

Can I Deduct That?

(or how organize and manage expenses for
your Direct Sales dōTERRA Business)

by Susan McCarthy, **GOLD** IPC

Getting Started

- Separate Business from Personal
- Set up a Filing System
- Set up your Business Bookkeeping
- Set up a Dedicated Home Office Area
- Set up a Daily Planner/Calendar
- Keep ALL your Business Receipts
- Record all Business Miles Traveled in Car

Filing System

- How long does it take to **FILE** papers into the system?
- How long does it take to find or **RETRIEVE** documents in the system?
- How much time is spent **MAINTAINING**, cleaning out and reviewing files?

Why is tax time always crunch time?

- IRS requires proof
- Deadlines for filing
- Penalties for late filing
- You owe money to the IRS
- Tax laws are complex
- No limits for audit if fraud

Choose Tax categories that help you prepare your taxes quickly

- W2, 1098, 1099, K-1, Gain/Loss Summaries, Deductible Receipts
- Income from sale of home or property
- Itemized deductions
- Year-end statements (brokerage, mortgage, etc)
- Bank and credit card statements (used for taxes)
- **Schedule C categories for self-employed**
- Unreimbursed Employee Expenses

Accounting or spreadsheet software

- Your method of filing may be influenced by the software you use like Quickbooks or Excel Spreadsheets
- Methods for filing transactions
 - Chart of Accounts (tax categories)
 - Monthly (all transactions filed by date paid)
 - A to Z by Vendor

Comparing Date and Category Systems for Tax Records

Date Advantages

- Quick to file
- May use less files

Date

Disadvantages

- May take longer to find

Category Advantages

- Cluster related
- Easy to find

Category

Disadvantages

- May take longer to file

Organize Tax Related

- To set up self purging rotating files for tax related documents, use the Odd Year, Even Year labels.
- Reuse each tax folder every two years.
- Date or Category (or both)
- FreedomFiler

ODD YEAR TAX *FreedomFiler*

Tax Documents

EVEN YEAR TAX *FreedomFiler*

Tax Documents

FreedomFiler's Color Guide

MONTHLY

TAX

PERMANENT

REMOVE/REPLACE

TAX ARCHIVE

ACTIVE

RESOURCE

FreedomFiler's
pre-printed labels
use colors to
designate document
retention

Business Filing System Reference

- **Permanent:** Vital company historical records: corporate minutes, Press PR, property, patents, investments, trademarks, personnel records
- **Remove/Replace:** Policies, contracts, agreements, leases, business license
- **Resource:** Marketing, Competition, Product Research, Trade Show Lit, Articles/clippings, brochures, interests, library reference

IRS Forms, Instructions & Publications

- [www.IRS.Gov](http://www.irs.gov) Forms & Pubs FIND_____
- Schedule C or C-EZ Profit or Loss from Business
- Schedule SE Self-Employment Tax
- 1040-ES Estimated Tax for Individuals
- Form 8829 Exp for Bus Use of Your Home
- Pub 334 Tax Guide for Small Business
- Pub 535 Business Expenses
- Pub 463 Travel, Entertainment, Gift and Car Exp
- Pub 946 How to Depreciate Property

Part 1 Income

- Gross Receipts or Sales
 - 1099-MISC
 - Wholesale and Retail Sales
- Inventory and Cost of Goods Sold
 - Beg Inventory
 - Add Purchases less returns, trade, and personal use items
 - Add Materials & Supplies
 - Subtotal
 - Ending Inventory (Year end count x cost)
 - Cost of Goods Sold (Subtract Subtotal from End Inventory)

Part II Expenses

- Home Office
- Car and Truck Expenses
- Assets with useful life beyond one year
- Travel, Entertainment & Meals
- Self Employed Health Insurance

Home Office Expenses

- Form 8829 filed with Schedule C
- Requirements
 - Exclusive
 - Regular
 - Principal place of business
- Direct and Indirect Expenses
 - Mortgage Interest, Real Estate Taxes, Casualty Loss
 - Utilities, Insurance, HOA, Repairs/Maintenance
 - Depreciation

Car and Truck Expenses

- Standard Mileage Rate
 - 55.5 cents per mile
 - Must choose in first year
 - Log Date, Start-End Odometer, Business Destination and Reason
 - Cannot deduct personal commuting mileage
 - Parking fee and tolls business related

Car and Truck Expenses

- Actual Expense
- Choose Actual in first year, must stay Actual
- Keep all receipts
 - Gas, Insurance, License, Oil, Registration, Repairs, Tires, Garage Rent, Parking & Tolls, Lease Payments or Depreciation
 - Divide expenses between business and personal use.

Assets with useful life beyond one year

- Depreciation Allowance
 - Personal Property
 - Furniture, Computers, Printers, Phones, Car
 - Real Property
 - Residential or Commercial Buildings
 - Repairs and Improvements that increase life/value
- Amortization Allowance
 - Intangible assets
 - Patents, copyrights
- File Form 4562

Assets with useful life beyond one year

- Depreciation is calculated on adjusted basis which in most cases is the cost of the property
- MACRS (Modified Accelerated Cost Recovery System)
 - Various Classes of Assets with recovery periods
- Section 179 Deduction and Bonus Depreciation
 - Tangible Personal Property up to \$500,000
 - Sec 179 Qualified Taxable Income Limit and Taxpayer Must Elect

Travel, Entertainment & Meals

- Travel away from Tax Home on business for longer than an ordinary day's work.
- Generally, your **tax home** is your **regular place of business**, regardless of where you maintain your family home. It includes the entire city or general area in which your business is located.
- Cost of transportation between your tax home and your business destination.

Travel, Entertainment & Meals

- 50% cost of Meals is deductible
- Standard Meal Allowance \$46 per day
- Entertainment ordinary and necessary and directly related to conduct of business or associated with the active conduct of business

Self Employed Health Insurance

- Deduct from from Gross Income on Form 1040
- Taxpayer has no other health coverage
- Only one source of self-employment income
- Limited to Net Earnings of Business

Other Expenses Worth Mentioning

- Must have one phone dedicated personal or must keep logs for personal and business
- Fair Market Value of Assets converted to business use
- Contract Labor over \$600 file 1099-MISC
- Donations to Business Organizations
- Subscriptions to trade or professional pubs
- Training and Education

Expenses NOT Deductible

- Penalties and fines (traffic tickets)
- Political Contributions
- Charitable Contributions
- Raffle Tickets
- Bribes and Kickbacks
- Dues to business, social, athletic, sporting, airlines and hotel clubs
- Repairs that add value or increase life of asset
- Personal expenses

Business Net Operating Losses

- Can offset other income on 1040
- Can carry forward to another year
- Will limit Home Office Deductions

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Go to www.sharetheoils.com for copy of slides

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