

## Handout for “The Business of Santa” presentation – updated 1/27/2026

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What is the difference between a hobby and a business?

One key is intent – is there a reasonable expectation of earning a profit or are you doing this just for fun.

The definition of a "profit" is ***all*** income minus ***all*** expenses. We will discuss income and expenses in more detail later.

If you have a hobby - what are the consequences?

- a. Any income you receive is taxable as "other income" on your income tax return
- b. Any expenses you incur are NOT deductible
- c. We have attached IRS information to the back of the packet to give you more detailed information regarding business versus hobby issues.

If you are operating as a business or if you want to start operating as a business, what does that involve?

What are some elements of good business management?

1. Record keeping. Record keeping. Record keeping
  - a. Even if you don't use a formal record keeping system, try to do things like:
    - a. Create a system to track your contacts and requests for visits. This can be as simple as using index cards or can be done on the computer
    - b. Keep your calendar up to date so you don't overbook
    - c. Consider creating a standard sheet that you use to ask questions when someone requests a visit. Include things like:
      - i. Contact name, phone and email.
      - ii. Is it a business or family visit?
      - iii. How many children will there be?
      - iv. How many adults?
      - v. Will there be presents for you to hand out? If so, how are you getting them? If there are individual presents, ask them to make sure the names are clearly written,
      - vi. Do they want you to read a story?
      - vii. Will you offer any other type of service - magic, singing, games, etc.
      - viii. Is there anyone with special needs?
      - ix. What kind of seating do they have for Santa and Mrs. Claus?
      - x. Will they provide a parking space close to the door.
      - xi. Will they have an “elf” to guide you and help as needed?
  - b. Get and keep receipts for any business related expenditures.

- c. Track business mileage. Write your mileage in your calendar, keep a separate log or use a mileage tracking program such as Mile IQ. Plotting your route on Google Maps is another way to determine mileage.
  - d. Develop a record keeping system for income and expenses.
    - a. There are some Santa specific programs, such as Kringle Tracker, that handle all of your business needs.
    - b. If your business is small, an Excel worksheet can work.
    - c. There are several other programs that are effective but will cost more such as QuickBooks Desktop, QuickBooks Online, Quicken, Zero, etc. Make you get training to be able to use the programs the way they are designed.
2. Good business practices
- a. Set up a separate checking account that is used always and exclusively for business. Transfer money into it if needed to pay bills. Don't pay any personal expenses from that account. Transfer money to your personal account if needed.
  - b. Promote yourself as a business.
    - i. Set up a separate business email account.
    - ii. Make sure your business cards and other advertising is in good taste and looks professional.
    - iii. If someone pays you by check, make sure it's made out to the business.
  - c. Purchase insurance
  - d. Make sure your background checks are up to date.
  - e. Use a contract. We pulled a sample online and modified it. Make sure it's clear. You may want to consult an attorney.
  - f. Consider getting a non-refundable deposit when some books a visit, especially if it's a new client or a longer visit.
  - g. Issue and invoice for business appearances. They will need it for their records.
  - h. Consider signing with agencies such as GigSalad, Hire Santa, etc,
  - i. Consult with an accountant/professional tax preparer and other professional
3. Fees – be aware of what the going rates are in your area. Don't be afraid of asking for what you are worth. You may lose a visit or two to a low bidder, but the quality of client will be better, and they may refer you to others.

You may be an employee of an organization and still have another type of entity.

If you have a business, what kind of entity are you?

The choice of entity is a decision we recommend you make after consulting with an attorney and your tax professional. We will present some basic tax and general information for each type of entity.

## Schedule C - sole proprietor

Schedule C is filed as a part of the personal tax return

It uses the owner's social security number unless there are employees. Then you must obtain an employer identification number (EIN).

A self-employed person is subject to self-employment (SE) tax if there is a profit. SE tax is how the self-employed individual pays the Social Security and Medicare tax on their earnings. It is 15.3% of net income. One half is deducted on the front of the 1040.

Losses are deductible

There is no built-in liability protection. Liability can possibly be covered by insurance.

The next entities we will discuss are all separate legal entities.

They all need to have their own entity identification numbers (EIN), checking accounts, etc.

## C-corporation

This is a traditional corporation.

It pays its own taxes. It files Form 1120.

Any staff - Santa, Mrs. Claus, etc. - would get a paycheck from the company.

There is liability protection built in because of the corporate shell. However, please consult your attorney because it is our understanding that individual, intentional, acts (think child abuse here, or tripping an obnoxious parent) still leaves the person open to legal action.

By liability protection, we mean protection of your personal assets - home, car, investments, etc. it is critical that with any corporate entity you do not mix business and personal expenses.

In our opinion you should still carry insurance

## Partnership

This is when two or more individuals get together to conduct business

A partnership is referred to as a "flow through" entity because it does not pay its own taxes. It files what is basically an information return, Form 1065, and issues a form called a "K-1" to each partner showing that partner's share of the income or loss.

Staff get paychecks but partners do not.

Partners pay self-employment tax on their share of any income.

Losses may or may not be deductible

There is no built-in liability protection. Liability may be covered by insurance.

***It's complicated! Talk to your attorney and accountant!!***

#### S-corporation

This is also a "flow through" entity. It files form 1120S and issues a K-1 to the shareholders.

There can be one, two, or many shareholders.

Staff will get paychecks. All active shareholders, even if there is just 1, must get a paycheck. They cannot just take a distribution.

Losses may or may not be deductible.

There is built in liability protection, just like with a c-corp. In our opinion, you should still carry insurance.

***It's complicated! Talk to your attorney and accountant!!***

#### LLP- Limited Liability Partnership- and LLC - Limited Liability Company

If you are thinking about going this route, please talk to your attorney to see which one would be more appropriate for you. State laws vary with these entities.

The purpose of both of these types of entities is to provide liability protection. The original concept was for professional organizations so that one person would not be liable for what another person did. They have evolved over time.

Limited Liability Partnerships are still used mostly by professional groups: attorneys, accountants, etc.

The Limited Liability Company has become a much more versatile entity. There can be a single member or multiple-member LLCs.

Because incorporation is a state issue, IRS has decided to treat a single member LLC as a "disregarded entity" for tax purposes. This means that while the entity

retains all of the corporate legal attributes, the taxes generally are filed as if it were a sole proprietorship.

The single member would not receive a paycheck. Any staff would receive a paycheck.

The multi-member LLC generally files as a partnership.

Partners get K-1s. Staff get paychecks.

**It's VERY complicated! Talk to your attorney and accountant!!**

## Forms

W-4 - employee's withholding allowance certificate

This is used only if you are an employee of the organization requesting it.

W-9 - request for taxpayer identification number and certification.

This is used if you are not an employee of the organization requesting it.

Put the correct legal name on it. If you are a sole proprietor, that is your personal name. If you are an entity, it is the legal name of the entity.

There are check boxes for you to indicate what type of entity you are.

Organizations ask for this information in case they need to issue a form 1099 to you at the end of the year. Form 1099 is required if an organization has paid someone, or another entity, more than \$600 for services during the year.

Please do not ignore these requests or fill them out incorrectly intentionally. There are penalties that can be assessed.

If you are paying someone to help you, and they are not your employee, be sure to have them fill out a Form W-9 for you BEFORE you start paying them in case you need to issue a Form 1099 to them.

Form 1099 - Form 1099 NEC is filed by the payer. One copy is submitted to the IRS, another copy is usually submitted to the appropriate state. The entity named also gets a copy.

**Do not ignore these.** Make sure that all income reported to you is included on your tax return. IRS does a good job matching forms and returns.

It is important for state issues to keep records by event and date

Depending on the work you do, no matter what type of entity you are, you may need to file tax returns in more than your home state.

We recommend you keep tax returns and related records as long as possible – at least 7 years, longer if possible. IRS can audit back 3 years. If they find a problem, they can go back another 3. If ***they*** suspect fraud, they can go back forever!

What is taxable:

- Appearance money
- Tips
- Gift cards
- Endorsement money

Basically, ***everything*** you receive for your services

What is deductible:

All expenses directly related to the conduct of business are deductible.

For example:

- Cost of apparel and accessories
- Marketing/advertising costs including business cards, give-a-ways, etc.
- Training and educational events
- Beard and hair care

Vehicle expenses - there are two ways to deal with vehicles - actual expenses or cents per mile. If you have a vehicle that you use strictly for your Santa work (very limited personal use) using actual expenses, including the cost of purchasing the vehicle, may work for you. For most people, the cents per mile method works best. Please consult your accountant.

Myth - sorry folks - just because your vehicle has some form of advertising on it that does not make it 100% business. IRS will still look at the actual miles for business activities. Driving to the grocery store is not a business activity even if you get a job out of it. The cost of the advertising is deductible.

General tips

**Do not ignore letters from the IRS**

**Make sure you are comfortable with your tax professional and make sure he or she understands your role and what it is you do. Don't be afraid to interview several tax professionals to see where the best fit is.**

## From IRS.GOV

### **Question**

How do you tell the difference between a hobby and a business for tax purposes?

### **Answer**

A trade or business is generally an activity carried on for a livelihood or in good faith to make a profit. The facts and circumstances of each case determine whether an activity is a trade or business. Some of the important facts and circumstances used to make this determination include:

1. regularity of the activities,
2. regularity of the transactions,
3. production of income, and
4. ongoing efforts to further the interests of your business.

You do not need to make a profit to be operating a trade or business but you do need to have a profit motive. The above list is not all inclusive in the determination of whether an activity is trade or business. For more information, see [Here's how to tell the difference between a hobby and a business for tax purposes](#) and [Know the difference between a hobby and a business](#) .

### Part-time business

You do not have to carry on regular full-time business activities to be self-employed. Having a part-time business in addition to your regular job or business also may be self-employment. Example: You are employed full time as an engineer at the local plant. You fix televisions and radios during the weekends. You have your own shop, equipment, and tools. You get your customers from advertising and word of mouth. You are self-employed as the owner of a part-time repair shop.

### [Here's how to tell the difference between a hobby and a business for tax purposes](#)

A hobby is any activity that a person pursues because they enjoy it and with no intention of making a profit. People operate a business with the intention of making a profit. Many people engage in hobby activities that turn into a source of income. However, determining if that hobby has grown into a business can be confusing.

To help simplify things, the IRS has established factors taxpayers must consider when determining whether their activity is a business or hobby.

#### **These factors are whether:**

- The taxpayer carries out activity in a businesslike manner and maintains complete and accurate books and records.
- The taxpayer puts time and effort into the activity to show they intend to make it profitable.
- The taxpayer depends on income from the activity for their livelihood.
- The taxpayer has personal motives for carrying out the activity such as general enjoyment or relaxation.
- The taxpayer has enough income from other sources to fund the activity
- Losses are due to circumstances beyond the taxpayer's control or are normal for the startup phase of their type of business.
- There is a change to methods of operation to improve profitability.

- Taxpayer and their advisor have the knowledge needed to carry out the activity as a successful business.
- The taxpayer was successful in making a profit in similar activities in the past.
- Activity makes a profit in some years and how much profit it makes.
- The taxpayer can expect to make a future profit from the appreciation of the assets used in the activity.

All factors, facts, and circumstances with respect to the activity must be considered. No one factor is more important than another.

If a taxpayer receives income from an activity that is carried on with no intention of making a profit, they must report the income they receive on [Schedule 1, Form 1040, line 8 PDF](#).

### Know the difference between a hobby and a business

#### **Key questions to consider**

##### **Is the activity conducted like a business?**

- Does the taxpayer maintain complete and accurate books and records?
- Does the taxpayer do the activity in the same way as similar profitable activities?

##### **Does the taxpayer change their methods of operation to improve profitability?**

- Does the taxpayer advertise or promote the activity?
- Does the taxpayer work to secure suppliers or products necessary for the activity?

##### **What is the taxpayer or their advisors' expertise in the activity?**

- Has the taxpayer, or their advisors, prepared for the activity by extensive study of its accepted business, economic, and scientific practices?
- Does the taxpayer follow the accepted business practices or advice of experts when they pursue the activity?

##### **Is the activity a main source of income for the taxpayer?**

- Does the taxpayer spend much of their personal time and effort on the activity, particularly if the activity does not have personal or recreational aspects?
- Has the taxpayer pursued the activity full-time or part-time?
- Does the taxpayer employ competent and qualified persons to perform the activity?

##### **Has the taxpayer made or expect to make a profit?**

- Has the taxpayer engaged in similar activities in the past and converted them from unprofitable to profitable enterprises?
- Does the taxpayer intend to profit from appreciation in the value of assets, such as land, used in the activity?

##### **Is the activity profitable in some years?**

- Does the taxpayer occasionally have a small profit from the activities that is offset by large investments they have made or suffering large losses?
- Has the taxpayer made substantial profit from the activity?
- Could the activity earn a substantial ultimate profit in a highly speculative venture?

##### **Do any losses from the activity fall beyond the taxpayer's control or are they normal in the startup phase of their type of business?**

- Do the taxpayer's losses continue beyond the period which would be necessary to bring their activity into profitable status?
- Are the taxpayer's losses because of things beyond their control, like drought, disease, fire, theft, weather damages or depressed market conditions?
- Has the taxpayer had a series of years in which they made a profit?

**Does the activity have elements of personal pleasure or recreation?**

- Does the taxpayer have personal motives for doing an activity, especially where there are recreational or personal elements involved?
- Does the activity lack appeal other than profit?

**Claiming profits and losses**

If taxpayers aren't trying to make a profit with their hobby, business or investment activity, they can't use a loss from the activity to offset other income. The limit on not-for-profit losses applies to individuals, partnerships, estates, trusts and S corporations. It doesn't apply to corporations other than S corporations.

If a taxpayer receives income from an activity that is carried on with no intention of making a profit, they must report the income they receive on [Schedule 1 \(Form 1040\) PDF](#), line 8.

**More information:**

- [IRS Small Business Self-Employed Tax Center YouTube video](#)
- [Income & expenses](#)
- [Gig economy tax center](#)
- IRS Video Portal
- [Publication 17, Your Federal Income Tax](#)
- [Publication 525, Taxable and Nontaxable Income](#)
- [Publication 535, Business Expenses](#)
- [Publication 334, Tax Guide for Small Business \(For Individuals Who Use Schedule C\)](#)