Tax Tips for Writers

1. Classify—is writing a hobby or a business?

The first thing to consider is whether your writing is primarily a "business" or a "hobby," because taxes are filed differently depending on your answer. As your business plan will likely illustrate, the main purpose of a business is to make a profit. Although there are different definitions for what constitutes a business, if your income is greater than your expenses for three out of five years and your motive is profit, it's probably a business (and you would fall into the "Self-Employed" category). If, on the other hand, your income is less than your expenses or you just love writing science fiction for the fun of it, it's probably a hobby.

The main difference between these two, tax-wise, is that a hobby cannot generate a loss. So, if you spend a large sum of money on office equipment, rent, travel, and research for your hobby, your losses will not be carried over to a future year to offset profit for when you get that big advance. If, however, you have a business, losses can be generated. Another tax tip is that you can deduct expenses in either scenario; keep in mind though that if writing is your hobby, deductions cannot exceed income earned.

2. Detail—keep careful records of your income and expenses

You must include as income (if it's a hobby, in the "Other Income" section of your personal return) all revenue from royalties, kill fees, article sales, and advances. You can deduct expenses for items that are "necessary to conduct business" such as office equipment, advertising (thing likes online ads, press releases, and print ads), course fees, reference materials, bank charges, and long-distance calls.

Many writers work at home and may qualify for the home office deduction, which is a bit more complicated, as certain criteria must be met for claim eligibility and other factors are involved in the calculation. If you use the space as both a residence and an office, the claim must be prorated based on the number of hours used for business in a day/week and the percentage of office space versus living space. Only home maintenance on the office section of the house or on the whole house (e.g., a new roof) can be deducted, not the total maintenance costs for the house (so, you can't claim replacing the old deck). In addition, make sure that your home insurance covers the use of the home as a home office (this portion would be fully deductible as a business expense). Though it's a bit more complicated than a standard deduction, if you qualify, it's worth claiming.

Overall, the most important tax tip is to make sure to keep all of your receipts (and make a note on the back detailing what they were for, so you don't forget). It might even be worth investing in some basic accounting software, such as QuickBooks or Simply Accounting, to keep track of these items (though even an Excel spreadsheet may suffice, depending on the size of your business). You should definitely keep all records for seven years so that you will be prepared in case you are selected for an audit.

3. Consult—confirm your situation with the local tax authority

If your situation is relatively simple, you can likely prepare your own taxes. However, if you have any questions or problems regarding forms that are required, which deductions are allowed, or any other complexity relating to your specific situation, you will probably want to consult the IRS, CRA, or your local tax authority or retain the services of a professional accountant. Although there is no need to get your taxes edited, you may want to consider our manuscript editors for you next big project!