

COSMETICS BUSINESS TAX SUGGESTIONS

Over 25 years of experience has shown that your tax preparer needs to understand your business. For one National Sales Director client, our expertise with cosmetics businesses made a difference of \$20,809 on their first tax returns. Furthermore, the people who keep the most comprehensive records, claim the largest deductions, and save the most money in taxes. Therefore, the most important advice we can give you is to select the right tax man and **KEEP GOOD RECORDS!!!** **It helps when contesting an IRS audit, too!**

1. Keep your business expenses separate from your personal expenses. This will make it much easier to track your business expenses. We recommend you get a separate checking account and a separate credit card for your cosmetics business. Deposit all sales and commission revenue into your separate, business checking account. Record your personal use, gifts, and ending inventory on company cosmetics order forms. File your daily receipts in an accordion file labeling each file slot according to the Operating Expenses shown on our Cosmetics Business worksheet. (see website)
2. The key to reducing your taxes through your cosmetics business is to convert as many personal assets and personal activity to business assets and business activity as possible.
3. Your largest asset is your home. Try to use as much of your house as possible for your cosmetics business (remembering that it needs to be used exclusively for cosmetics). For example, convert a bedroom to an office. Or, do facials in your dining room, and eat Christmas dinner at mom's house.
4. Your car is your second biggest asset. Use a separate gas credit card for each car. Think of ways to convert personal trips into business trips. For instance, attempt to recruit someone every time you go to the grocery store to buy groceries. Or, deliver product to a customer every time you go to church. Or, have your cosmetics bank account close to where you work, and then make a deposit to your cosmetics bank account before you go in to work each day. Be sure to conduct business **FIRST**, before you engage in any scheduled personal activity. One trick is to try to always have a business letter in the car with you so that when you are on a personal trip you can stop at a mailbox near your intended destination and deduct that portion of the trip for business. It is mandatory to keep a mileage log! (See the "Tax Worksheets" page of our website for a prototype mileage log.)
5. Employ your kids (deductible), instead of giving them an allowance (non-deductible).
6. Investigate establishing a Keogh, SEP, SIMPLE, or the new Solo 401(k) retirement plan for self-employed people that allows you to contribute more than you could into an IRA.
7. Place an order on or just before December 31st so that you do not take physical possession of the product until the next year. Be sure you pick up your order **AFTER** January 1st. That way you get to deduct the order without having to count the product as part of your ending inventory.
8. If your cosmetics business is showing more than a \$20,000 profit every year, consider incorporating as an "S" corporation to avoid self-employment taxes. We can do that for you for approximately \$700 (total cost), and it could save you thousands of dollars every year. Call us in November when we are not as busy (and still allow plenty of time before year-end) to schedule an appointment for us to design a personal battle plan for you, or have us estimate your current year tax liability.