

Canadian Income Tax Planning Guide
for
Isagenix Associates

January 2010

Tax Planning Guide for Isagenix Associates

Introduction

This Guide is intended to assist Canadian Isagenix Associates in planning and preparing their income tax returns. This guide is not intended to be a definitive analysis of the income tax implications of your Isagenix business. As always, Canada Revenue Agency reserves the right to interpret the Income Tax Act as they see fit. Users of this guide are encouraged to use this guide for information purposes only. Each taxpayer's situation is unique and the taxpayer should seek out the professional advice of a competent accountant when preparing your income tax return.

You can order more copies by contacting:

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Or you can download this tax guide by going to:

www.bpgroup.ca

Tax Planning Guide for Isagenix Associates

What makes Isagenix expenses tax deductible?

Isagenix expenses are tax deductible if there is a ***Reasonable Expectation of Profit***. There are many factors that relate to this principle, but to make it as simple as possible it comes down to the Associate's INTENT. Is it your intention to make a profit in your Isagenix business?

Any time you spend money, you should ask yourself this question:

Did you spend this money in order to increase your income?

(In CRA's jargon, this means that the expenditure was used to earn income and there was a reasonable expectation of profit)

If the answer is yes, then that expenditure is tax deductible. If the answer is NO, then this expenditure is probably NOT tax deductible. All Isagenix expenses (except for home office expenses) are deductible from all sources of income (employment income, investment income, retirement income, rental income etc).

Personal Use Portion

Sometimes, the answer to the question is YES AND NO. In a case like this, you should deduct something less than 100% of the expense.

FOR EXAMPLE:

Let's say that you decide to attend the Leadership Conference in Hawaii in February.

Did you spend this money in order to increase your income?

Well, yes you went for the training, but by the same token, you also really wanted to be somewhere warm and sunny in February. CRA would frown on you deducting 100% of this trip as business since there is some personal use portion.

Here is where you can decide to use your judgement. It would be wise to deduct 70% and show 30% as personal use. That way you have recognised that the trip was NOT 100% business.

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Maximizing your tax deductions

Most people who have not been in business before do not realise that there are a number of legitimate tax deductions available to them as a home based business. There are two steps to this process:

1. **Recognising what is a valid tax deduction.**

This guide will help you with this

2. **Keeping track of those deductions**

Setting up a filing system that will help you keep all of the receipts you need to claim these deductions. *This is where most taxpayers get caught.* You may qualify for the tax deduction but when CRA comes calling you don't have the receipts at hand and your claim is rejected. This guide will suggest a model filing system for distributors to use.

Furthermore, Canadians as group tend to be conservative when it comes to tax strategy and do not take deductions because they don't think they apply to them. The following is a brief description of the types of items, which should be included on your tax return:

Income

v **Commissions from Isagenix**

Isagenix issues a commission once a week and is easily tracked on your statement. This must be claimed as revenue.

Expenses

v **Purchase of Products**

Your purchases from Isagenix fall into three broad categories:

❖ **products for personal use**

Products for personal use ARE NOT tax deductible. Some Associates feel that Autoship should be tax deductible because you should be a product of the product. However, CRA does not agree and personal use products are NEVER tax deductible. Autoship would be deductible if you are placing the order to qualify for a commission.

❖ **inventory for resale**

Because we order products directly from Isagenix, there is no need for to carry inventory.

❖ **products for demonstration and lending out**

Personal use products and inventory **ARE NOT** tax deductible. Therefore, for tax planning purposes you should make most of your purchases for demonstration products. Products for demonstration purposes and lending out are 100% tax deductible.

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Maximizing your tax deductions

v Accounting and tax advice

Now that you are in your own business, the cost of consulting an accountant is now tax deductible.

v Business Cards, letterhead and office supplies

The cost of business cards, letterhead and office supplies for your Isagenix home offices are tax deductible expenses

v Advertising and Promotional Materials (brochures, catalogues etc.)

Catalogues, sales aids and brochures are tax deductible expenses.

v Tapes and Books

Audio tapes, video tapes, training programs are all tax deductible

v Meetings and training admission costs

The ticket cost of meetings and trainings is tax deductible. File this expense under Business Taxes, Fees etc.

v Bank Service charges on business account

If you have a separate business bank account you can deduct the bank charges for this account. File this expense under Office Expenses.

v Credit card interest charges and loan interest

Credit card interest and loan interest which is used to make business purchases are tax deductible. It makes good sense to have a separate credit card to use JUST for business.

v Travel Expenses

Airfare to and from a convention or business event is 100% deductible for both spouses if the distributorship is a joint business. Hotel is 100% deductible.

v Meals and Entertainment

Meals and Entertainment are 50% deductible for tax purposes. These are expenses while on a trip or when entertaining a prospective customer or distributor. To be even eligible for the 50% deduction there must be a business reason for the expenditure. If a husband and wife are Isagenix Wellness Consultants and go out for a meal *that would not be deductible*. However, if they take a prospective associate out to a meal then the expenditure would qualify for a 50% deduction.

v Telephone

Long Distance used for the business is 100% deductible. If you have a separate phone number for business the monthly charge is 100% deductible otherwise you can prorate the home phone number between business and personal usage. If you have a cell phone which is used for business you can deduct that.

v Computers, desks and office furniture

Office furniture and equipment you purchase for your Isagenix business would be considered capital expenditure and a percentage (Capital Cost Allowance) would be deducted over a period of the next few years.

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Automobile Expenses

v Automobile Expenses

CRA requires that you keep a mileage log which tracks all personal and business kilometres drove in the year.

You then allocate the portion of the automobile expense according to that log.

EXAMPLE:

You drove a total of 42,500 kilometres and according to your log 12,000 kilometres were for your Isagenix business. Based on that mileage log, 28% of your automobile expenses are tax deductible. During the year you kept track of all your automobile expenses as follows:

Description	Total	Business Deduction (28%)
Lease payments on car	\$6,300	\$1,764
Repairs	225	63
Insurance	1,265	354
Gas	1,700	476
Tolls (407 ETR)	160	45
License	120	34
Total	\$9,770	\$2,736

In this example, you would have a tax deduction of \$2,736 for automobile expenses.

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Home Office Expenses

v Home office Expense

Operating costs for the portion of your home used exclusively for business are deductible from business income.

Exclusive use

Firstly, notice that the portion must be used **exclusively** for business. For example, a spare bedroom used only as an office for your business. You cannot claim your living room based on the fact that you meet with associates a few nights a week. The room has to be used 100% for business only. The percentage deductible can be based on the square footage of business use divided by the total square footage of the house. The alternative method is to base the percentage on the number of rooms used for business usage divided by the total number of rooms in the house.

Deductible from Business Income

Secondly, notice that the home office expenses are only deductible from business income. If the business is showing a loss, you cannot deduct the home office expenses to increase the loss. However, you can carry forward the home office deduction to future years to reduce the taxable profit to zero.

Example:

Your home is 1,800 square feet in total and you use 180 square feet as an office and product room. You could deduct the following from business income:

Description	Total Costs	Business Deduction (10%)
Mortgage Interest	12,000	1,200
Realty Taxes	2,500	250
Utilities	2,000	200
Repairs & Maintenance	600	60
Lawn Maintenance	400	40
Total	17,500	1,750

In this example, you would get a deduction for home office expenses of \$1,750

The nice thing about this deduction is the fact that you are getting an additional tax deduction for money you are already spending. This effectively reduces your marginal tax rate on business income without increasing your out-of-pocket costs.

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Bookkeeping System

v Receipts and your accountant

Your accountant **DOES NOT** want to see all of your business expense receipts!!! It increases your accounting fee and possibly decreases your potential tax refund.

v Bookkeeping System

Instead, my recommendation is:

v **Get an expandable file folder, which can hold multiple file folders. You will use this for the whole year and then start a new one for the new year.**

v **Set up A SEPARATE FILE under each of the check marked categories and during the year file receipts in one of these files:**

- ❖ **BANK STATEMENTS & VISA STATEMENTS**
- ❖ **TAX INFORMATION** - T4, T4A, T4U, T4AOAS, T5, T4RSP, T3, Union dues, charitable donations, medical expenses, child care receipts, moving expenses for employment, safety deposit box receipt, tuition receipts.
- ❖ **COMMISSIONS** -- keep track of your weekly commissions for the year.
- ❖ **DEMO AND SAMPLE PRODUCT PURCHASES** - in this file keep all Isagenix invoices for sample products purchases during the year. ANY products purchased for demonstration or sample use is deductible. Not just in your first month but ANY time in your Isagenix business.
- ❖ **ADVERTISING** - in this file you should put receipts for brochures, advertising space in newspapers, networking meetings etc.
- ❖ **BUSINESS TAX, FEES, LICENSES, DUES, MEMBERSHIPS & SUBSCRIPTIONS** - in this file keep all receipts for subscriptions to trade publications, membership dues to networking organisations (like BNI) and other fees you have paid
- ❖ **DELIVERY, FREIGHT AND EXPRESS** - in this file keep track of all courier and postage costs.
- ❖ **INTEREST** - in this file keep track of all interest which can DIRECTLY be related to your Isagenix business.
- ❖ **MEALS AND ENTERTAINMENT** - in this file keep all restaurant and event receipts and tickets. Even though this is only 50% deductible, you will be amazed at how much this will add up to.
- ❖ **OFFICE EXPENSES** - this is your catch all file. Anything that does not nicely fit into other files will be classified as OFFICE EXPENSES and filed in this file folder.
- ❖ **OFFICES SUPPLIES** - keep all of your costs of offices supplies in this file.
- ❖ **LEGAL, ACCOUNTING AND OTHER PROFESSIONAL FEES** - keep any invoices for accounting and legal in this file.

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Bookkeeping System

- ❖ **SALARIES, WAGES AND BENEFITS** - if you paid anyone to help you in your Isagenix business you should note it in this file. If you paid more than \$750 to any one person you will have to register as an employer and issue T4 slips to those people.
- ❖ **TRAVEL** - this file will include all Airfare, Hotel, Taxi, Limousine, event tickets, Parking etc.
- ❖ **TELEPHONE** - track all of your long distance, cellular phone, your home phone cost is NOT tax deductible.
- ❖ **CAPITAL EXPENDITURES** - in this file keep receipts for any office equipment, computers, fax machines. Any thing that you used in your business which cost more than \$250 and had a useful life of more than one year.
- ❖ **AUTOMOBILE MILEAGE LOGS** – you need to make note of every business trip you make and how many kilometres the trip was. At the end of the year you need to add up the business kilometres and divide by the total kms for the year to determine the business use.
- ❖ **HEAT BILLS FOR HOME** - all heat bills for the year should be kept in this file
- ❖ **ELECTRICITY BILLS FOR HOME** - all electricity bills for the home should be kept in this file.
- ❖ **INSURANCE FOR HOME** - insurance invoice for home should be kept in this file
- ❖ **MAINTENANCE FOR HOME** - any home maintenance such as lawn treatment, lawn care, maid service, paint and wallpaper etc. should be kept track of in this file.
- ❖ **MORTGAGE INTEREST** - your annual mortgage statement should be kept in this file.
- ❖ **PROPERTY TAXES** - your annual property tax assessment should be in this file.

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Checklist for preparing your tax return

In order to save on accounting fees you should total all of the receipts in each file and enter the totals in the space provided in this checklist. **Give your accountant this summary and your TAX INFORMATION FILE only. Keep all of your receipts (your accountant does not want them).**

File Folder	Amount	Description
COMMISSIONS EARNED		This is the total of commissions issued by Isagenix
DEMO AND SAMPLE PRODUCTS		Total up all of the invoices for Paks and any other samples purchased during the year.
ADVERTISING		Total up the cost of all advertising expenses.
BUSINESS TAX, FEES, LICENSES, DUES, MEMBERSHIPS & SUBSCRIPTIONS		Make sure you include all meetings and training in this category. If you don't have all the receipts, estimate the number of events and cost on a sheet of paper and include in the file
DELIVERY, FREIGHT AND EXPRESS		Total the cost from this file
INTEREST		This expense must be carefully documented.
MEALS AND ENTERTAINMENT		Total the 100% cost of your Meals and Entertainment (only 50% of this total will be deducted). In your file you must have date and time and purpose for the meal.
OFFICE EXPENSES		Any expense that does not fit another category goes into this category
OFFICE SUPPLIES		Total office supplies.
LEGAL AND ACCOUNTING		Total legal and accounting fees paid
SALARIES AND BENEFITS PAID		If you paid more than \$750 to any one person you will have to issue T4s.
TELEPHONE		Include long distance used for the BUSINESS and if you have a dedicated line or cell phone (your home phone is not deductible)
TRAVEL		Include expos and trainings in this category
CAPITAL EXPENDITURES		Please specify what you purchased and how it will be used for the business This category includes things like computers, fax machines, photocopiers, desks etc.

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AUTOMOBILE EXPENSES

BUSINESS KILOMETRES		Include the total kilometres driven in the year for BUSINESS purposes only
TOTAL KILOMETRES		Include the total kilometres driven in the year for ALL purposes

ADDITIONAL INFORMATION IF YOU ARE USING THE PRORATION METHOD ON PAGE 10

LEASE PAYMENTS		Include the total of all lease payments
LOAN INTEREST		If you own the automobile but you had a loan, include the interest amount paid on the loan
ORIGINAL PURCHASE PRICE OF AUTOMOBILE		If you purchased the automobile write in the original purchase price and the DATE of purchase: _____
GAS EXPENSES		Enter the total gas purchased in the year
INSURANCE EXPENSE		Enter the cost of automobile insurance for the year
REPAIRS		Enter the cost of all repairs in the year
LICENSE		Enter the cost of licensing
OTHER		Any other cost associated with your automobile

HOME OFFICE EXPENSES

Square footage used for business		This must be exclusively used for business.
Total square footage of house		Do not include basement footage unless the home office is in the basement.

HEAT		Total for the year
ELECTRICITY		Total for the year
INSURANCE		Total for the year
MAINTENANCE		Total for the year
MORTGAGE INTEREST		Total for the year
PROPERTY TAXES		Total for the year

Please note that if this is your first year of operation you will have to prorate all home office expenses for the part of the year.

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Advanced Tax Planning

Tax Loss

Any net tax loss (excluding home office expenses) is deductible against employment income. For example, if your tax loss were \$3,000 for the year ended December 31st, you would be allowed to claim this as a deduction against your other sources of income and receive a tax refund. Therefore, you want to structure your business so that the Isagenix business shows a tax loss which can be applied to other incomes (employment, pension, rental income or investment income).

Do you need an Accountant??

I would strongly recommend that you engage the services of an accountant. Now that you own a business, there are a lot of things that need to be done to file your annual tax return. By using the checklist and giving this tax guide to your accountant you will save on his or her fees substantially.

How to choose an accountant:

It can be intimidating choosing an accountant. However, it is important that you choose a good accountant. Here is a short list of things to look for in an accountant:

1. Compatibility -- First and foremost, you should feel compatible with your accountant and feel comfortable communicating with him or her.
2. Competence -- To ensure a base line of competence you should insist on a CA, CMA or CGA at the end of their names.
3. Experience -- How many years experience does the accountant have and do they have direct experience in doing tax returns for proprietorships?
4. Price -- INSIST on getting a fixed fee quotation IN ADVANCE of engaging the accountant. There are so many horror stories of clients paying thousands of dollars in fees when they were expecting to pay hundreds. If an accountant is evasive on the fee -- KEEP LOOKING.

v Engaging Brian Petersen MBA, CMA, CFP as your accountant

I have a passion for network marketing and I love working with network marketers. If you do not have an accountant you are comfortable with, I will be pleased to act as your accountant. My prices are as follows:

❖ Tax Preparation - \$300.00 (plus GST) per return (including spouse's return)

This price of course assumes that you do not have numerous other businesses or investments which would complicate the return. For a free quotation, please e-mail me at bpgroup@cogeco.ca.

For outside the Hamilton area, the taxpayer can courier the information to me and I will prepare the tax return, review it over the telephone with the client and then courier the completed returns to the taxpayer.

❖ Consultations -- \$94.50

❖ E-mail questions are FREE

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GETTING YOUR INCOME TAX RETURN PREPARED BY BRIAN PETERSEN

For clients who are out of town send me the following information by
EXPRESSPOST or courier:

1. Personal Information:

Name	
Address	
Birth Date	
Spouse's Name:	
Spouse's Birth Date	
Dependants Names and Birth Dates	
Amount paid for realty taxes or rent:	

2. Tax Information Slips

Send original copies of T4, T4A, T4U, T5, T3, RRSP receipts, Childcare receipts, Medical Expense Receipts (prescriptions etc.) Charitable Donation Receipts, Safety Deposit Box Receipts.

3. Business Checklist

Send a copy of the completed business checklist (pages 9 & 10)

4. List of Questions

Send a list of questions if you have any.

5. Cheque for \$315.00 (\$300.00 plus GST)

Send a cheque payable to BP Group Inc. for \$315.00. We also accept Visa or Mastercard. All returns must be paid for before e-filed.

Once I receive the package I will prepare the tax return and Adrienne will e-mail or call you to review the results over the phone. Once you are satisfied with the tax return, we will print and collate the final copies and EXPRESSPOST them back to you.

If you have any questions please e-mail me at bpgroup@cogeco.ca