

# TaxRelief

You're a word buff, not a number cruncher, right? Follow our crib notes on how to report your writing income to Uncle Sam.

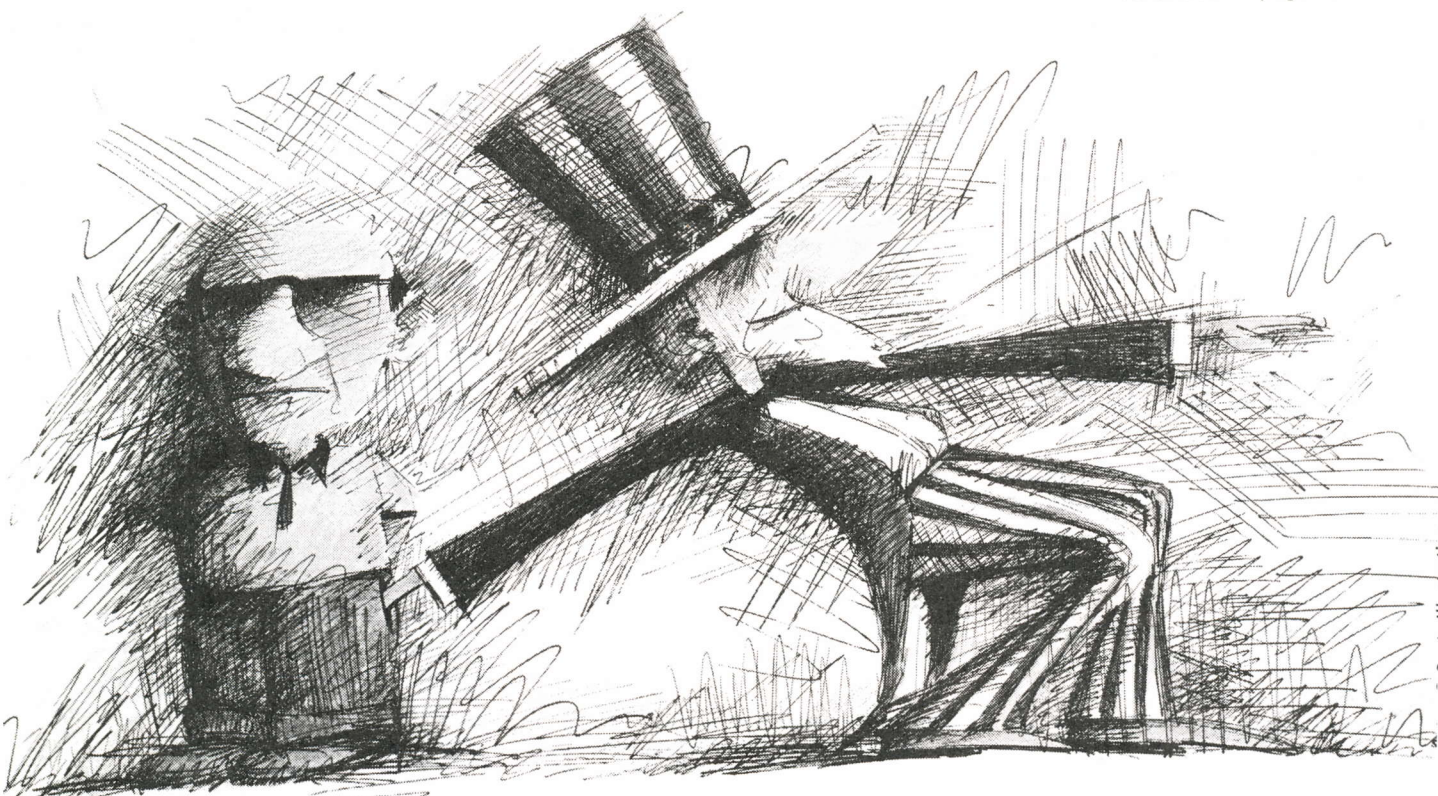
By Sue Fagalde Lick

**W**hat's worse than a rejection letter? A visit from the IRS. But don't worry. Knowing the answers to the following common questions can help you report your writing income properly, while allowing you to worry about more important things—like query letters.

## **Does the IRS even need to know I'm a writer?**

Yes. If you've earned any money writing, you're legally obligated to report that income. If any one source paid you more than \$600, he'll send both you and the Internal Revenue Service a 1099 form, the

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freelance equivalent of a W-2. Even if you haven't sold anything yet, you can offset the taxes you owe from your day job and other sources by deducting your writing expenses.

### How do I start?

Ultimately, you're going to face a form that asks you to list your income and expenses. If you have no idea what they were, start searching through your check stubs and receipts to try to recreate what happened in 2005. From today on, keep track of every penny earned or spent in your writing business. It doesn't matter whether you use

photo equipment and processing fees; membership in writing organizations; classes, conferences and workshops; books and magazines; and interest on credit cards used only for business.

You can also claim a deduction on your taxes for the miles you drive to and from interviews, and other writing-related activities. For the 2005 tax year, the deduction was 40.5 cents per mile driven between Jan. 1 and Aug. 31, and 48.5 cents per mile for Sept. 1 to Dec. 31. (Note: Beginning Jan. 1, 2006, the deduction was 44.5 cents per mile.)

Another deduction called "office in the home" allows you to deduct a

percentage of your rent or mortgage, utilities and insurance for the space devoted to your writing. In order to qualify, your office space must be either a separate room or a section of a room divided off by partitions or furniture, and it can be used only for work. It can't also be the sewing room, guest room or video arcade.

### Don't I have to show a profit?

Officially, the IRS expects you to make a profit three out of five years. If you don't, they'll declare that your business is merely a hobby. In reality, they may give your return a second look if you're going into year six with no profit, but you'll be all right as long as you can prove you were trying to make money. (For more on proving you're a business, see "Proving You're a Business" on p. 17).

### What if I made a lot of money last year?

When you begin to make big bucks, it gets a little more complicated. If, after you've subtracted all your deductions, you have a profit of more than \$400, the government will ask you to chip in approximately 15 percent for Social Security and Medicare. That's Self-Employment Tax, which goes on another form, Schedule SE.

Suppose you finally sold that book and received a hefty advance. To counteract your increased tax bill, take another look at your deductions. If you missed something, it may be possible to go back and amend your return to claim additional losses from the past two years.

If you expect to owe more than \$1,000 in income tax for your writing business, you may also have to start making quarterly estimated tax payments. Regular employers withhold taxes from every paycheck, but the people who pay writers rarely take out any taxes. If your freelance income is small compared to what you make at your day job, this isn't a problem. But if you're making enough money to worry about owing thousands of dollars in taxes, it's time to hire a tax professional. **YB**

**Sue Fagalde Lick** is a former newspaper editor turned freelancer. She's currently working on a book about childless women and teaching writing classes online and at Oregon Coast Community College.

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a spiral notebook, a spreadsheet or a computer accounting program such as Quicken, as long as you have a clear record of where the money went.

Set up categories for income and the most common expenses (see next section for examples). For each item, include the date, amount, source of income or who you paid and what it was for. Also save your receipts, check-book register and appointment book. If the IRS ever questions your return, these documents will prove you're telling the truth.

### What can I deduct?

The IRS will allow you to deduct any unreimbursed expense that's considered "ordinary, necessary and reasonable" for the pursuit of your writing business. These include office supplies; computers, software, toner and repairs; Internet fees and website charges; long-distance telephone calls; travel expenses, including air, train, bus and cab fares, lodging and meals; postage;

### What do I do with this information?

Among the forms in your standard tax booklet, you'll find one labeled Schedule C: "Profit or Loss From Business." Here, you'll enter what you earned and spent in your writing business. Because writing is different from selling widgets, not all the blanks will apply, and you'll have some expenses, such as contest entry fees, for which there's no blank. List those under "other expenses." At the bottom of the page, subtract your expenses from your income (or vice versa, depending on which is bigger). The total can then be