

## Direct Selling Industry – IRS Guidelines

The IRS has begun focusing on tax returns where a Schedule C is filed for individuals in the Direct Selling or Multi-Level Sales Industry. If you want to audit proof your return, use the following list to identify the areas the IRS is focusing on relating to this industry. Then tailor your business to minimize these issues. Please call us if you have any questions.

1. Is the trade or business carried on regularly and in a continuous manner.
2. Are their books and records which indicate:
  - a. Active management, setting and periodic evaluation of goals
  - b. Budgets and income statements prepared and reviewed regularly
  - c. Customer files maintained
  - d. A separate business checking account
3. Are there continued expenditures in activities that show little or no profit potential? You must have a profit motive to treat this as a business.
4. Does the taxpayer have sufficient experience and training? If not, is the taxpayer seeking out training from those who have been successful in the business?
5. Is time devoted to the business sufficient and regular? The more time spent conducting the business, the more likely it will be considered a business and not a hobby.
6. Is there a history of profit? A series of losses, if continued beyond the normal start-up period, is considered indicative of a lack of profit motive unless there is strong evidence otherwise.
7. What action has been taken to make the business profitable?
8. Are there other sources of income? If no, then this is a good indicator.
9. Are there any elements of personal pleasure or recreation? If yes, this can indicate no profit motive, but the IRS must look at other indicators along with this to determine if this is a business.