

*******Disclaimer: This is not an all-inclusive guideline, but a compilation of recent questions regarding taxes. Your individual tax situation is unique, and you should consult the advice of a tax professional for specific answers to your particular situation.**

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TAX TIPS FOR AVON REPRESENTATIVES- Thanks to Pat Weber

First, please understand that this list is not intended to be all-inclusive, nor is it perfect for everyone's tax situation. However, most representatives will find that this will help them know what to keep track of so that they are able to report the proper income and subtract the proper deductions. I am a Certified Public Accountant, and have been in the accounting/tax business for 28 years. I am not offering professional tax advice in this document, but merely putting all of the information in one place for your convenience. Now, on to the "fun" stuff.....

INCOME:

The income you must report from Avon can come in several different forms. PLEASE open a separate checking account for your Avon business and make a habit of depositing all of the cash and checks in this account. The most frequent types of income are:

- Ø Payments from customers for their purchases;
- Ø Leadership checks;
- Ø Fast Start bonus checks;
- Ø The value of any prize earned (trips, president's points purchases, etc)

DEDUCTIONS:

The most important thing to remember about your deductions is to keep ALL of your receipts. Put them in a shoebox or an envelope somewhere so that at the end of the year, you'll have them all together. The most common types of deductions are:

- Ø Payments to Avon for product purchases, brochures and business supplies (however, any of the purchases that are for you personally are NOT deductible);
- Ø Postage and envelopes for mailings;
- Ø Office supplies (computer paper, toner or ink for your printer, pens, pencils, paperclips, storage containers, file cabinets, shelves for your Avon supplies or inventory, etc);
- Ø Fees for training courses or business meetings;
- Ø Advertising;
- Ø Telephone (only a 2nd line — nothing on the first line into your home is deductible);
- Ø Cell phone (only those calls that are Avon related, you must keep a log if you want to deduct any of this);
- Ø Internet connection (only if you have a separate connection for your Avon computer. The main internet connection to your family computer is not deductible);
- Ø Computer (you must keep a log of Avon business use vs. personal home use and deduct only that percentage of the cost);
- Ø Licenses and permit fees (some states require a permit for direct sellers);
- Ø Meals and entertainment (this must be a true business expense, not dinner with friends where you talk about Avon for 5 minutes. Also, this expense is limited to 50% of the actual cost of the meals and entertainment);
- Ø Travel (for a convention, sales show, regional meeting, training or other business purpose);
- Ø Mileage (the current deduction is 44.5 cents per business mile.) Keep a logbook or a small notebook in your car to record the mileage when you start your business driving for the day and what your business mileage is. For example, 10/2/06 — beginning mileage 12,698; deliveries to Mary Smith, Betty Ford, Betsy Ross and Jane Doe — 28 miles; stop at post office for stamps for open house invitations — 4 miles; ending mileage 12,746. Business mileage 32 miles. At the end of the year, total all of these and multiply by the deduction as per the IRS. The deduction amount changes at least once per year, sometimes more often, as in the case of Hurricane Katrina and the spike in gas prices. Don't forget to include mileage for sales meetings, recruiting appointments, trips to the bank, fundraisers and fairs, meetings with your DM, etc. It

adds up FAST!!;

Ø Office in the home — this is tricky. In order to take this deduction, you must have a room in your home that you use EXCLUSIVELY for your Avon business. Part of the guest bedroom doesn't count! If you qualify for this deduction, you can deduct a portion of your rent or mortgage interest and real estate taxes, homeowners insurance, repairs and maintenance, utilities, home security system, garbage removal, and snowplowing. The formula for this is the square footage of the Avon office divided by the total square footage of your home, multiplied by the individual expenses.

Now, where do you report all of this great information? On Schedule C that you attach directly to your Form 1040. This form will also ask for the principal business activity (direct sales) and for the NAICS code (454390).

If you have a net profit, you will pay taxes! Since you are self-employed (not an employee of Avon), there are no taxes withheld from your earnings. Therefore, you may need to send estimated tax payments in during the year (the due dates for 2006 taxes are 4/15/06; 6/15/06; 9/15/06; and 1/15/07). In addition to income tax on your earnings, you will pay what is known as self-employment tax. That is basically the social security and medicare tax that an employer would withhold from your paycheck PLUS the matching portion that an employer would pay on your behalf. I would strongly recommend that you put a portion of your earnings in a savings account so you have the money to pay the taxes when they are due. Also, depending on what state you live in, you may have to pay state income taxes as well. I would recommend either hiring a tax advisor or picking up a good book on income taxes at the local bookstore. My favorite (because it's easy to understand and has most of the information you will need) is J.K.Lasser's "Your Income Tax 2006" (or 2007, whatever is in the store right now). Make sure the book is current. The tax laws change more often than the weather, and a non-current book can give you incorrect information. The IRS won't be lenient if you use an old book — they figure you should know that you need current information.

It's not really as difficult as it sounds — just keep your receipts and run everything you can through your Avon checking account. That will take care of 90% of the information you need. Good luck!

If after you subtract your expenses from your sales you have a net loss, you can actually use that to offset other income on your tax return and save taxes!!!! One little catch (since this is the IRS) - if you do that for 3 years in a row, the IRS will consider your business a "hobby", not a business and disallow the losses. But, since we're all here to make money, I'm sure you'll all start showing profits in no time!!!

As to the demos - if you buy something for yourself that you use to show (jewelry, a shirt, shoes, etc), it can be written off. There is a possibility that if you get audited you may get a tax agent who is a prick and won't allow the deduction, but most of them understand that you really have to show the products to be able to sell them. Just remember that items you buy that are "personal" (shower gels, foot lotion, bubble bath, etc) are NOT business expenses.

How much of my profits, in percentage, do I need to keep aside for tax purposes at the end of the year in each campaign? Of course this is hoping I have profits. We are trying to get organized for 2007.

Want the fun math?

Here's the basics. Self Employment tax is going to be 15.3% of your profits. There is another calculation that goes in there, too, but it will reduce that number minimally, and I'm an advocate of hold back a little more than you need rather than less!

The actual federal income tax will vary based on your total income and deductions outside of the business. That can range anywhere from 10-35%. See what bracket you fall in this year, and use that number. It should give you a fairly safe estimate. If halfway through the year you see you are going to earn significantly more, save more!

Finally, don't forget state (and local, if that applies!) PA taxes you at a rate of 3.07%.

All these sound like they are adding up pretty quick- remember that these are on PROFIT, not gross sales!!

At what point do I need to File a return? (How much do I sell before I get a 1099-MISC?)

The 1099-MISC for direct sales is different than ones for contractors. Avon will issue at total sales over \$5,000. However, you **MUST FILE A RETURN** on any earnings of \$1 or more! If you sold Avon, at all, you need to include it on your return. There are no dollar limits or minimums that apply here!

Hi, thanks for all the great info I was kinda confused about the tax thing. I asked other reps before and someone had told me something that if you do not make \$5000 or more in a year then you do not have to claim this as a business or get a business license?

A business license is something that is totally different than taxes. A license may be required in your city or town, and I don't know the specific requirements where you live.

From a tax standpoint, there are a LOT of reps advising others that they don't need to report anything until some magical \$5,000 amount shows up somewhere. That is **INCORRECT**. Please refer to the first three frames of this post for the general tax information. If you make a profit of more than \$400 for the year, you may need to file estimated income tax payments for future tax years.

Avon is required to send YOU a form at the \$5,000 amount, which is how people often get confused involving that figure. IRS regulations state that as a self-employed individual (which is what we are!) we are required to file if our net earnings are at least \$400. If we have to file a return anyway, due to other income, we must include our Avon starting with dollar 1.

Your Avon sales can make you eligible for things like Earned Income Credit, as well as build valuable credits within the social security program for you. If you are between the ages of 25 and 65, you may in fact qualify for some EIC! Single folks with no kids in that age range with income of less than around \$10,000 (and married at about \$11,000 combined) qualify for smaller amounts of EIC. Usually it's only a couple hundred dollars, but that sure beats a kick in the teeth!

I ordered \$6,255.14 of product between C12 and C26. Minus my personal orders and the amount that I owed AVON (which is \$5,670.89) that leaves me with a profit of \$584.25 - not bad I guess. But if you subtract EVERYTHING I spent on book, demos, samples, gas ect... I am in the hole \$1,122.08!!!!!!! I really hope that is not right but it looks like it is! Do I need to file taxes on a loss?

That you have a loss is not unusual on the first year in business! You have normal start-up and operating costs, and getting started costs more, realistically.

The IRS will allow you to show a loss for up to three years. After that, they consider it a hobby, and you may not show a loss. Assuming you, or your spouse, have another source of income that **WILL** be on the return, this loss could have potential tax benefits for you. Make sure you take your records/numbers with you to your tax advisor, if you use someone, and be sure it's on your return! This loss can reduce your overall taxable income, and/or make you more eligible for other credits and deductions!

Not to say that profit is bad either, girls! This is considered Earned Income, and can make you eligible (or increase your eligibility) for a number of credits as well, such as the Child Tax Credit and Earned Income Credit. Not to mention that you are building your Social Security bank based on the self-employment taxes you pay. (Often through a process of refund reduction, not pay as in write the gov't a check!)

Make **SURE** whoever helps you takes the time to ensure you understand what's on your return and why. Good records are key to any small business. If you have good records, the IRS, even if they audit you, will be satisfied pretty quickly. You are responsible for anything on your return, even if you pay a professional to do them, so don't walk away without feeling 100% comfortable with what's on them!!

Just my friendly advice. I'd love to think that all my counterparts out there were honest and pure at heart. But, then reality sets in!

I just noticed something else you said- make sure you don't inadvertently subtract demos, etc, costs twice. Much of that will be in the "what I paid Avon" category. If you write it off there, don't do it again somewhere else!

Your processing fees are deductible, as is the tax. Any thing you pay to Avon, less products purchased for personal use, is a business expense.

Outside of what you send to Avon you'll find things like mileage for delivery/tossing, other supplies (postage, envelopes, paper, etc.) and the like.

General Idea will be like this:

Everything my customers paid me MINUS:

What I paid Avon (less personal product)
Mileage
Other supplies etc

EQUALS: Net profit or loss

This is the figure that you then will calculate the tax on.

Where do you normally put C1? Does that go with your 2006 taxes or will that go with 2007? I am ordering from C1 on 12/28 but won't be collecting money for it until after 1/3.

Assuming that you are on a calendar year utilizing the cash method, you will claim the monies paid and the monies received in the year it occurred.

For example, if you pay Avon for C-1 in 2007 and receive payment from your customers in 2007, then you claim both in 2007.

However, if you pay Avon for C-1, say on December 31. But, you don't receive payment from your customers until January 1, then you would place your C-1 expenses on your 2006 taxes and your monies received on your 2007 taxes.

Or, if you receive payment from your customer on C-1 on December 31, then the monies received goes with 2006 taxes. And, if you pay Avon January 1, then the monies paid goes onto 2007 taxes.

Of course, I'm not a tax advisor, but I have handled enough businesses to know about this part.

I hope this helps. For any further information the IRS has an awesome website full of information. Plus they have business CD's that you can order for free! Just visit www.irs.gov

If I use the 2006 Representative Business Records that we got in our orders awhile back, I fill everything out of that, do I just take that to H&R block or whoever does our taxes? I can print out all my customers invoices(most are printed).

What would I need to take with me? I have a few receipts where I've bought things myself, but not all because my hubby thinks if it's paper it's trash!!!

In my offices, I prefer that you just come in with the information compiled like you're talking about. I don't need your receipts, but know where they are in case the IRS does.

Just an additional tip- the IRS will accept electronic copies of things. If you have a scanner, scan your receipts right away and store all of your Avon things in one folder on your computer. At the end of the year, burn a CD of all your records to put with your copy of your return. Then you don't have to keep all the receipts- they're on disk! (And hubby can throw away to his hearts content!)

What happens if after 3 years you still show a loss? I know it's considered a hobby than, but do you have to file? I really do, do this as a hobby and maybe some day I will show a big profit.

Hobby income is still income, it's not subject to self-employment tax. If you are making a profit at this, you MUST file Schedule C, but if you are showing consistent losses, you cannot continue to take the losses!

Basically, you still calculate everything the same way, only you can only take expenses up to the amount of income you generated. This keeps you from reducing other taxable income.

Here's some info from the IRS website- it's a great resource! They have a good search engine, and if you

find their FAQ's, they are pretty easy to understand!

Is it a Business or a Hobby?

It is generally accepted that people prefer to make a living doing something they like. A hobby is an activity for which you do not expect to make a profit. If you do not carry on your business or investment activity to make a profit, there is a limit on the deductions you can take.

You must include on your return income from an activity from which you do not expect to make a profit. An example of this type of activity is a hobby or a farm you operate mostly for recreation and pleasure. You cannot use a loss from the activity to offset other income. Activities you do as a hobby, or mainly for sport or recreation, come under this limit. So does an investment activity intended only to produce tax losses for the investors.

The limit on not-for-profit losses applies to individuals, partnerships, estates trusts, and S corporations. For additional information on these entities, refer to business structures. It does not apply to corporations other than S corporations.

In determining whether you are carrying on an activity for profit, all the facts are taken into account. No one factor alone is decisive. Among the factors to consider are whether:

- You carry on the activity in a business-like manner,
- The time and effort you put into the activity indicate you intend to make it profitable,
- You depend on income from the activity for your livelihood,
- Your losses are due to circumstances beyond your control (or are normal in the start-up phase of your type of business),
- You change your methods of operation in an attempt to improve profitability,
- You, or your advisors, have the knowledge needed to carry on the activity as a successful business,
- You were successful in making a profit in similar activities in the past,
- The activity makes a profit in some years and the amount of profit it makes, and
- You can expect to make a future profit from the appreciation of the assets used in the activity.

This is a sample of a Schedule C showing common entries. There are highlighted lines and notes! Be sure to take a look at each one for further clarification!!

**SCHEDULE C
(Form 1040)**

**Profit or Loss From Business
(Sole Proprietorship)**

OMB No. 1545-0074

2006

Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

▶ Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.

▶ Attach to Form 1040, 1040NR, or 1041. ▶ See Instructions for Schedule C (Form 1040).

| | | |
|---|---|------------------------------|
| Name of proprietor | | Social security number (SSN) |
| A Principal business or profession, including product or service (see page C-2 of the instructions) | B Enter code from pages C-8, 9, & 10 | |
| C Business name. If no separate business name, leave blank | D Employer ID number (EIN), if any | |
| E Business address (including suite or room no.) City, town or post office, state, and ZIP code | | |
| F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶ | | |
| G Did you "materially participate" in the operation of this business during 2006? If "No," see page C-3 for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| H If you started or acquired this business during 2006, check here <input type="checkbox"/> | | |

INFORMATION ONLY

Part I Income

| | | |
|--|----------|--|
| 1 Gross receipts or sales. Caution. If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here <input type="checkbox"/> | 7 | |
| 2 Returns and allowances | 2 | |
| 3 Subtract line 2 from line 1 | 3 | |
| 4 Cost of goods sold (from line 42 on page 2) | 4 | |
| 5 Gross profit. Subtract line 4 from line 3. | 5 | |
| 6 Other income, including federal and state gasoline or fuel tax credit or refund (see page C-3). | 6 | |
| 7 Gross income. Add lines 5 and 6 | 7 | |

Part II Expenses. Enter expenses for business use of your home **only** on line 30.


| | | | | | |
|--|------------|--|--|------------|--|
| 8 Advertising | 8 | | 18 Office expense | 18 | |
| 9 Car and truck expenses (see page C-4) | 9 | | 19 Pension and profit-sharing plans | 19 | |
| 10 Commissions and fees | 10 | | 20 Rent or lease (see page C-5): | | |
| 11 Contract labor (see page C-4) | 11 | | a Vehicles, machinery, and equipment | 20a | |
| 12 Depletion | 12 | | b Other business property | 20b | |
| 13 Depreciation and section 179 expense deduction (not included in Part III) (see page C-4) | 13 | | 21 Repairs and maintenance | 21 | |
| 14 Employee benefit programs (other than on line 19). | 14 | | 22 Supplies (not included in Part III) | 22 | |
| 15 Insurance (other than health) | 15 | | 23 Taxes and licenses | 23 | |
| 16 Interest: | | | 24 Travel, meals, and entertainment: | | |
| a Mortgage (paid to banks, etc.) | 16a | | a Travel | 24a | |
| b Other | 16b | | b Deductible meals and entertainment (see page C-6) | 24b | |
| 17 Legal and professional services | 17 | | 25 Utilities | 25 | |
| | | | 26 Wages (less employment credits) | 26 | |
| | | | 27 Other expenses (from line 48 on page 2) | 27 | |

| | | |
|---|------------|--|
| 28 Total expenses before expenses for business use of home. Add lines 8 through 27 in columns | 28 | |
| 29 Tentative profit (loss). Subtract line 28 from line 7 | 29 | |
| 30 Expenses for business use of your home. Attach Form 8829 | 30 | |
| 31 Net profit or (loss). Subtract line 30 from line 29. | 31 | |
| <ul style="list-style-type: none"> • If a profit, enter on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13 (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32. | | |
| <ul style="list-style-type: none"> 32 If you have a loss, check the box that describes your investment in this activity (see page C-6). • If you checked 32a, enter the loss on both Form 1040, line 12, and Schedule SE, line 2, or on Form 1040NR, line 13 (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198. Your loss may be limited. | | |
| | 32a | <input type="checkbox"/> All investment is at risk. |
| | 32b | <input type="checkbox"/> Some investment is not at risk. |

Part III Cost of Goods Sold (see page C-7)

33 Method(s) used to value closing inventory: a Cost b Lower of cost or market c Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory?
If "Yes," attach explanation Yes No

| | | | |
|----|---|--|--|
| 35 | Inventory at beginning of year. If different from last year's closing inventory, attach explanation | | |
| 36 | Purchases less cost of items withdrawn for personal use  | | |
| 37 | Cost of labor. Do not include any amounts paid to yourself | | |
| 38 | Materials and supplies | | |
| 39 | Other costs | | |
| 40 | Add lines 35 through 39 | | |
| 41 | Inventory at end of year | | |
| 42 | Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on page 1, line 4 | | |

Part IV Information on Your Vehicle. Complete this part only if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-4 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ / /

44 Of the total number of miles you drove your vehicle during 2006, enter the number of miles you used your vehicle for:

a Business b Commuting (see instructions) c Other

45 Do you (or your spouse) have another vehicle available for personal use? Yes No

46 Was your vehicle available for personal use during off-duty hours? Yes No

47a Do you have evidence to support your deduction? Yes No

b If "Yes," is the evidence written? Yes No

Part V Other Expenses. List below business expenses not included on lines 8-26 or line 30.

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48 Total other expenses. Enter here and on page 1, line 27 48