

**A TAX WORKBOOK
FOR MARY KAY**



CONSULTANTS AND DIRECTORS

Presented By

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Congratulations on becoming your own boss. Now you will be able to set your own hours and determine how much money you will make. The tax advantages available to every Mary Kay Consultant and Director are enormous! Every consultant's situation is different, and every consultant works their business differently. The more you work your business and the harder you try to make a profit, naturally the more expenses and tax deductions you will have. When properly saved and documented, expenses can actually become another source of income. To ensure that you get the maximum tax advantage from your business, this workbook is designed to help you understand some basic tax issues.

KEEPING GOOD RECORDS:

For maximum tax savings, you must keep **GOOD RECORDS!** Business owners who keep their tax records organized tend to get more deductions than those who don't. Significantly more! Keeping good records also assure you of minimum hassles should the IRS decide to audit you.

If you spend a few minutes per day filing receipts and keeping up with your records, you won't have to spend numerous days before April 15 each year trying to get it all together! In addition, when you keep track of your expenses as you go along, your memory won't have to stretch back very far to remember things that occurred months ago.

FORMS NEEDED:

Every Consultant & Director must file IRS Form 1040 and a Schedule C. In addition, you might file Schedule SE, 4562, and 8829 and perhaps other forms on more complicated tax returns. If you are married, filing jointly, then these schedules will be attached to the tax return you file with your spouse.

CONVERTING PERSONAL EXPENSES TO TAX-DEDUCTIBLE BUSINESS EXPENSES:

It is very possible that as a Consultant, you may have a tax loss in your first year or two of business. This doesn't mean that you actually lost money in your business; every business has initial start up costs (showcase) that you do not incur again. Many of the items that you can now deduct on your tax return are items that you've always been paying even before you started your business. Examples are your automobile expense, office-in-the-home expense, car washes, internet, entertainment, travel, beauty supplies, etc. By keeping good track of your records, you're using your cosmetics business to convert previously non-deductible personal expenses into tax-deductible business expenses. **REMEMBER** that for an expense to be deductible, it must meet three rules: **expenses must be ordinary, reasonable, and necessary.** An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business.

AUTOMOBILE EXPENSES

DRIVING YOUR OWN AUTOMOBILE:

There are two different methods to calculate the tax deduction for the business use of your personally owned, or leased, automobile:

- The standard “per-mile” method, or
- The “actual expense” method

Either way, **YOU MUST KEEP A LOG OF THE MILES YOU DRIVE THAT ARE BUSINESS RELATED!** This includes:

- **WHO** you drove to see and **WHY**
- **HOW MANY MILES** you drove
- **THE DATE** you drove

A Mileage Log is a must whether you are taking the standard or actual method. The easiest log is a simple calendar kept in your car or you can buy an actual Mileage Log from an office supply store. In addition you should keep a date book itemizing your activities for the day.

If you use the “per mile” method, once you have computed the number of business-related miles driven, you take the number of business miles time \$.405 per mile Jan-Aug 2005, and \$.485 Sept-Dec 2005.

Business miles _____

x\$.405=_____ (Deduction)

If you use the “actual expense” method, you must also calculate the **TOTAL** number of miles you drove your car in the year, in addition to the business miles. Then divide the Business miles by the Total miles to get the **BUSINESS %**.

Business Miles _____

÷ Total miles _____

= _____ (Business %)

You must also compute the actual expenses of operating the vehicle for the **ENTIRE YEAR!**

Gasoline.....\$ _____

Repairs/Maintenance.\$ _____

Insurance.....\$ _____

Interest on Car Loan...\$ _____

License/Inspections....\$ _____

Lease Payments.....\$ _____

Car Washes.....\$ _____

Taxes.....\$ _____

Total Expenses \$ _____

x Business % _____

= \$ _____ (Deduction)

AUTOMOBILE EXPENSES

If you use more than one car in your business you must keep separate records of expenses on each vehicle.

PLEASE NOTE THAT YOU ARE ALLOWED TO TAKE THE HIGHER OF THE TWO METHODS DESCRIBED ABOVE. YOU SHOULD FIGURE IT BOTH WAYS TO MAKE THAT DETERMINATION.

DRIVING A COMPANY CAR:

If you're driving a company car, you still need to keep good records to have all the tax deductions available to you.

First, you'll still need to keep track of your business mileage in your mileage log. In addition, you'll want to use the "ACTUAL EXPENSE" method discussed above, to deduct automobile expenses associated with the company car.

You'll be directly paying for:

Gasoline.....\$ _____

Repairs/Maintenance...\$ _____

Lease Payments.....\$ _____

Car Washes.....\$ _____

Other.....\$ _____

The company will provide you with an IRS Form 1099-MISC and an income advisory statement at the end of the year, which will provide you with information about your company car. The company reports to the IRS the amount of money

associated with driving a company car. This is income to you. However, the company also will report on that same form, the amount of the lease payments that you made, either from the Prizes and Awards you won, or additionally, from any co-op payments you made, if any. These lease payments are also tax-deductible to the extent of your business use.

Driving a company car is a great tax savings.

OFFICE-IN-THE-HOME EXPENSES

INTRODUCTION:

To take the office-in-the-home tax deduction, you must have a separate and distinguishable part of your residence that you use strictly for your business and **NO OTHER PURPOSE**. This part of your residence must be considered a room, with four walls. These walls may be kiosk walls if you wish, but they must separate the room from the rest of the residence. Some deductions associated with Office in the Home Deduction may be limited due to your profit/loss after all other expenses are calculated.

FORMS USED:

You will want to use IRS Form 8829 to make your computation of the office-in-the-home deduction.

METHODS AVAILABLE:

Once you have determined that you are entitled to take an Office-in-the-Home tax deduction, you must calculate the business percentage of your home that is used for the business.

There are two methods to calculate the tax deduction for the business use of your residence:

- The “number of rooms” method
- The “square footage” method

If you use the “number of rooms” method, you must determine the number of rooms in your residence used strictly for your business. Then you must determine the total number of rooms in your residence (not including bathrooms, hallways, and closets) to get the **BUSINESS %**.

$$\begin{aligned} &\text{Business number of rooms} \underline{\hspace{2cm}} \\ \div &\text{Total number of rooms} \underline{\hspace{2cm}} \\ = &\underline{\hspace{2cm}} \text{ (Business \%)} \end{aligned}$$

If you use the “square footage” method, you must determine the square footage of the area of your residence used strictly for your business. Then you must determine the total square footage of your residence to get the **BUSINESS %**.

$$\begin{aligned} &\text{Business square footage} \underline{\hspace{2cm}} \\ \div &\text{Total square footage} \underline{\hspace{2cm}} \\ = &\underline{\hspace{2cm}} \text{ (Business \%)} \end{aligned}$$

OFFICE-IN-THE-HOME EXPENSES

EXPENSES TO RECORD:

You must also complete the total actual expenses of operating your residence for the time in which it was used as a business.

If you are purchasing your home:

Home Mortgage Interest...\$ _____

Home Taxes.....\$ _____

Insurance.....\$ _____

Repairs & Maintenance...\$ _____

Improvements.....\$ _____

Lawn Service\$ _____

Utilities.....\$ _____

Rent.....\$ _____

Other.....\$ _____

INVENTORY MANAGEMENT COSTS

INTRODUCTION:

Section 1 Inventory is not deductible when you buy it – it's tax-deductible when you sell it. However, Section 2 is fully tax-deductible when purchased. All of the freight and handling charges associated with your order also are tax-deductible.

Be sure to keep the packing lists that are sent with each product order you place. At the end of the year, those packing lists should be used to total your Section 1 and 2 purchases, the freight and handling costs paid, and the sales taxes paid.

METHODS TO CALCULATE INVENTORY

There are two different ways to calculate your year end inventory. For the consultant who is not very organized, but does not mind counting their inventory at the end of the year there is the 'Physical Inventory' method. For the very organized consultant, who does not wish to count inventory, there is the 'Exact Inventory' method.

HOW TO TAKE A PHYSICAL INVENTORY:

At the end of each calendar year, you count the product that is still in your possession. Then you must calculate the total wholesale value of your Section 1 inventory remaining on your shelf at year-end.

The easiest way to count your ending inventory is to use your product order form as your inventory checklist.

Add up all of the retail values on your list. Then take one-half (1/2) of the total retail value of your inventory, if you consistently order at 50%. Remember, you do not need to take an inventory of any of your Section 2 items at year-end as they are fully tax-deductible during the year you bought them.

HOW TO CALCULATE EXACT INVENTORY

To use this method you must be very organized. You will need to document how every product taken off of your shelf was disbursed. You will need to keep exact documentation on all of the following items:

PRODUCT SOLD
DISCOUNTS
DEMO ITEMS
HOSTESS GIFTS
PERSONAL USE
DONATIONS
OBSOLETE ITEMS

If exact documentation is not kept, it is impossible to use this method. See the worksheet at the end of the workbook to calculate your inventory using this method.

INVENTORY MANAGEMENT COSTS

DEMOS, SAMPLES, DISPLAYS...

During the year, you may use some of your **Section 1** inventory for customer gifts, hostess gifts, demos, samples, etc. If you have kept good records of those withdrawals from your **Section 1** inventory, they will be tax deductible at the **wholesale** cost. These should include the prospective customer's name, product description, cost of the product, and date (usually on a sales ticket). If using a Section 1 product as a demo, write a sales slip or keep track of all demos using an order form for the year. **REMEMBER**, if you take an actual physical inventory, do not deduct this expense anywhere else; you have already deducted it through inventory. If you are using the exact inventory method, these records will be used to calculate your ending inventory.

PERSONAL USE:

Personal use of the products is not tax-deductible. It doesn't matter if you're wearing the product to promote it. It doesn't matter if you consider it as advertising. The IRS specifically disallows personal use of the product. You must keep track of your personal use of the products at your wholesale cost in the same manner as demos, samples, displays, etc. Total your personal use at the wholesale cost at the end of the year. Again, use an order form to track your personal use and label the front of the order form "Personal Use".

EXPIRED PRODUCT:

It may be that you have inventory that has become useless in your year-end inventory. You may have items where the expiration date has passed, or has dried out, etc. If so, make a separate list of these items during your year-end count and physically separate them from your good inventory. You can take a tax deduction for that obsolete inventory equal to the **wholesale** cost of those products!

SALES TAX:

Sales taxes paid with your orders of section 2 also are fully tax deductible. Sales tax collected on section 1 product acts as a reimbursement. You may deduct the amount of sales tax paid to the company only if you record the sales tax you collect from your customers in income. If you do not collect the full amount of sales tax from your customer (discounted product or hostess gift), the amount of sales tax that you paid for the product but failed to collect will be a tax deduction. Keep track of uncollected sales tax on Weekly Summary Sheets.

OTHER ORDINARY AND REASONABLE BUSINESS EXPENSES

OTHER COSTS RELATED DIRECTLY TO YOUR BUSINESS:

Meeting Costs

- Weekly cost of attending unit meetings, preview breakfasts, training, etc.
- Directors can deduct the costs related to holding their weekly meetings, such as hotel room rentals, office space costs, refreshments, etc.

Telephone

- Long-distance business calls itemized on your home telephone (the base-line charge on your primary home telephone is NOT deductible!)
- Call forwarding, call waiting, call conferencing, voice mail charges, answering machines utilizing a business message, etc.
- A separate business line set-up at your home for your business.
- Cellular telephone costs such as air time, the percent of the base charge that is business versus personal use, and, the percent of the original cost of the equipment that is business versus personal.

Gifts of Section 1 product can be tax-deductible up to \$25.00 per person per year at the **wholesale** cost of the product, a \$50.00 retail value! (You can give someone any amount of gifts you desire, however, only \$25.00 per person per year is deductible!)

Home Beauty Supplies purchased for the production of income from your business can be tax-deductible! Items like brushes, curlers, tweezers, scissors, etc., are tax-deductible when purchased for and used in your business.

Other Expenses

Virtually any expense you incur in the pursuit of your cosmetics business is tax-deductible in some way. The key is to **KEEP GOOD RECORDS!** Some examples are:

Advertising (including preferred customer program & MK checks)

Bank Charges on your business bank account

Commissions and Referral Fees paid to others

Contract Labor

Dues, Subscriptions, Journals, Publications (Glamour, Cosmo, any beauty magazine)

OTHER ORDINARY AND REASONABLE BUSINESS EXPENSES

Freight, Postage, and Delivery

Product Insurance

Interest on Credit Cards and Bank Loans related to your business.

Legal and Accounting Fees (including tax preparation!)

Meals and Entertainment

Office Supplies

Promotions and Prizes

Rent on Equipment and Meeting Rooms

Repairs and Maintenance

Seminar, Career Conference, Leadership

Travel

Wages and Salaries

Equipment and Furniture purchased for your business

Internet fees

Website fees

Credit Card Processing Fees

Director Suits

Red Jackets

Customized Material

JACKSON HEWITT TAX SERVICE

TAX RETURN PREPARATION:

At Jackson Hewitt our service does not end with preparing your tax return. With our **Basic Guarantee**, which is included at no charge on every returned prepared by any Jackson Hewitt nationwide, we guarantee that your federal and state returns will be accurately prepared, and if the IRS should ask to examine your return we will represent you at no charge. If you choose, you do not even have to attend the examination. If the IRS finds an error that we have made, Jackson Hewitt will pay all penalties and interest associated with that error.

We also offer the **GOLD GUARANTEE**, for those who want added protection against any possible errors. The Gold Guarantee, if purchased with your return, will pay for any difference in tax liability should any error be made by the preparer, whether that error is mathematical related, overlooked information, or an incorrect interpretation of tax law.

ELECTRONIC FILING:

We file your tax return electronically at **NO EXTRA CHARGE**, which allows refunds due to you to be transferred directly into your bank account in usually less than 14 working days! In addition, we offer several other refund options which could mean your refund can be issued to you as soon as you sign your tax forms.

IRS PROBLEM RESOLUTION:

We specialize in representing clients in tax audits, assisting clients with filing current and past due tax returns, and finding ways to help clients clean up past due taxes. So if you have pending problems with the IRS, **WE CAN HELP!**

CONFIDENTIALTY GUARANTEED:

All of the information used to prepare your tax return, electronic filing, tax planning, and IRS problem resolution, is **STRICTLY confidential!**