping? It is also important for the next section: estimated taxes.

### **ESTIMATED TAXES**

One more aspect of freelancing and the IRS involves payments you receive from which the taxes are not withheld. Figuring out whether or not you will need to pay the four-times-a-year annoyance is somewhat complicated, but generally you won't qualify if you expect to owe less than \$1,000 in taxes, AND you expect your withholding and credits to be more than 90% of what you will owe or 100% of the previous year's taxes. Clear as mud? Consult Publication 505, Tax Withholding and Estimated Tax at: <http://www.irs.gov/publications/p505/index.html>.

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