

**TAX ESSENTIALS**  
**For the Tax Year 2011**

**TAX ESSENTIALS WAS NOT INTENDED OR  
WRITTEN TO BE USED, AND IT CANNOT  
BE USED, FOR THE PURPOSE OF  
AVOIDING U.S. FEDERAL, STATE OR  
LOCAL TAX PENALTIES.**

## The Importance of Keeping Accurate Records

### Why Recordkeeping is Important

Accurate, up-to-date records are vital to your Mary Kay business. They will help you keep your Mary Kay business organized and may even save you money on your income taxes.

If you do not keep accurate records, you may miss deductions to which you would otherwise be entitled. In the event of an audit, if your records are inaccurate, poorly kept or in disagreement with your tax return, you may have to pay additional taxes.

### Basic Recordkeeping Guidelines

Here are some suggested basic record-keeping guidelines:

- 1. Keep your business expenses separate from your personal expenses.** You may want to open a separate checking account for your Mary Kay business and consider obtaining a credit card to use strictly for business expenses. The advantage of doing this is to make your record keeping easier. You will know that all the income deposited into your business account is Mary Kay earnings and all checks written or purchases made using your business credit card are Mary Kay expenses. Keep all monthly statements and deposit slips.

Use of the words *Mary Kay*, *Mary Kay Cosmetics* or *MK* on your accounts is not authorized with the exception of those offered through MKConnections®.

- 2. Maintain a daily business log.** A daily record of your business activities is critical for supporting various types of business expense deductions you may want to claim. You will want to record details of all appointments and business expenses in this daily log as well as your business mileage. You may want to use your datebook or daily planner as your business log.
- 3. Save all Mary Kay business-related documents and records.** Any document or record that supports income or an expense is a supporting document and should be retained. You might want to organize these documents or records in some kind of filing system. The Records Checklist that follows this section provides examples of what records to keep.
- 4. Retain all records for a sufficient length of time.** Supporting documents should be kept as long as they may be needed to verify amounts on a tax return, at least four years, perhaps more. Check with your personal tax advisor before throwing out any documents.

## **Records to Keep Regarding Income**

To support information about your income, you'll want to maintain accurate and detailed records, which include, but are not limited to:

**Sales tickets** - Your copy of the sales ticket is your most detailed source of information regarding personal sales. ***Weekly Accomplishment Sheets are not a substitute for sales tickets as tax documentation.***

**Form 1099-MISC** - If you order more than \$5,000 in wholesale merchandise during the calendar year, or receive \$600 or more in commissions, prizes or awards, you will receive a Form 1099-MISC from the Company. More information about Form 1099-MISC can be found in the section discussing Schedule C.

**Income Advisory Statement** - All Independent Beauty Consultants and Independent Sales Directors who receive either a Form 1099-MISC from the Company or prizes/awards in excess of \$200 will receive an Income Advisory Statement. More information on Income Advisory Statements can be found in the section discussing Schedule C.

**Monthly Consultant Statement** - The Company sends you a monthly Consultant statement if you have personal team members or any balance due to the Company. **You should keep a file of these detailed statements as documentation for your Mary Kay income.** More information on Monthly Consultant Statements can be found in the section discussing Schedule C.

**Independent Sales Director Commission Schedule** – This schedule provides detailed support for the Sales Director commissions reported on Form 1099-MISC and should be retained for tax purposes.

**Bank deposit slips and bank statements** – You may want to deposit all Mary Kay income in your business bank account and keep all deposit slips. It is also recommended that you keep your monthly bank statements.

## **Records to Keep Regarding Expenses**

### **Inventory and Product Sales**

To support any deductions regarding inventory and product sales, you should retain copies of the following records or documents:

**Independent Beauty Consultant order forms** - Keep a copy of each order form you send to the Company for product purchases including Customer Delivery Service (CDS) sales. It is also a good idea to keep printed copies of all Mary Kay online orders.

**Packing Slip/Invoice** - Each time you receive merchandise from the Company, a packing slip accompanies the order, which details the product you bought as well as the taxes and freight you paid. You should check this packing slip against your Consultant order form. If merchandise has been back ordered (scheduled for later shipment to you because of unavailability), more than one packing slip will be necessary for you to reconcile the order. You may want to file your packing slips with the corresponding Consultant order form.

**Non-Business use records - *Inventory you withdraw for non-business use is not deductible.***

A good way to keep tabs on non-business use is to use a Consultant order form clearly marked "Non-business Use" to record items withdrawn. Keep these forms to substantiate non-business use for your tax return.

**Copies of money orders, cashier's checks, credit card receipts for product purchased** - It is important to keep copies of your money orders, cashier's checks and credit card statements to support inventory purchases.

**Inventory counts** – For tax purposes, you should count your inventory on or as near as possible to December 31. More information about inventory can be found in the section discussing Schedule C, Part III, Cost of Goods Sold.

**Record of product given as hostess gifts** - Keep a record of the cost to you of Mary Kay® products you give as hostess gifts or as gifts-with-purchase under the Preferred Customer Program. A good way to keep track is to record these items on sales tickets and indicate "hostess gift" or "gift-with-purchase." There are two important reasons for this:

1. If you should ever be audited, these records will help you prove business rather than non-business use of inventory.
2. As a businessperson, you should know what this form of incentive has cost you during the year.

**Non-recovered sales tax** - Independent Beauty Consultants may prepay sales taxes that are not reimbursed by the customer, such as product discounts, hostess gifts, gifts-with-purchase and differences in sales tax rates. More information about non-recovered sales tax can be found in the section discussing Schedule C, Part III, Cost of Goods Sold.

### **Business Use of Your Home**

To support any office-in-home deductions, you will need to retain copies of records, documents and receipts for the following:

- Repairs and maintenance of your house

- Insurance premiums
- Mortgage interest
- Rental payments
- Painting and roof repairs
- Real estate taxes
- Utilities
- Other home related expenses

### **Automobile Expenses**

Deducting automobile expenses requires good recordkeeping. The most important documentation is a record of your actual business miles. You need to be able to prove that these miles were driven for business. The Company strongly suggests that you maintain a mileage log to help you satisfy these recordkeeping requirements. Mileage logs may be obtained at any office supply store.

You should make each entry in the log at or near the time when you use your car for business, and each entry should specify:

1. The date and use of the automobile.
2. Number of miles driven.
3. Purpose of the trip (e.g., a selling appointment).

You should also record your odometer reading on the first and last days of the year so you can determine total miles driven during the year. This way, you will have to keep records of business miles only (and the mileage related to the first and last business stop), not all of your driving miles.

If you use more than one car for your business, you must keep separate records for each vehicle.

In addition, depending on which expense method you choose, you may need to keep all receipts or other documents (cancelled checks are not sufficient) such as:

- Gas (consider using a credit card)
- Repairs
- Tires, oil, supplies, etc.
- Lease payments
- Car insurance payments
- Registration fees
- Interest on car loan
- Parking fees and tolls
- Personal property tax

- Cost of your automobile for the depreciation deduction described under Form 4562 – Depreciation and Amortization.

More information on automobile expenses and expense methods and information if you drive a Mary Kay career car can be found in the section discussing Schedule C, Part II, Expenses.

### **Business Travel**

It is your responsibility to prove that any given trip is primarily for business. Your datebook or daily planner is an important tool for documenting any business travel expenses. You'll want to use it to record each selling appointment or team-building appointment held at your destination. Tax regulations require you to record the following specific information about deductible travel expenses:

1. The amount you spend each day on transportation, meals, lodging, cleaning and laundry, phone calls, etc., totaled into reasonable categories, such as "tips" and "taxis." Be sure to obtain and save receipts or other documentation to support these amounts. A cab driver will give you a receipt if you ask for one, as will any restaurant.
2. The time spent on business activities.
3. The dates of departure and return and the number of days spent on business.
4. The destination, designated by the name of the city, town, or similar description.
5. The business purpose of the trip or the business benefit gained or expected to be gained as a result of the travel.
6. If the travel purpose is to attend a Mary Kay event, it is helpful to retain handouts, meeting agendas, etc. to document this travel.

More information regarding deductible business travel expenses can be found in the section discussing Schedule C, Part II, Expenses.

### **Business Meals and Entertainment**

Recordkeeping is especially important for business entertainment expenses because a deduction may be completely disallowed if you have not kept proper records. Your datebook or daily planner should contain the following information:

1. The amount and a description of each separate expenditure.
2. The date, time and place the entertainment was provided.
3. The business purpose, including a description of the business benefit derived.
4. The identity of the participants and their business relationship to you.

If the entertainment was *associated with* your business, you must also record:

1. The date and duration of the business discussion preceding or following the entertainment.

2. The place where the business discussion was held.
3. The nature of the discussion and its purpose as well as the benefit derived or expected from the discussion.
4. The identity of the people entertained who participated in the business discussion.

Maintain receipts to support your expenditures. A cancelled check is generally not sufficient documentation.

More information regarding deductible business meals and entertainment can be found in the section discussing Schedule C, Part II, Expenses.

### **Other Business Expenses**

Here is a list of the expenses that may be deductible and the records or documents you will need to retain to substantiate some of these expenses:

#### **Advertising costs**

To support a deduction for advertising, you should retain:

- The packing slips/invoices from your orders of Section 2 sales literature, such as *The Look* brochure and copies of your Preferred Customer Program enrollment forms and online enrollment confirmations.
- Receipts for other expenditures such as printing of business cards, newspaper ads, greeting cards you send to customers, and cost for participating in the Mary Kay® Personal Web Site program.

**Bad debts from sales or services** – In the unlikely event that you have a problem with a bad debt, such as a returned check or a refused credit card payment, you should document:

- The existence and nature of the debt
- That the debt corresponds to an item you previously or currently reported as income (original sales ticket)
- That there is reason to believe that you will never collect the debt (document phone calls and other attempts to collect).

**Commissions and fees** - Any dovetail commissions you have paid can be deducted on this line. You'll want to support these deductions with entries in your datebook and on a sales ticket.

**Product and liability insurance** - Keep any cancelled checks, invoices, receipts from money orders or cashier's checks and credit card receipts used to purchase insurance. More information about deductible insurance can be found in the section discussing Schedule C, Part II, Expenses.

**Interest on business loans** - Keep all bank statements showing the amount of interest you paid as well as documentation that shows the business purpose of the loan or other indebtedness.

**Legal and professional services** – Keep all receipts and statements related to professional services such as accountants and lawyers.

**Office expenses** – This includes office supplies such as stationery, paper clips as well as postage stamps, etc. As always, keep receipts.

**Rent on business property** - Keep all rental and lease agreements and cancelled checks or credit card receipts to support a leased Mary Kay office or office-in-the-home deduction.

**Repairs and maintenance on office equipment** - Keep all receipts for repairs and maintenance related to business equipment such as copiers and computers.

**Taxes and licenses** – Proper supporting documents will vary, depending on the type of tax. Keep all receipts, packing slips/invoices, copies of tax returns, statements, cancelled checks, etc.

**Supplies** - Keep copies of Section 2 supply orders sent to the Company and the packing slips/invoices returned with your orders, along with receipts for any other supply purchases such as cotton swabs and cotton balls.

**Business telephone** – Documentation should be kept for all long-distance calls. It may be helpful to keep a log of these calls and include the name of the person who was called, the business nature of the call and the phone number. If you have call waiting or a second phone line, which is used only for business purposes, retain your bills to support the deduction.

**Business cellular phone usage** - There is recent IRS guidance which addresses the business use of cell phones as it relates to employees. However the IRS guidance does not address whether the same factors apply to self-employed individuals. Cell phone expenses should be considered in light of other guidance concerning the ordinary and necessary nature of business expenses and whether they are appropriate with the business income generated. Individuals should seek the counsel of their tax advisor for specific guidance on the deductibility of cell phone expenses.

**Wages paid to an assistant or household help** – You should contact your personal tax advisor for advice on this matter.

**Dues and publications** - Keep copies of your bills for these items and your cancelled checks, charge receipts, or other receipts to support this deduction.

**Freight** – You should retain receipts of any freight expenses incurred in your business.

**Preferred Customer Program** – The cost of Preferred Customer Program premiums is deductible. If the premium is a Section 1 product from your inventory, you will want to treat it as if it were a cost-of-goods-sold deduction and record these items on sales tickets, indicating “gift-with-purchase.”

**Hostess gifts other than Mary Kay® product** – Hostess gifts of Section 1 product are deducted through the cost-of-goods-sold deduction. At times, however, you may want to present hostess gifts of Section 2 items. Your cost of these items is deductible as a business expense but it is limited to \$25 per recipient.