<u>How to Prepare Your Taxes</u>

It would be helpful to use a 30 pocket expandable file or any file folders to organize your receipts etc. You will also need to use an "Income and Expense Summary Sheet." This you can print out or enter via excel. See below for further instructions. To gain the most benefit from the tax system, it's important to follow the steps below in the order they are presented.

For additional information regarding taxes with your Mary Kay business, log onto MK InTouch – Resources tab – Tax. There you will find Sales Tax FAQ's, etc. For specific questions you may call the Legal Resources Department at 972-687-5777

You may also want to seriously consider seeking professional tax advice *especially* if this process is more bookkeeping than you feel comfortable with.

Step 1: Read the detailed label descriptions below. Each label description matches a line on Schedule C.

Step 2: Set up your filing system. Attach the "Tax Organization Labels" to separate file folders.

Step 3: Place your receipts and other documentation into the correct pockets. *Keep in mind that not all categories will apply to you. Don't worry or feel that you are missing something if you don't have all the types of expenses that you find on the labels.*

Step 4: If you would like to prepare your records manually, print and fill out the "Income and Expense Worksheet." If you prefer to enter on computer, enter the information on the "Income and Expense Spreadsheet." (See end of notes for detailed explanation)

Step 5: Turn your records over to your accountant and you are done! ☺

Detailed Label Descriptions

File 1: Gross Receipts or Sales - File your pink Sales Tickets and/or Weekly Accomplishment Sheets. Either way, the documents you put in this pocket should accurately reflect the income you have collected from sales.

File 2: Returns or Allowances – File documentation of any amount you had to pay on product that was returned to you. If you keep track of your returns on your Weekly Accomplishment Sheets, you do not need to duplicate those forms here. This is also where you will keep copies of any bad checks you accepted from your customers that have been returned by your bank.

File 3: Other Income – File records of any Dovetail income you receive. Also file any commission statements here. Any prizes and awards reported on income advisory letters go here. The valuation income for MK car drivers goes here too. Additionally, record all re-deposited and cleared checks that were previously recorded in Returns Category above. Finally, to finish out the year, you should file the 1099 you get from the home office here.

File 4: Advertising – File records of all the money you spend to have advertising done, such as newspaper ads, fliers, business cards, Preferred Customer Program (PCP), MK personal website, Yellow Page advertising etc. Do not include Section 2 samples or charitable donations here. (Advertising does include gift baskets of your products that include your business card and other promotional materials that you provide for school functions, church bazaars, etc. if the purpose is promotion of your business and *not* a charitable donation.)

File 5: Car & Truck Expense – This category represents one of the largest deductions you will be able to take! YOU MUST KEEP A MILEAGE LOG FOR EVERY CAR YOU USE FOR YOUR BUSINESS! This is where you would file any pages that you keep track of your mileage. You can also file information related to lease or purchase payments, auto insurance, repairs, gas, oil, tires, and anything else having to do with operation of your car for business. If you are driving a MK company car, you still need to record your business and personal miles, plus all of your out-of-pocket expenses like gas, oil, parking etc. If you use more than one car for your business, you need to keep separate records for each car. You may not need to keep all this information in the future, but it is best to keep it for at least one year to see whether the standard mileage expense allowance or the actual expense method produces the largest deduction for you. You can choose which method to use, so you might as well take the one that produces the largest deduction.

File 6: Commissions & Fees – File records of any Dovetail appointments or similar amounts paid out to someone who helps promote or run your business. Do not record secretarial help, hired help or household help here.

File 7: Depreciation – File receipts for all equipment purchased for your business. Also, record the information for equipment or furniture that is converted from personal to business use. This is also where you record all of the expenses you have for furnishing and decorating your office at home, as long as that office is used regularly and exclusively for your business. For each item, your records should contain a description of the item, the date it was purchased, the purchase price, the date it was first used in your business and the percentage of time that items is used for your business.

File 8: Insurance – File information on Product Insurance you have purchased here. Additionally, if you have purchased riders for your business insurance or an umbrella policy for liability you should include that documentation here. This is not the place to file homeowners or medical insurance information.

File 9: Interest – Other – File documentation for business interest paid on loans, credit cards, company processing fees, etc. Try to avoid mixing charges for your business and personal items on the same credit card. For credit cards used strictly for business, you can deduct all of the interest, as well as the annual fee if there is one. If you mix the two used, you will only be allowed a percentage of the interest and fees as a business deduction. It is better to use one card strictly for businesses and save another card for personal use.

File 10: Legal & Professional Services – File all receipts for tax preparation, accounting, bookkeeping and legal services.

File 11: Office Expenses – File all your receipts for everything it takes to keep your office running. This includes things like office supplies, rubber stamps, trash bags, etc. *If your postage is less than $10, you can include it here; otherwise you will need to have a separate category for postage.*

File 12: Rent or Lease Vehicles, Machinery, Equipment – File all receipts for rental cars when you travel, or leased vehicles *(not company leased vehicles)* or other rented machinery such as copiers, computers, etc.

File 13: Rent or Lease – Other Business Property – File all your receipts for the rent or lease of commercial space including training centers, meeting rooms, etc. Be sure to include your portion of rent paid for a training facility, even if rented with other Directors and consultants. If you pay an expense, you are allowed a deduction.

File 14: Repairs & Maintenance – File receipts for repairs and maintenance of business equipment only. *(Not cars).* This could be money paid for actual repairs to a Fax machine, computer, etc. or a monthly fee paid for a maintenance contract on a copy machine.

File 15: Supplies – File receipts for all Section 2 items, receipt or printout of your New Consultant Starter Kit if last year was your first year in business, books, CD's, MK Connections gear, etc go here.

File 16: Taxes & Licenses – File sales taxes paid on free gifts, plus non-recovered sales tax (including tax you pay on sales that are made into no-tax states, plus tax on retail cost of Section 1 products used as demos, displays, gifts, or hostess gifts). This is also where you file forms and receipts for the Employer's portion of payroll taxes if you have any and local business and occupational taxes, licenses and fees, if they apply to you.

File 17: Travel – File all payments for airline tickets, taxis, hotels, tolls, tips to taxi drivers, bellmen, etc. Include dry-cleaning from business attire and any other expenses related to travel EXCEPT meals.

File 18: Meals & Entertainment – Always note, Who, Where, When and Why (business purpose cost). Receipts are only required for expenditures over s$75. You can include meals that you share with customers or prospects as well as your own means if you are away from home overnight on business travel. Do not include food under $6 per person for in-home parties or training (See item 23).

File 19: Utilities – File receipts for the basic cost of a second phone line in your home that is used for business, plus the cost of fax lines, computer lines and all business long distance. You may also include the cost of any custom calling/texting features and cell phones used in your business. Also keep receipts for expenses for utilities in training centers or your office if it is separate from your home utility bill (not utilities for office in the home).

File 20: Wages – File payment information and employment tax forms showing wages paid to employees of your business (not domestic help or fees paid to contract laborers).

OTHER EXPENSES: these are the fairly commonly used "other expenses", but you may have others.)

File 21: Meetings, Workshops, Career Conference & Seminar Registration Fees

File 22: Food cost for in-home meetings. (Up to $6 per person is 100% deductible)

File 23: Postage & Shipping (if over $10 per month) - File receipts for postage on product shipped to customers.

File 24: Office Cleaning or Maintenance – Includes things such as painting, remodeling for your office only.

File 25: Other Expenses (categories not listed elsewhere) Examples include business gifts - $25 per person per year, Business Dues (networking groups, *not* country clubs), etc.

File 26: Purchases less Cost of Items withdrawn for Personal Use – The cost of all Section 1 purchases (at wholesale) plus purchases from other sources. Also keep records showing the sales tax paid on these purchases (at retail) and any shipping, freight or postage that you paid to get the product delivered to you. Keep a separate list of each of the following: (1) All items withdrawn from inventory for personal use; (2) Items used as demos and displays; (3) Section 1 items given away as gifts; (4) Section 1 items given away as samples; (5) Section 1 items given away as hostess gifts.

File 27: Cost of Labor – File receipts or cancelled checks paid to individuals or companies on a per-job basis. If you pay any individual $600 or more in contract labor, you will also need to prepare Forms 1096 and 1099 and file them with the IRS. Put copies of Forms 1096 and 1099 in this pocket.

File 28: Other Costs – File receipts for any other expenses to assemble or present items for sale. This includes items such as flowers, baskets, ribbon, wrapping paper etc.

File 29: Child Care – File receipts for amounts paid for childcare to facilitate your business growth (added to normal child care costs required by your other employment etc.) You need to record the name, address, social security or federal identification number and amount paid to each baby sitter or day care facility. It is recommended that you pay by check as this is better documentation than cash.

File 30: Home Office – File receipts for home maintenance and repairs, insurance, utilities, rent, property taxes, security alarm, internet, mortgage interest payments, trash pickup, yard maintenance etc. You should also note the total square footage of your home and the square footage that you use exclusively and regularly for your business.

Other Important Information

Now that you know what goes into each file, use it to make your life easier and less taxing. Simply file the receipts in the correct file and don't worry about them until the end of the year.

Inventory at BEGINNING of year – Record your beginning inventory. For the first year in business, beginning inventory is zero. If your business is over one year old, this number is always the same as the prior year ending inventory.

Inventory at the END of the year – You should take a physical count of all Section 1 items on hand that are in salable condition as of 12/31. Do not count items discarded, given as samples, obsolete, donated to registered charities or currently being used as demos.

How to Create Your Annual "Income and Expense Summary Sheet" from Your Filed Records

Step 1: Remove the papers from the first file. Make sure they fit the description on the front of your file. Simply add up all of the sales from your pink Sales Tickets. Put that total on the first line under Number 1 on the "Income & Expense Summary Sheet." Then, add up all the sales tax you collected and put that total on the second line of the Summary Sheet. That's it. You are done with this category. You can now staple all the pages together and simply put them back in the file. Keep this file for at least 7 years.

Step 2: Remove the papers from the second file. Make sure they all fit the category description and follow the same process that you did for the first category.

Step 3: Items 3-30 are all handled exactly the same way, except Item 7, which requires you to list any equipment or furniture you bought or put in service along with the rest of the information needed to figure your depreciation deductions.

Step 4: If you have paid employees or contract laborers during the year, be sure to file Forms W-3, W-2, 1096 and 1099 by the end of January.

Step 5: Turn your "Income & Expense Summary Sheet" into your accountant or use it as a guide if submitting your taxes online. Now do the happy dance because you are done!!! ☺