

INFLUENCING THE INFLUENCER

A Multi-week Accounting Activity

BACKGROUND:

Dante Briggs has always been into fashion. He recently reached over 10,000 followers on Instagram and realized he could translate his passion into profits as a personal stylist and social media fashion influencer, so he began offering local in-person styling services in his hometown of Atlanta, GA for a flat fee of \$1,000.

Dante's clients pay the first half of the fee at their initial consultation and the second half when he returns a week or two later with the wardrobe options he's purchased for them out of pocket. Clients then buy the items they like directly from Dante for their retail price plus his 15% commission, and he returns the remaining items. He spends an average of 15 hours on this service each month working with two to three local clients, and each client spends around \$1,200 on clothing and accessories (not including his mark up).

In addition to in-person client work, Dante started receiving income through affiliate links he features in his social media. When someone makes a purchase using one of his links, brands pay him 10-20% of the purchase price as commission. The company that allows him to generate affiliate links directly calculates and deposits all earnings into Dante's bank account every two weeks. On average, Dante nets approximately \$1,820 for each deposit.

About six months into starting his in-person styling services, Dante decided to offer e-styling for a flat fee of \$500. Virtual clients pay half of the fee upfront and email him pictures of themselves, their measurements and a list of celebrities for inspiration. Dante then prepares a five-look wardrobe using his affiliate links from the brands he works with, and the client purchases the items they like (thus earning him commission) and pays him the second half of his fee. Dante spends about five hours on each of the four to six virtual clients per month.

Because of his Instagram success, a variety of companies also started reaching out to Dante for ad partnerships. These partner commitments range from single image posts to event appearances (such as a new store opening), and he is paid in various forms such as free products, cash or a combination of both. The total value ranges anywhere from \$1,000 for a single post to upwards of \$8,000 for four videos and, depending on the partner, it can take upwards of 90 days to receive payment. Dante averages two to three advertising partners per month.

INFLUENCING THE INFLUENCER : WEEKLY ASSIGNMENTS

WEEK #1:

TAKING CARE OF BUSINESS BASICS

Things are going so well that Dante decided to quit his job to focus on fashion full time; however, he's completely clueless with running a business and knows nothing about accounting. He now needs a CPA's help. That's where you come in.

This week you'll need to set up an income statement. After speaking with Dante, you were able to glean some specific numbers for last month, which he said had been about the same the month before. These, along with the list of his expenses, should help you create his income statement. Once that's finished, advise Dante on how much he should pay himself, how much he should consider putting back into the business and how much he should reserve for taxes.

Last Month's Income:

- **In-person styling** (*flat fee + 15% commission on each item purchased*):
 - **Gina Mercer: \$1,000**
 - Items purchased (base/retail price, including taxes)
 - Velvet pants: \$98
 - Silk blouse: \$115
 - Gray heels: \$89
 - Small clutch: \$44
 - Distressed pants: \$140
 - Little black dress: \$154
 - Silver crossbody: \$229
 - Birthstone jewelry: \$78
 - Magenta floral: \$220
 - Tweed slacks: \$110
 - TOTAL: \$1,277
 - **Jamal Dalton: \$1,000**
 - Items purchased (base/retail price, including taxes)
 - Chukka boots: \$328
 - Maroon hoodie: \$115
 - Multicolor scarf: \$58
 - Tuxedo pants: \$222
 - Fitted jeans: \$118
 - Cap-sleeve blouse: \$109
 - Fitted puffer coat: \$288
 - TOTAL: \$1,238
- **E-styling** (*flat fee + 15-20% commission via affiliate links*):
 - **Flora Diaz:** \$500 + \$262.50
 - **Tommy Parsons:** \$500 + \$189.92
 - **Chandra Thompson:** \$500 + \$42.77
 - **Ace Forrester:** \$500 + \$153.92
 - **Jameen Williams:** \$500 + \$309.48
- **Partnerships:**
 - Garçon Bowties: (2 posts + 1 video) \$3,500
 - Free People: (3 posts + 1 video) \$7,250 + \$500 merchandise gift card

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- Betsy Johnson: (1 post + 1 appearance) \$4,500 + \$1,200 in “free” clothing
- **Affiliate links** (*total including e-styling + social media links*):
 - First deposit – \$1,753.22
 - Second deposit – \$2,004.60

Dante's expenses (*in addition to the clothing and accessories for clients*):

- Adobe Creative Suite –\$55 / month
- Website hosting – \$250 / year
- Internet – \$70 / month
- Mileage – (1,800 business miles)
- Computer – \$3,200 (Don't forget depreciation.)
- CPA – you! (\$575?) *What will you charge?*
- Billing system – manages billing and invoices – \$200 / year + transfer fees \$15
- Automation service – \$250 / month
- Additional clothing/accessories/props – \$2,500 / month

WEEK #2:

GETTING ORGANIZED & INCORPORATED

One thing you've learned about Dante in the short time you've been working with him is, while he has impeccable taste in clothing, his organizational skills leave much to be desired. Plus, with a busy schedule, Dante hasn't taken care of the basics of starting a business and making it official. He desperately needs help setting up his business and creating a system for keeping track of everything in a simple and easy-to-use format. After all, the more he knows about his business, the easier it will be to focus on the areas that have the most growth potential—and make more informed business decisions.

Questions to answer:

- What type of entity should Dante set up for tax and liability purposes, and why? Should he create an LLC, S-Corp or keep things under his own name?
- How should he be paying taxes—estimated quarterly or at the end of the year? When it comes to his e-styling, does Dante need to worry about paying taxes in other states?
- How much will it cost him to incorporate the business? What are the fees associated with setting up the city license, registering with the secretary of state, etc.?
- Some partners pay with product, money or a combination. How do you determine the value of the products? Is it considered the same as money or a gift?
- Dante has been using his personal bank account to make purchases for his business. He's also receiving payment on his personal PayPal and Venmo accounts. Is this okay? How should he set things up so he's doing things correctly?

WEEK #3:

SELLING HIMSELF & GROWING THE BUSINESS

While attending a local event with other influencers, Dante hears some of his peers talking about the success they've seen through their presence on Pinterest. Even though he is on Pinterest, it's never been a big earner for him. Now he knows why. Several of the other influencers are discussing how hiring a Pinterest marketing strategist has helped them grow their affiliate link income. Dante loves the idea of delegating his Pinterest to someone else who knows more about the ins and outs of the platform.

After doing some research, Dante finds a specialist who's willing to help him manage and grow his Pinterest following and click-throughs. Erica charges \$475 a month for her services, which include making recommendations, posting on Dante's behalf and providing additional analytics for the platform to guide his strategy and prove her value. Dante thinks this would be a good investment but isn't comfortable making that decision without your advice.

Seeing as Dante has never invested in any paid advertising or promotion, you decide it would be best to come up with a marketing budget based on his revenue and expenses. This will make it easier for Dante to know whether he can afford Erica's services.

In addition to creating a marketing budget, Dante asks you the following questions:

- Does he need to send her a 1099-NEC at the end of the year?
- How does this affect his spreadsheet from week 1?
- If he wants to increase activity on Pinterest (which monetizes via affiliate links), which area(s) would you recommend Dante scale back on or get rid of completely, if any?

Also, an influencer agency recently reached out to Dante and offered to represent him. Based on the size of his following and his particular style, the agency would work to find Dante new partnerships that are a good fit for his brand. The agency also tracks analytics and takes care of contracts and billing. For these services, they take 15% off the top. If he works with them, Dante will receive just one monthly check (with their fees already deducted) for all advertising partnerships they start.

While Dante has been pretty successful in making connections and developing relationships with various brands on his own, he believes having an agent could help him amp up that area of his business. Plus, the contract is not exclusive, which means he can still work with his own partners separately (without incurring the 15% charge).

Dante calls you for your professional opinion. You need to advise him on the following questions:

- Does this business relationship make sense for Dante? What's the ROI?
- Should Dante take on an agent relationship and hire the Pinterest marketing strategist (if he hired her)? Or would this be a better business expense to take on instead of the Pinterest strategist?
- How does this affect his spreadsheet from week 1?

WEEK #4:

MAXIMIZING TAX BENEFITS

Now that Dante's business is humming along with your help, he's started thinking about things from a new perspective. Understanding more about his business is helping him improve how he works and allowing him to more easily evaluate whether he needs to make changes. As a result, he's come up with some additional questions for you.

Because clothing and fashion are not only his life but also his business, the lines between the two are often blurred. As a result, Dante struggles with knowing what qualifies as a business expense versus a personal expense. After all, he buys clothes for himself, but he also wears them in his posts, videos and blog. So, would clothes be a business expense or a personal expense? Can he deduct some of them? A percentage of all of them? Or what?

Speaking of his wardrobe: Dante rarely wears an outfit more than a few times. So, considering he has limited space in his home to store them, Dante often sells his clothes online to make some of his money back—and so he can more easily walk through his apartment. Is this something that he needs to report as income? If so, how does this play into his income statement? Do you have any recommendations for how he can better incorporate this into his business model since it's somewhat time-consuming and doesn't add very much to his income?

And what about Dante's home? It's where his business is based. What does this mean for his taxes? What is he allowed to deduct? And how should he keep track of everything to make things as easy as possible for his taxes?