

FIRSTAX SAVES YOU TAXES!

**A TAX SAVINGS WORKBOOK
FOR INDEPENDENT SALES
CONSULTANTS AND DIRECTORS**



P r e s e n t e d B y

FIRSTAX, L.P.

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OVERVIEW

INTRODUCTION:

The tax savings available to every Independent Sales Consultant and Director **are amazing!** When properly documented, those tax savings can actually become **“The Sixth Avenue of Income”**. To ensure that you get the maximum tax savings from your cosmetics business, we have prepared this simple summary workbook that is designed to assist you with understanding some basic tax issues. Let’s review some of the fundamental points about your cosmetics business and the tax ramifications:

KEEP GOOD RECORDS:

For maximum tax savings, KEEP GOOD RECORDS! Our clients who keep their tax documentation top-to-bottom, left-to-right, alphanumeric, oldest-to-newest, get more deductions than those who don’t. Significantly more! Keeping good records also assures you of minimum hassles should the IRS decide that it’s your turn for an audit. Everything we discuss in this workbook is allowable as a deduction by the Internal Revenue Code if you KEEP GOOD RECORDS!

If you spend five (5) minutes per day filing receipts and keeping up with your records, you won’t have to spend five (5) 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 a year or more ago.

OVERVIEW

FORMS NEEDED:

Every Consultant & Director, no matter how large (or small) must file IRS Form 1040 (long-form), federal individual income tax return for each year (or part of a year) they are in business. In addition, you will usually file Schedule C, SE, 4562, and 8829 (at a minimum) 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.

SUMMARY:

There are tremendous tax deductions available by properly documenting auto, office-in-the-home, inventory management, and other ordinary and reasonable business expenses. You'll truly see how **tax savings really are "The Sixth Avenue of Income" when you become an independent Sales Consultant or Director.**

CONVERTING PERSONAL (NON-DEDUCTIBLE) EXPENSES TO TAX-DEDUCTIBLE BUSINESS EXPENSES:

It is possible (even likely) that as a Consultant, you may have a tax loss in your first year or two of business. This doesn't mean that you necessarily lost money! Many of the items you 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, entertainment, travel, beauty supplies, etc. By KEEPING GOOD RECORDS, you're using your cosmetics business to convert previously non-deductible personal expenses into tax-deductible business expenses. And, with some minor exceptions, that loss is deductible against any other income that your family reports on its tax return!

AUTOMOBILE EXPENSES

**DRIVING YOUR OWN
AUTOMOBILE:**

There are two (2) alternate methods to calculate the tax deduction for the business use of your personally owned, or leased, automobile:

- The “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
- **WHY** you drove to see them (the business purpose)
- **HOW MANY MILES** you drove
- **THE DATE** you drove

A Mileage Log is a “must”! Buy one from an office supply store and use it!

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 \$.48 1/2 per mile (2007).

Business miles _____

x\$.505=_____ (Deduction)

**TYPICALLY, THE “ACTUAL
EXPENSE” METHOD WILL GIVE
YOU A HIGHER TAX DEDUCTION!**

If you use the “actual expense” method, you must also compute the TOTAL number of miles you drove your car in the year. 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.....\$ _____
Other.....\$ _____

Total Expenses \$ _____

x Business % _____

= \$ _____ (Deduction)

AUTOMOBILE EXPENSES

You must keep separate records of expenses on each different vehicle if you use the “actual expense” method, and you use more than one car in your business!

PLEASE NOTE THAT YOU ARE ALLOWED TO TAKE THE HIGHER OF THE TWO (2) METHODS DESCRIBED ABOVE! HENCE, YOU SHOULD FIGURE IT BOTH WAYS TO MAKE THAT DETERMINATION.

If you own your vehicle (as opposed to leasing it), you also should calculate the depreciation deduction available to you. However, depreciation is an exceedingly complex area and beyond the scope of this workbook to discuss in detail. **Please call FirsTax at (713) 781-9999 or (800) 781-9996 for additional information. You may also contact us by e-mail at taxsavings@firsttax.com or visit our web-site: www.firsttax.com .**

DRIVING A COMPANY CAR:

If you’re driving (or getting ready to drive!) a company Grand Am, Grand Prix, Cadillac, or other Mary Kay vehicle, you still have tax deductions available to you if you KEEP GOOD RECORDS!

First, you’ll still need to keep track of your business mileage in your mileage log! In addition, you’ll HAVE 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.....\$ _____
- 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 will report to the IRS the amount of the Prizes and Awards associated with your 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.

Hence, driving a company car is very tax-advantageous!

OFFICE-IN-THE-HOME EXPENSES

DON'T LET ALL OF THE PUBLICITY REGARDING THE OFFICE-IN-THE-HOME ISSUE CONFUSE YOU INTO THINKING YOU'RE NOT ENTITLED TO THIS DEDUCTION!

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 cosmetics business and **NO OTHER PURPOSE!** In addition, since the latest Supreme Court ruling in 1999, the office-in-the-home deduction is now being interpreted to mean that it is limited to those business owners who spend a substantial amount of their time doing business from their office-in-the-home.

Most Sales Consultants and Sales Directors may now legally qualify for the tax deduction of the office-in-the-home.

You will want to use IRS Form 8829 to make your computation of the office-in-the-home deduction. You must attach Form 8829 to your tax return in the appropriate place when it is completed.

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 (2) alternative methods to calculate the tax deduction for the business use of your residence:

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

Either way, **YOU MUST HAVE A SEPARATE AND DISTINGUISHABLE PART OF YOUR RESIDENCE THAT IS USED STRICTLY FOR YOUR COSMETICS BUSINESS AND NO OTHER PURPOSE!**

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 %**.

OFFICE-IN-THE-HOME EXPENSES

Business number of rooms _____
÷ Total number of rooms _____
= _____ (Business %)

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 %.

Business square footage _____
÷ Total square footage _____
= _____ (Business %)

WHICHEVER METHOD GIVES YOU THE HIGHER % , USE IT!

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.....\$ _____
Utilities.....\$ _____
Other.....\$ _____

OR if you are renting your home:

Rent.....\$ _____
Repairs & Maintenance.\$ _____
Improvements.....\$ _____
Insurance.....\$ _____
Utilities.....\$ _____
Other.....\$ _____

If you own your home, or, if you have acquired new furniture, fixtures, and equipment, you should also calculate the depreciation deduction available to you. However, depreciation is an exceedingly complex area and beyond the scope of this workbook to discuss in detail. **Please call FirsTax at (713) 781-9999 or (800) 781-9996 for additional information. You may also contact us by e-mail at taxsavings@firsttax.com or visit our website: www.firsttax.com.**

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. And, sales taxes paid with your orders of sections 1 and 2 also are fully tax-deductible if you record the sales tax you collect from your customers in income.

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 state and local sales taxes paid.

FORMS USED:

You will use IRS Schedule C, page 2 to record Section 1 inventory purchases, beginning inventory, and, ending inventory. Use IRS form Schedule C, page 1 "Other Expenses" for all other items deductible as inventory management costs.

TAKE A PHYSICAL INVENTORY:

At the end of each calendar year, **YOU MUST PHYSICALLY COUNT YOUR INVENTORY!** Then you must assign the per unit wholesale cost to each item on your inventory and calculate the total wholesale value of your Section 1 inventory remaining on your shelf at year-end.

The easiest way I know to "count your ending inventory" is to use your product order form as your inventory checklist. Record the number of each kind of Section 1 product you have in inventory at the end of the year. Multiply the number of each product by its retail value. Add up all of the retail values on your list. Then take one-half (1/2) of the total retail value of your inventory to determine the cost of your inventory (most Consultants and Directors receive a 50% discount from retail when purchasing their Section 1 product). 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!

INVENTORY MANAGEMENT COSTS

DEMOS, SAMPLES, DISPLAYS...

During the year, you may have used 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. If you have NOT kept good records, IT IS NOT DEDUCTIBLE!

OBSOLETE ITEMS:

It may be that you have inventory that is obsolete in your year-end inventory. You may have items that are no longer on the product reorder list, or are packaged in last year's Christmas paper, or have 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!

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. Period! Hence, 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. This must reduce the amount of your Section 1 purchases.

OTHER ORDINARY AND REASONABLE BUSINESS EXPENSES

OTHER COSTS RELATED DIRECTLY TO YOUR BUSINESS:

the equipment that is
business versus personal.

- **Meeting Costs**
(net of reimbursements!)

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

- **Telephone**

1. Long-distance business calls itemized on your home telephone (the base-line charge on your primary home telephone is NOT deductible!)
2. Special services and equipment acquired for your home telephone such as "call forwarding, call waiting, call conferencing", voice mail charges, answering machines utilizing a business message, etc.
3. A separate business line set-up at your home for your business.
4. 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

- **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)
- Bank Charges on your business bank account
- Commissions and Referral Fees paid to others
- Contract Labor
- Dues, Subscriptions, Journals, Publications

OTHER ORDINARY AND REASONABLE BUSINESS EXPENSES

- Freight, Postage, and Delivery
- 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” and Other Training
- Travel
- Wages and Salaries
- Equipment and Furniture purchased for your business

SPECIAL NOTE:

IRS now allows up to \$ 75.00 per day for deductions even if you do not have a receipt. What you must do to claim this deduction is write down in your day-timer, or similar document, the date, time, person for whom the expense was made, and why it was business-related.

BE SURE TO SUMMARIZE ALL OF YOUR INCOME AND EXPENSES RELATED TO YOUR BUSINESS INTO YEAR-TO-DATE TOTALS AT THE END OF THE YEAR USING OUR “TAX INFORMATION SUMMARIZER” LOCATED IN THE “LIBRARY” AT WWW.FIRSTAX.COM.

FINAL SUMMARY

RECRUITING

By just selling retail product, you can make an attractive income from this business opportunity. However, you can earn a substantial income when you develop a team of Consultants who are all making an attractive living selling retail product. Finally, those who make big money in this business are those who build a team of people selling retail product AND who are building their own team of Consultants!

For the single Consultant, understanding the tax savings is an important additional recruiting tool. For those recruiting the married potential Consultant, the tax savings from the business opportunity may be the trigger that gets the spouse excited about it as well. It is very clear that married Consultants whose spouses support them in this business do significantly better than those whose spouses do not.

SOCIAL SECURITY TAXES

For those who own their business, social security taxes are known as "self-employment taxes". Self-employment taxes are only calculated and paid when there is a taxable profit from the business. Most Consultants who utilize the techniques found in this workbook

will have a tax "loss" the first year or two that they are in business. If that is the case, then there are NO self-employment (social security) taxes due!

If a taxable profit is made for the year, then IRS Schedule SE will have to be completed and attached to the tax return. A tax rate of approximately 15.3% is assessed on the net taxable income (after all expenses!) from your business. That tax is added to any federal taxes owed on your federal income tax return.

QUARTERLY ESTIMATED TAX PAYMENTS

Quarterly estimated tax payments are usually made only when there is taxable profit from your business. Hence, much as is the case with self-employment taxes, if there is a tax loss from your business, it is most likely that you will not need to make quarterly estimated payments.

However, the determination of whether you need to make quarterly estimated tax payments is dependent on your ENTIRE tax situation. It can be a complicated subject and is beyond the scope of this workbook. If you have questions about your specific tax situation, please **call FirsTax at (713) 781-9999 or (800) 781-9996 for further information.** You may also contact us by e-mail at taxsavings@firsttax.com or visit our web-site: www.firsttax.com.

WHAT FIRSTAX CAN DO FOR YOU

USE THE ATTACHED SUMMARIZER!

It is designed to assist you in gathering all the information necessary to do your entire tax return. The FirsTax Summarizer is specifically designed to assist you in easily and efficiently organizing your cosmetic business totals for the preparation of your tax return.

TO ENSURE THAT YOU PAY THE LOWEST LEGAL FEDERAL AND STATE INCOME TAXES, send your completed FirsTax Summarizer and your state income tax packet to us as soon as you've finished compiling your year-to-date totals!

TAX RETURN PREPARATION:

We will accurately prepare your federal and state tax returns utilizing the most sophisticated computer based processing equipment. In addition, turnaround time can be as little as overnight!

ELECTRONIC FILING:

We can file your tax return electronically, which allows refunds due to you to be wire-transferred directly into your bank account in 3-14 working days!

REVIEW OF YOUR THREE (3) PRIOR YEARS TAX RETURNS:

If you haven't taken advantage of all the tax savings we've discussed on your last three (3) years tax returns, please send a copy of each return

with the backup documentation to use today! We'll review those tax returns to determine if we can amend them to save you additional tax dollars. We'll do that review at NO CHARGE to you! If we find that we can save you additional taxes, and you approve, we'll amend your tax returns so that the IRS will refund you that additional money. Our fee is then only one-half (1/2) of the savings we find for you. It's a NO LOSE offer!

TAX PLANNING:

We work with clients year-round to ensure that their federal and state taxes remain at their lowest legal amount. Repeatedly we find that our clients, who plan ahead for their tax savings, realize substantially greater reductions in their tax liabilities.

IRS PROBLEM RESOLUTION:

If you have a problem with the IRS that you want resolved, call us today. We specialize in representing clients in tax audits, the release of liens and levies, workout of past due taxes, and assisting clients with catching up past due tax returns.

CONFIDENTIALTY GUARANTEED:

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

Please count on FirsTax to be your tax reduction service! **CALL US TODAY AT (713) 781-9999, OR (800) 781-9996.**

Special Note:

If FirsTax did not prepare your last three (3) years tax returns, we will review them at no charge to determine if we can amend them to save you additional tax dollars. If we can find that we can save you additional taxes, and you approve, we'll amend your tax returns so that IRS will refund those additional taxes to you! Our fee will then be ½ of the savings realized! It's a no lose offer!

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