IBO BOOKKEEPING 101

Welcome IBOs

Having become an entrepreneur and joined the ranks of the self-employed, there are some things you should know to make the most of your new opportunity. Even if you have previously owned or currently own another business in addition to being an IBO, please realize that there may be some things relative to this Business that are different from others. This guide might seem over- simplified to some of you, but it is designed to be a teaching tool for even the most basic level of understanding.

Either way, as a first time business owner or a seasoned veteran, I hope the thought of building this Business is exciting for you. As you progress on the road to success, you will have access to many tools to help you build your business. The subject of the following discussion begins with the use of two of the simplest tools: a pencil and a daily planner in electronic or paper form. From there, believe it or not, you'll learn simple ways to manage your own personalized business plan, budget, and break even projections.

I cannot teach you to be an accountant. However, I will teach you the types of records you need to keep for your business, and how to keep them. I will also give you some suggestions and tips to assist you should the I.R.S. request to examine your records. If the I.R.S. does contact you, and you've failed to keep good records, you might unnecessarily spend hundreds or even thousands of dollars that could have been used to build your business.

Keeping good records is not just important at tax time, but it also provides you important insight to help monitor your business throughout the year and meet your objectives. This is especially true as your business grows and your organization of downline IBOs gets larger. Keeping complete and accurate records, although not the most exciting part of building your business, is very important.

Now that you've been introduced to the importance of good bookkeeping and the tools that will help you get the job done, I'll give you some pointers to insure that your records are in good order, allowing you to substantiate all items reported on your income tax return.

And, lastly, please be sure to consult your own professional advisors, such as an accountant or an attorney, for advice and information about income tax laws and requirements for record keeping and the proper preparation of your income tax return.

Bookkeeping: The Dos And Don'ts

When it comes to bookkeeping, simple works better. Don't get bogged down with complex accounting packages when there are simple solutions available for you. Please consider using the materials that come with this guide, a simplified bookkeeping system to accomplish your necessary bookkeeping tasks.

At a minimum, when starting any business it is important to prepare a **business plan, budgets, and breakeven projections**. These basic tools will help you set your course down the road to profitability. Included at the end of this guide are sample forms to help you prepare your own business plan, budgets, and breakeven projections. Consult your upline and qualified professional advisors for assistance with completing these items.

Don't wait; use your bookkeeping tools regularly. The nature of your business requires daily tracking of things like mileage, travel, and other expenses. If you wait until the end of the year, you'll be challenged to recall a whole year's worth of details at once. You should also consult your tax organizer materials, including your budget and breakeven projections, at least monthly to monitor your business activity and make adjustments where necessary. In addition to updating the current month's information, look back also at prior months. This will help you stay connected to your business and your progress. Regular bookkeeping habits are a critical factor considered by the I.R.S. when distinguishing an actual trade or business from a mere hobby.

Accurately record all income and expenses relating to your business. Be sure to keep expenses by appropriate category, and refrain from overusing general categories such as "miscellaneous," "office," or "supplies." When the time comes to report these items on your income tax return, it paints a clearer picture to separate out related expenses rather than combine everything together into a single category. It's better if your examiner can quickly see on what you're actually spending money. The I.R.S. reviews returns for reasonableness before deciding whether to audit them, and large amounts of unexplained "miscellaneous" expenses will tend to raise an audit flag as to their reasonableness.

Some common categories to break out your typical office expenses might include: "postage and shipping;" "dues and subscriptions;" "equipment;" "supplies;" and "utilities." Other broader expense categories would include: "advertising and promotion;" "automobile;" "wholesale Amway product purchases;" "travel and meals" (for attending seminars, and other functions).

Keep "original source documents" to substantiate your income and expenses. For income items, you should keep invoices and monthly statements, order forms, bank deposit slips, receipts and ledgers related to the sale of Amway products to retail customers, and Forms 1099. For expense items you should keep cancelled checks, cash receipts, credit card records, Amway product purchase invoices and any other proof of payment. A simple system is to file them as you would report them, such as by income or expense category. Then, if you are called upon to justify an amount reported on your tax return, you'll know exactly where to find your supporting documents.

Use separate accounts for business and personal needs. This is critical for building and maintaining your business in a "businesslike" manner. Separate accounts give your business its own identity. Having a separate bank account for your business will actually simplify your bookkeeping responsibilities, and it will also demonstrate to the I.R.S. that you take your business activity seriously. If you use a credit card for your business, then you might also open a separate credit card account that you use only for business items. Interest expense paid on business charges is deductible, while interest on personal charges is not. Using one card for both personal and business charges can lead to lengthy calculations trying to separate that portion of the interest attributable to business expenditures. After you establish separate accounts, it is important to keep them separate and not comingle funds between them.

Identify all deposits to your business account. You might include a brief description on each deposit slip indicating the nature of the funds being deposited, whether derived from the retail sale of Amway products to customers or from Amway bonus payments. You might also file each deposit slip along with photocopies of the deposited checks. As an alternative to using paper deposit slips and photocopies of other income sources, you may consider electronically storing this information. If you get audited years later, it's tough to remember where every deposit came from. Without documentation, the I.R.S. may likely view any deposit as business income.

Identify transfers of funds between bank accounts. If you transfer funds from your personal account to your business account, or vice versa, then your deposit slip or electronic transfer receipt should note the account number from which the funds originated. This allows you to identify later the source of the transfer if necessary.

Keep separate bank accounts for multiple businesses. If you operate more than one business, it's helpful to manage the financial activity of each business by assigning separate bank accounts. Generally, it's also best to report each business activity on a separate Schedule C with your individual income tax return.

Tips on Completing Your Schedule C: The Important Details

When it comes to reporting your business activity to the I.R.S., the secret's in the details. Accurate and detailed reporting begins with a general understanding of the various tax provisions affecting your business. I will outline some of the important points below, but please consider seeking professional assistance. Tax return preparation fees may be deducted, if incurred primarily for the purpose of completing your return.

If you are a sole proprietor not conducting business as a corporation or some other form of legal entity, your business activity will be reported using Schedule C with your individual Form 1040. If your spouse is your partner in the business, be sure you put both names on your Schedule C.

If your spouse is your partner and you put both names on the Schedule C, be sure and allocate one-half of the Income (Loss) to each spouse when calculating social security and Medicare tax for each person.

Also, be sure your spouse is included on your Amway registration and annual registration renewals.

Explain your "sales" and "cost of goods sold." When reporting income, be sure to report as "sales" all receipts for sales of products to retail customers and to IBOs, as well as sales of business support materials to other IBOs. Then report as "cost of goods sold" your cost for all such products and materials. Explaining these items on your Schedule C, rather than just reporting the end result (i.e., net income), helps demonstrate the level of activity in your business.

Exclude Personal use and promotional items from your "sales" and "cost of goods sold." Treating products taken out of inventory for your own personal use as a "sale" to yourself, while including their value in computing cost of goods sold, has a tendency to create a negative gross profit, which is an audit flag. Alternatively, you might remove personal use items from the cost of goods purchased during the year before you determine your cost of goods sold. Similarly, products and business support materials given to others to interest them in the product or encourage them to build a business should be deducted as an "advertising" expense (see Schedule C, Part II, Line 8), and, thus, also excluded when computing cost of goods sold.

Automobile Expense:

The nature of your business may result in a significant amount of automobile travel. This is an expense that requires very detailed documentation and substantiation in order to obtain the deductions that you are allowed.

There are two methods for determining the amount of auto expense you report for the year: standard mileage rate or actual expense. In either case, when you use your vehicle for both business and personal use, you must apportion your expenses between such personal use and business use. Remember that you cannot deduct the portion of your auto expenses resulting from personal use or commuting to and from work. You should begin then by regularly recording the miles you drive on daily business trips. The simplest and most logical place for you to do this, once again, is in your daily planner.

Enter each business trip in your daily planner and record the number of miles you drive per trip. Next to each mileage entry, note the 4 Ws: who, where, when and why. The "why" will always include the business purpose of your trip. For simplicity, you might use codes or symbols for the most common purposes. Examples could include "STP" for showing the Plan, "S" for seminars, conventions or conferences, "B" for trips to the bank, "D" for retail customer Amway product deliveries, and so on. The "who" would be the name and address of whomever you're calling on. If you are going to an open opportunity business meeting, record the name and address of the person hosting the meeting, the name of the speaker, and the name(s) of any people you take with you who are interested in joining the Business. Record the names of all the retail customers to whom you sell products, and all the people to whom you show the Plan, even if they do not end up coming into the Business. It's also a very good idea to record your method for contacting people you attempt to sponsor and those to whom you attempt to make retail product sales. Finally, keep copies of your upline newsletters to substantiate any open meetings, seminars, conventions, conferences, training sessions, and other business functions for which you've traveled to attend.

Mileage incurred commuting to and from work generally is not deductible, while mileage incurred in pursuit of your business is deductible. I.R.S. rules also provide generally that for auto expenses to be deductible, you must embark from your primary place of business, which is the home for most IBOs. Now, this presents some interesting scenarios if you're like many successful IBOs who periodically conduct business at lunchtime or when traveling to and from work.

What if you drive to work in the morning (nondeductible commuting mileage), then you drive to meet a person with whom you share the Plan at lunch? The mileage from your work to your lunch meeting and back is deductible, since it was solely for business reasons. What if you meet with downline IBOs on your way home from work? Your mileage from your work to your after-work meeting is deductible. But your mileage from your after-work meeting to your home is not; that's considered part of your commute. The next morning, on the way to work, what if you stop to counsel with upline IBOs about your business? The miles from your home to your first stop are deductible since you left your primary place of business to go on a business trip. Yet the mileage from the business stop to your work again is part of your commute. Sound detailed? Yes, but every legitimate, deductible mile counts, so it's a worthwhile task.

To make a proper automobile expense deduction, you will first separate your personal and commuting mileage from your documented business miles. Take the odometer readings from your vehicle at the beginning and end of the year to determine total annual miles driven. Total miles driven per year, less the number of documented business miles, should leave you with your total personal and commuting mileage. Next, to separate your commuting and personal mileage, determine the round trip miles to and from your work and multiply that by the estimated number of days you worked during the year.

Business Miles

+ Commuting Miles

+ Personal Miles

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= Total Miles for Year

Business, commuting, and personal mileage totals are all required to be listed on the back of the Schedule C. Failure to include any of the three totals may raise an audit flag that you are not keeping adequate mileage records, or that you might be trying to deduct nondeductible mileage. Also, be sure to fully answer the questions on Part IV of the Schedule C, acknowledging that you have evidence to support your deduction and that your evidence is in writing.

Once you have verified your business mileage, then you must choose your method for deducting your auto expenses. If you choose the standard mileage go to www.irs.gov and search "standard mileage rate". This rate varies from year to year as the cost of operating a vehicle changes, or you may deduct a percentage of your total automobile expenses for the year equal to the percentage of business use as determined by your mileage calculations (actual expense deduction). Actual automobile expenses include gas, oil changes, repairs, insurance, depreciation, personal property taxes (license plate fees), interest expenses, etc. Note that parking and tolls incurred on business trips are a separately deductible business expense, and should not be included with your automobile expenses.

If you are working hard at building your business and, as a result, driving a lot of miles, then the standard mileage rate generally yields a higher deduction for your automobile use. If you elect to use the standard mileage rate to deduct your auto expenses, then you cannot deduct any other auto expenses, except perhaps the interest paid on your auto loan. You may take the standard mileage rate deduction in addition to the interest expense on your auto loan in an amount proportionate to your business use. For instance, if your calculations reveal that 40% of your auto use was for business, then, under the standard mileage rate deduction, you may additionally deduct 40% of your auto loan interest for that car. The standard mileage rate changes frequently, so check with your accountant or consult the applicable I.R.S. guidelines for current rates.

If you elect the actual expense method, you should seek assistance with calculating depreciation expense. The depreciation allowance is limited, complicated, and changes on an annual basis. Note that you cannot recover the standard mileage rate and depreciation at the same time. Once you select either the actual expense method or the standard mileage rate method to report automobile expense deductions, you must continue with that method until you change vehicles. At that time you may again select which method you wish to use.

It's generally a good idea to keep all gas and repair receipts for the year no matter which expense method you choose for your automobile. Under either method, you must be able to substantiate that you actually drove the miles claimed. Receipts for gas, oil changes, and repairs are generally the best evidence.

Recording automobile expenses is tedious work, but don't you get tired of using that daily planner! Believe me, it will be well worth every minute of time spent properly documenting your automobile's use. Besides, it's just good business practice to do so. Records well kept, especially pertaining to automobile and travel expenses, could save you hundreds or even thousands of dollars in the event of an audit. So use your tools to keep track of your expenses just as eagerly as if someone were standing beside you now, offering you that money to record the information.

Travel, Meals and Entertainment Expenses:

Under the 2018 "Tax Cuts and Jobs Act," business entertainment expenses such as golf outings, entertainment dinner and other meal expenses, sporting events, concert tickets or sky boxes, etc. are no longer deductible.

Please consult your CPA or other tax expert for a complete explanation of the new Rules for deducting all business related expenses under the 2018 "Tax Cuts and Jobs Act." As always, you should keep receipts related to this and all other business-related expenses.

Meal expenses associated with out-of-town business travel are still deductible (subject to the 50% deduction limitation). Qualifying for travel meals requires an overnight stay. The only substantiation required is proof that you were out-of-town (hotel bill, airline tickets, gas receipt etc.).

There are two options available for deducting out-of-town meals. You may deduct actual meal expenses or elect to take a daily per diem in lieu of actual expenses. In 2017, that per diem was $57 per day in most cities. The per diem rate may be changed by IRS from year to year. Cities such as Los Angeles, New York City, Las Vegas, etc. have higher per diem rate allowances. Go to www.irs.gov and search "Publication 1542 Per Diem Rates" and print it off to get a list of per diem rates by city. If your spouse is your partner in the Business, you also get a daily per diem for your spouse as well. For example, if leave town for a function on Friday and return on Sunday, that is 2 per diems for you and 2 per diems for your spouse.

Building Your Business as a Team:

If your spouse is your business partner and actually works with you in the business, then you should advise your tax return preparer of this fact. This is important because the tax laws prohibit business trip deductions for spouses whose purpose for going on the trip is not business-related. But if your spouse is a partner in the business and has business reasons for traveling with you, then you should be allowed their travel and meal expenses as well.

You will want to indicate on your tax return that both you and your spouse are partners in the Business. Technically, then, each of you should file a separate Schedule C, reflecting your share of the total income and expenses based upon your respective interest in the partnership's business.

Be sure both spouses' names are on your Amway registration agreement and annual renewal agreements.

Your Amway registration fee is deductible.

The cost of your Amway Sales Kit is deductible if you use it for building your business and do not consume the product personally.

Your Amway annual renewal fee is tax deductible.

Office-in-Home Expense:

Office-in-home deduction rules have changed (effective for tax years beginning after December 31, 1999). Office-in-home expenses generally include mortgage interest paid on your home loan, property taxes, as well as certain other "operating expenses" such as insurance, utilities, maintenance, and depreciation. All of these are apportioned according to the percentage of your home being used as an office.

Do not assume that because your business is based out of your home that you are automatically entitled to take this deduction. In order to qualify for office-in-home deductions, your home office must meet these requirements:

(a) That part of your home that you designate as your office must be used exclusively and on a regular basis for business, and

(b) Your home office must be your "principal place of business," which means that it is the principal fixed location where you conduct substantial administrative or management activities of the business.

Such administrative or management activities would include: making Amway product sales to retail customers, calling on IBOs or potential IBOs for business purposes, scheduling meetings or making appointments, keeping product or business support materials, hosting functions, and performing business bookkeeping and bill paying activities.

The office-in-home deduction is calculated by dividing the number of square feet of your home office by the total number of square feet in your home to arrive at a percentage, which is then applied to the expenses mentioned above.

The I.R.S. classifies office-in-home deductions into two categories. The first is mortgage interest and property taxes. These are deductible in the year paid regardless of whether or not your business is profitable. The other category is operating expenses. These include insurance, maintenance, utilities, rent and depreciation. Operating expenses are deductible only to the extent that your business is profitable. If you're not profitable in a given year it's still worthwhile to compute and report these amounts because amounts disallowed due to lack of profitability are carried over to a future year when you do become profitable.

IRS has published a new simple method for taking the office In Home deduction.

You may now take a $5 per square foot deduction limited to up to 300 square feet, without regard to any of the above methods of calculation for Office In Home.

There is no recapture of depreciation previously taken when selling your home when using this method.

Telephone Expense / Internet Service:

If you have only one telephone line in your home that is used for personal calls, then you may not deduct any portion of the standard monthly charge for your telephone. In such case, you may only deduct expenses for business-related long distance charges. If you install a second line strictly for business purposes, then you may deduct the base charge for that line. Voice mail communication services are deductible. Business use of mobile phones is also deductible, but you should keep track of business usage (name, number, minutes used) by the statements received from your cellular service provider. It is never a good idea to deduct 100% of cell phone charges, as everyone inevitably uses their phone to some extent for personal calls. You should not deduct 100% of your internet service either.

Babysitting Expense:

While childcare may be necessary for some to conduct their business activity, don't mistake this as a deductible business expense. The I.R.S. considers babysitting to fall within the childcare credit, which is reported separately using I.R.S. Form 2441. You will need each childcare provider's name, address, taxpayer identification number, and the amount paid for the year.

Final Thoughts:

To determine whether or not you are truly operating a business for purposes of allowing business deductions, the I.R.S. will look to your records and bookkeeping practices, as well as whether you prepared a **business plan, budgets, and breakeven projections** when you started your business. They will then examine how you've used these tools to adjust your business practices in pursuit of profitability. Because to be allowed business deductions, you must demonstrate that you are actively engaged in a trade or business, that your deductions are ordinary and necessary in your trade or business, and that your intent is to make a profit from your business activity.

In general, you should aim to conduct your business activity in a professional, businesslike manner. Begin by separating your business activity from personal activity, and keep accurate records to evidence the difference. Set goals and periodically review your method of operation to see that you're effectively meeting your objectives. Always look for ways to improve productivity and profitability. Seek expert help from your upline advisors, and really work the business.

Be mindful of your level of activity in the business. If you are not generating retail sales on a consistent basis, not showing the Plan very often, and not doing much besides going to functions, then you will not only have a hard time demonstrating an intent to make a profit, you'll have a hard time making a profit. So work hard, get to know the products, provide yourself with retail selling techniques, generate sales at a retail level, and show the Plan often. Follow this advice, and your business activity will speak for itself.

As your business grows and your profitability increases, you may be required to make quarterly tax payments to the I.R.S. to cover income and self-employment taxes. Even though the payments are due quarterly, it is a good idea to set aside money in advance for those payments on a monthly or weekly basis. Seek some help on this, because interest and penalties may accrue if this is not handled correctly.

Finally, but perhaps most importantly, be honest when doing your bookkeeping and preparing your income tax return. Refrain from engaging in abusive tax practices, or from advising others to do so. Such behavior hurts not only you, but also everyone else in the business because of the image and reputation that you portray.

IBO BOOKKEEPING 101

The information and tools in this guide, although not glamorous or exciting, are designed for your benefit. Bookkeeping is an important part of building your business. So keep detailed and accurate records, update and review your records each month, and be diligent in preparing your tax returns.

*** Under the 2018 "Tax and Jobs Cuts Act" ("TJCA"), a 20% qualified net business income deduction is available to profitable IBO businesses under certain circumstances and conditions. Please consult your tax expert for further information about this and any other changes to the income tax laws made under TJCA.

I wish you much success with your business!

Instructions for Completing your Budget and Breakeven Projections:

Average monthly income is a combination of average monthly bonus income and gross profit from retail sales. Line 1 should be a projection of average monthly bonus income that achieves Q12 status by the 60th month.

Line 1 – Calculate average monthly income by estimating your total bonus income for the year, and divide that number by 12.

Line 2 – Gross profit from retail sales is equal to sales price of the product minus your cost of the product.

Estimate your gross profit from retail sales for the year and divide that number by 12.

Line 3 – Add lines 1 & 2 together to get your combined average monthly bonus income and average monthly gross profit from retail sales together.

Line 4 – Automobile expenses – The majority of IBOs use IRS's standard mileage rate allowance for deducting business-related auto expenses.

Therefore, I would recommend using an average rate of 54.5 cents per mile for budgeting purposes. Multiply your estimated annual business miles by $0.545 & divide that number by 12 for line 4.

Lines 5 & 6 – Estimate the percentage of business use for cell phone and internet year and divide by 12. I recommend not deducting more than 50% to 60% of your cell phone and internet expenses.

Line 7 – The training and continuing education category includes the cost of educational materials and the cost of conferences and functions used to help you learn how to properly build your business.

Any of these training and educational materials that are passed on to prospects or downline should be transferred to the "advertising category."

Line 8 – Travel includes hotel, rental cars, airfare, cab fares, etc.

Line 9 – Advertising and Promotion includes the cost of sponsoring and other materials used to build your business. This category also includes samples.

Line 10 – Supplies – project this expense by estimating your costs for office supplies, postage, shipping and other miscellaneous items.

Line 11 – Complete line 11 by adding lines 4 through 10 and enter the total here.

Line 12 – Complete line 12 by subtracting line 11 from line 3.

BUSINESS PLAN

(COMMON EXPENSES INCURRED IN BUILDING AN IBO's BUSINESS)

Automobile – Project this expense by apportioning a percentage of your automobile operating costs (e.g., fuel, maintenance, insurance, depreciation, taxes, and interest expense) based on the estimated percentage of business usage, or by multiplying the estimated number of business miles by the standard mileage rate ($.545 currently – may vary year to year).

Communication Equipment and Services – Account for all business lines and services (e.g., telephone, cellular, voice mail, e-mail) to the extent they will be used for business purposes. Be sure to exclude from your projections any expenses attributable to personal use. Do not include any portion of your residence phone charges, other than business-related long distance charges.

Training and Continuing Education – Consult your upline to estimate the costs associated with attendance at seminars and functions, the purchase of Business Support Materials, and other dues and subscriptions.

Travel and Meals – Consult your upline to estimate the costs associated with travel for training and continuing education functions, group meetings, prospecting, and product promotions.

Advertising and Promotion – Consult your upline to estimate the costs associated with product promotions and sponsoring tools.

Supplies – Project this expense by estimating your costs for office supplies, postage and shipping, and other miscellaneous items.

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PROPOSED BUSINESS PLAN FOR

____

(IBO Name)

MISSION: To achieve financial goals through the ownership of my own business.

OBJECTIVES: To start a business with minimal capital investment and build toward a sustained level of profitability using a proven Plan and the resources available to me.

KEYS TO SUCCESS:

(1) Take full advantage of assistance and training offered by my upline through Business Support Materials and training, workshops and conferences;

(2) Work hard at making retail product sales to customers, sponsoring others by frequently showing the Plan, and generally expanding my business;

(3) Constantly review business priorities in order to reduce costs and increase productivity.

Note: The above Mission statement, Objectives, and Keys to Success are provided as a general guideline for purposes of example. You may adopt them as part of your own, or deviate entirely in the creation of your own.

SEE WORKSHEET FOR BUSINESS PLAN