

Is Your Passion a Business or Hobby?

Many people want to start a business. Some have an idea for a business. Others already have the product or service. Some people even have customers.

“However, having the desire, having the product or even having customers does not necessarily mean you have a business,” says Glenn Muske, the North Dakota State University Extension Service’s rural and agribusiness enterprise development specialist. “For a wide variety of reasons, people want to own their own business. But for some, the business, in reality, is only an expensive hobby.”

So how can you tell if your idea or opportunity is a business or hobby?

“A first place to start is with the Internal Revenue Service and how it determines the distinction,” says (Insert name and title) of (Insert county). “One of the IRS’ primary questions revolves around whether the business makes a profit.”

An IRS guideline is that the business must make a profit for three of the last five years, including the current year. The IRS also looks at changes made in the business to increase its profitability. Businesses should have a “reasonable” expectation of turning a profit.

“The IRS expectations are the bottom line,” says Muske. “Yet the IRS always is looking after the fact. More important for business owners is knowing in advance that their business is working toward profitability.”

Three factors are important in understanding whether you are developing a business or a hobby. These are:

- Having a full understanding of the market and the competition
- Knowing you have a customer base that is willing and able to buy the product you have at a price that provides you a profit
- Being ready to do not only the parts of the business you love, such as the production, design or networking, but a willingness to take on all of the tasks, including the accounting, dealing with complaints, technology and taking out the trash, all while spending 24/7 at work when no sales occur

“Evaluating your idea in light of these three items, along with your willingness to make a plan that encompasses these items, becomes key in determining if what you have is a business idea or a hobby,” says (last name). “Too often passion and the encouragement of others lead you into something before you have studied the critical questions.”

To help you make this determination, contact your local Extension Service office at [insert phone number and email address]. Also visit NDSU’s small-business support website at www.ag.ndsu.edu/smallbusiness and sign up for the monthly newsletter. Also check out Facebook at www.facebook.com/NDSUextsmallbiz or Twitter at @gmuske. Another resource is <http://www.extension.org/entrepreneurship>.

The Small Business Administration and its related organizations, Small Business Development Centers and the Service Corps of Retired Executives, also are useful resources. At the local level, your banker, accountant and economic development professionals might be of help as well.

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For more information, contact glenn.muske@ndsu.edu or call (701) 328-9718. You also can visit our website, www.ag.ndsu.edu/smallbusiness.