

Generally, in order to deduct expenses as trade or business expenses, your enterprise must be, after consideration of all the facts and circumstances, entered into with an actual and honest objective of making a profit.

IRS regulations set forth nine factors to be taken into account when determining whether an activity is entered into for profit. This list is nonexclusive. The factors are:

- (1) whether the activity is operated in a business like manner and complete records are maintained,
- (2) whether you are an expert in the area or hire experts and take their advice,
- (3) the time and effort you spend, (if you spend only a limited amount of time on the activity but hire qualified people this may evidence a profit motive),
- (4) whether you expect assets used in the activity to appreciate in value,
- (5) your success in similar areas,
- (6) your history in the activity,
- (7) amount of profits in the activity,
- (8) your financial status (the absence of income from other sources would indicate the activity is entered into for profit), and
- (9) if the activity appeals to you on a personal level may indicate that it is not entered into for profit.

In general, there exists a presumption that if the business shows a net profit for two of five consecutive years, the activity is presumed to have been entered into for profit.

If the business fails these tests, it is considered as a business not entered into for profit and only certain deductions are allowable. They are:

- (1) deductions that are allowed whether or not the activity is entered into for profit (interest and taxes), and
- (2) all other deductions but only to the extent that the gross income from the activity exceeds deductions that are allowable whether or not the activity is engaged in for profit.