

Current Income – Residual Income

1 Summary

I was in Amway for about a year between '96-'97. I reached the 1000 PV level after spending about \$15,000 that year on system tools, functions, etc. I spent approximately \$50,000 dollars on just tapes/books/rallies and functions during that 8 year period. I made approximately \$15,000 during that 8 year period. Former Distributors

Most people will not make money in AmQuix if they spend heavily on the "system". This document shows tax court records and some of the problems in AmQuix. This document also highlights income claims being made by IBOs.

"This type of business right here.....You can make more money, quicker than anything you will ever attempt either now or in the future no matter how long you live" Executive Diamond Distributor -Louie Carrillo - Tape BDR-767
Forks in the Road

2 All the details about current and residual income

Since all current distributor site visitors refuse to share their business financials with me, I have turned to data, which can be obtained from the numerous Tax Court cases involving Amway distributors. From these cases, it seems the IRS does not take Amway as a serious business proposition. Net business losses are very common if costs are not controlled. Court precedent has been established; the IRS will disallow deductions for losses in the business in most cases.

"...The Amway distributorship system is well known to respondent and this Court ..(sites numerous cases)..... In most of these cases, we found that the expenses of operating the distributorship at issue were so great in comparison to the revenue generated that the distributor lacked a true profit motive."

FRISCIA v. COMMISSIONER OF INTERNAL REVENUE -US TAX COURT TC Memo 2000-192

"...The Ogdens carefully avoided any reference to Amway on the Schedules C. For instance, in 1993, Mr. Ogden neglected to report gross sales of \$43,575 and cost of goods sold of \$42,493 resulting in gross income of \$1,082. He reported the gross income of \$1,082 and a net loss of \$20,250, after deducting \$21,332 in expenses. It appears clear that Mr. Ogden should have realized that his golden opportunity was not golden and that he would not make a profit."

MICHAEL A. OGDEN v. COMMISSIONER OF INTERNAL REVENUE -US TAX COURT TC Memo 1997-297

"I was in a meeting with Ron Puryear (100 of us) and he said that he was worried about the status of Amway since they went to direct fulfillment rather than distributing products via garages (weekly product pickup). He

maintained that the IRS would then have a leg to stand on in claiming that most of those distributors have a 'hobby' business since they don't even do distribution any more. That is why WWDB still does a weekly product call-in and pickup." WWDB Direct Distributor

"Still, I do not think they (my sponsors) have recovered since the IRS declaration that their business was a hobby and not a real business and subsequently disallowed well over \$10,000 in deductions over three years because of concurrent losses being reported."

"The years that we didn't file a loss were because we didn't file our business expenses at all. Our upline advised us that too many years of losses would attract IRS audit attention." Former Distributors

If most people aren't making money in AmQuix, why do they stay involved? As mentioned above, AmQuix provides an "experience", which cements brand loyalty. Amway is a major social outlet for most distributors. It is source of mentors, clean living, a "way of life", a "new age church", a way to spread Christianity, and a way to help other people improve their self-esteem and confidence. The AQMOs coincidentally employ many techniques used in cults that also help retain their distributors. Even if distributors are not making any money, AmQuix is a source of financial hope. Going Diamond is their ultimate dream of success.

"...A major reason why many individuals remain committed to Amway is the congenial sense of family and the gratifying motivational feeling that they derive from participating in the activity."

NISSLEY v. COMMISSIONER OF INTERNAL REVENUE -US TAX COURT TC Memo 1997-297

(Over the course of 8 years, the Nissley's Amway business reported \$187,000 in losses.)

"...It was apparent from Mr. Noseworthy's appearance on the stand that what he really enjoys about Amway is the various group meetings and conferences, organizing them, lecturing at them and attending them. They appear to have become a way of life for him and an integral part of his social life."

RONALD NOSEWORTHY, and HER MAJESTY THE QUEEN Canadian Tax Court Docket: 97-3395(IT)G

(Over the course of 6 years, the Noseworthy's Amway business reported 119,000 \$ca in losses.)

"But I will admit, the functions and friends have really helped change my bad habits and have allowed me to find God. "

"...We really fell in love with our support group because they are involved with the church and we felt that was special to have in business"

"Outside of the church, there is no other place where you will find such positive, encouraging, edifying, supportive fellowship between individuals."

IBO Site Visitors

"Participation in destructive cults (commercial cults in this case) does provide some people with an outlet for various aspects of themselves that they did not find in their family life or other social activities. Many men and women have a genuine impulse to work together in teams for a variety of social or religious causes. Relatively few communities, though, offer such organized activity to idealistic people. Cult life gives them just an opportunity, along with the apparent benefits of the "togetherness" that comes from an intense group activity" Steven Hassan "Combating Cult Mind Control" Page 77

*"Everyone wants to be happy. Everyone needs affection and attention. Everyone is looking for something better in life: more wisdom, more knowledge, more money, more status, more meaning, better relationships, better health. These basic human qualities and needs are exactly what cult recruiters prey upon. **It is important to remember that for the most part, people don't join cults. Cults recruit people.**"* Steven Hassan "Combating Cult Mind Control" Page 48

3 Direct (Platinum) Income

Many prospects are misled about the income, which can be generated at various levels.

"Then at 7500 PV (direct) you make at least 150K a year. Is this all true?"

Prospect - Site Visitor

Distributors tell their prospects how much money the Directs (Platinums) in their line of sponsorship earn:

"The guy that makes \$50,000 in one year. That's what you ought be telling them." Executive Diamond - Glen Baker Tape: "Seminar" RP-833

"The average. Platinum involved with the IBOAI last year made \$62,000."

"The average Direct IBO in Quixtar made over \$50K per year" IBO Site Visitors

"Doing these eight things, you could expect to reach a level called Direct distributor within about 1 year. You would be making approximately \$50,000/year as a direct distributor....with tax advantages that go with that, that's equivalent to about a \$75,000/year job...."

If this were true that the average direct made \$62K, it would imply that 58 active distributors will earn nothing to achieve the \$88/month average published by AmQuix. Since 41% of distributors are considered active, it calculates that 149 AmQuix distributors earn nothing so that a platinum can earn \$62,000/year. The typical platinum distributor has fewer than 149 distributors and several of their downline are collecting bonuses as well. It would appear their claims are not realistic. There are no published data from AmQuix to confirm these claims. If you hear this income claim from your sponsor ask them for official proof from Amway or Quixtar.

Crown Direct Distributor Dexter Yager admits in a 1983 Pearl Club meeting that most Silver and Gold Direct distributors are "broke". In other words, they do not keep enough of the income to be able to report a net profit. Gold and Silver Directs are broke. Most likely if a Platinum IBO is not earning the Q-12 bonus they will not be making a profit. Rich DeVos, Co-founder of Amway even spoke out about such claims

"We have a major lawsuit going right now with an attorney general in one of the states based on people making what they say are excess claims and telling people they hardly have to work at all, telling them you can make \$50,000.00 a year and you only have to work twelve hours a week." Rich DeVos - Co-Founder Amway Corp - Directly Speaking tape

Residual income is often cited as a major benefit of this business. The residual income possibilities are not what most are lead to believe. Residual income is possible only as long as the people you sponsor stay in the business and keep buying.

*"It is ongoing income, not residual. Amway has asked us not to use that.....New word again, **ongoing income not residual income**. Amway has asked us for stupid reasons, again the constraining order that they are going to try to change. For some reason the FTC doesn't like the word 'residual'..."*

Here the FTC has stepped in about the improbable "long term residual income". Since almost 50% of IBOs quit every year it might be tough to keep your "residuals" intact without doing any work. Secondly, the corporation has implemented rules so that a true residual income is not possible.

5.3.4 Servicing Arrangements: If an IBO is unable or unwilling to service his or her downline IBOs with the proper supply of products, training or motivation, he or she must make arrangements, in writing, with his or her first upline Platinum or above to have this done, **in which case he or she must be willing to compensate his or her Platinum or above for this service.**From the Amway Quixtar Business Compendium

There are cases where uplines have taken over strong downlines of "inactive" distributors because they were not "servicing their downlines" or meeting certain rules.

The following from Canadian Tax court about a direct distributor illustrates the point that there is no effortless residual income.

1. *"...Even when a distributorship broke away and he obtained residuals, this problem (profitability) remained and, as he has experienced, it is clear that travel and the telephone remain necessary in order to keep the groups active and successful. Lou Collins, an "Emerald" distributor, verified this when he testified that he is in personal or phone contact with Messrs. Keeping and Noseworthy, at least every two days throughout the year. By contrast, Mr. Keeping did not recognize the need for of constant contact to keep his established leg together and motivated. Rather his practice was to establish one group and then devote his limited time to establish a second group. However when he did so, the first group began to fail and ultimately did fail. Thus, it appears that establishing and maintaining three groups from Garnish will require two or three times the travel time and financial costs that Mr. Keeping has experienced. "*

LYMAN KEEPING, and HER MAJESTY THE QUEEN Canadian Tax Court Docket: 97-3402(IT)G

(Mr. Keeping reported losses of 62,000 \$ca over six years in Amway)

2. The lack of competitive advantages requires the "hi-touch" approach and constant human interaction to keep groups together and sales up. Even direct distributors spend a lot of their gross profit to hold their groups together. In Tax Court ([T.C. Memo. 1991-50](#)), Pearl Direct distributor Jordan reported losses of \$8,600 and \$7,800 in 1982 and 1983 despite gross income of \$42,800, and \$41,600. The IRS later revised their profit to \$9,500 and \$11,600 after disallowing many deductions. The Jordans stated the business required 40-60 hours per week. Using just 40 hours per week it is about \$4.75/hour in 1982 dollars. That was for a Pearl direct distributor who supposedly has one residual producing leg. This is why net profit is so important to know. What is the point of having a high gross profit if it all gets spent on business expenses? Most distributors are happy with little or no net profit since the real goal is to make it real big when they go Diamond

3. *."....This works out to a net profit of \$6000 to \$7000. Given the 20 hours per week involved, that works out to \$6 to \$7 per hour (\$7000/(20 hrs x 50 weeks)). Not exactly big profits. I have gone over these numbers many times and I know they are correct. Remember, this is for a Direct!"* WWDB Direct Distributor Site Visitor
4. *"To say that it was not profitable, even at the levels we were at is an understatement. We have shown losses every year we've been in. It is not an inexpensive business, particularly if you attempt to build big."* - Former Profit Sharing Direct Distributor Site Visitor
5. *"During the two-year period of 1979-1980, approximately 139 Direct Distributorships, or less than 1% of all Wisconsin Distributorships, had an average annual adjusted gross income in excess of \$12,000. The average annual net income (after the deduction of business expenses) for all Wisconsin Direct Distributorships was, in fact, a net loss of \$918."* --State of Wisconsin v. Amway Corporation et al, 7/82, in which Amway and a number of Amway distributors were fined for illegal misrepresentation of income.
6. *"If you stop sponsoring people, if you stop meeting people, and you stop adding on new legs, and you slip into management...your business is going to stop cold turkey."* Diamond Distributor-Rocky Covington Tape: BPB-201
7. *"When you only have 7500, 7800, 8000 PV in a group, and "negative" gets in there of any type for any reason, it can go to 4000 PV rather quickly."* Executive Diamond - Larry Winters - Tape: "How to control the growth of your business".

Despite what many lines of sponsorship say in their literature, it would appear that direct distributor income is not nearly what is claimed and doesn't normally come "after one year of 1/4 to 1/3 the time normally exerted in a regular job".

"Write "1st year under "Annual Income" with Platinum income of \$50,000 next to it (an expected result after one year of 1/4 to 1/3 the time normally exerted in a regular job or business)." "Private Franchising" Review Instruction Sheet-World Wide Group

"We have a major lawsuit going right now with an attorney general in one of the states based on people making what they say are excess claims and telling people they hardly have to work at all, telling them you can make \$50,000.00 a year and you only have to work twelve hours a week." Rich DeVos - Co-Founder Amway Corp

4 Diamond Income

"You can make over 1/4 of a million dollars a year as a brand new diamond in the Amway business. It is a piece of cake." Triple Diamond-Greg Duncan-Tape: "Rally" RP879

"The current compensation plan offers the conservative estimate of an annual gross income of \$250,000 for qualified diamonds."

"Diamonds made an average of \$249,000 from just the business last year" IBO Site Visitor

"BTW, the stats from Quixtar about WWDB are, that the lowest 1st year Diamond in WWDB is making \$296,000." IBO Site Visitor

"In the fiscal year ending Aug 31, 1999, 0.00771% (1 out of 12,970) of Direct Fulfillment IBOs of record in North America qualified at the Diamond level."
Amway/Quixtar Corp.

"We call it the Britt System. Why the Britt system? Because you see anyone who makes over \$100,000 per day whether he wakes up or not, is the kind of person I want to be like. So he has established a system" John Chase - Open Meeting Charleston, SC

The catch is - we come across nay-sayers. And that is why in Network 21 the average Diamond earns around £700,000 annually. IBO Site Visitor

In order for a Diamond to earn \$250,000/year and for his required 6 Platinums to earn \$50,000/year, as implied in the WWDB "Private Franchising review", it would require a down line of 1270 distributors (550 active, 720 inactive). All 1270 would have earned nothing in order for the Quixtar published average of \$88/month to be valid. Somebody's numbers are cooked and it probably isn't Quixtar's. It is interesting that these outrageous income claims are not confirmed by the Corporation in any of their literature.

It takes a lot of money to promote the business in person at the higher pin levels especially at the Diamond level. If it were not for the additional income from tapes, books, and functions, most Diamonds will probably lose money if they relied on their Amway bonuses alone. Diamonds need to constantly "press the flesh" and show the dream in person. It is costly to travel and meet with all the geographically dispersed groups, costly to stay in constant touch with them and costly to maintain the extravagant lifestyle of a Diamond.

"...it so happened that an Emerald couple (Bob & Lee Taylor) were down from New Jersey...They denied any significant amount of money is made off tools...just enough to cover expenses for travel" Site Visitor

Crown Ambassador Dexter Yager - Spend the tool money on the business. Keep the Amway income to live on.

- In the Smoke and Mirrors book's Diamond case study, travel and telephone expenses alone exceeded \$167,000. The Amway product related income was \$96,000.
- The numbers from the Sitcler Executive Diamond divorce file are less clear but most likely the documented \$214,000 in business expenses were not covered by Amway income, estimated to be about \$116,000.
- Diamond Distributor Don Lorencz quoted on his website:
"Isn't there a lot of "Amway Money" at the diamond level? The best way for me to answer this would be to post copies of my Amway income on here since I went diamond and I may just do that yet, but to answer the question, no! Don't get me wrong, you can make a comfortable living at diamond on Amway money, about the same as you can you could make if you owned a small one person shoe store."
- In a court filing, Diamond Distributor Schmitz quit Amway after his tape and functions business was unethically appropriated by his upline. Why would a successful Diamond quit the business and sell out, when they could collect their Amway residuals forever? Couldn't the money from their Diamondship support them? Was the real value in their business due to the sales of tapes, books, and seminars?

"The interference and destruction of Plaintiffs Netco's and Schmitz Associates' businesses were so severe that Charlie and Kim Schmitz finally decided to sell Netco's Amway distributorship to Joanne Schmitz and get

*out of the Amway business after 15 years. The Defendants, particularly Gooch, Childers, Dunn and Evans, **had succeeded in destroying their Amway business and literally forcing them out of Amway.** Such decision (to sell their Amway distributorship), was not Plaintiffs' preference, but they felt they had no other viable alternative. **By this time, the value of their business had been destroyed.**"*

The real money is of course in the tapes and seminars. An AmQuix business can quickly dissolve if it is not constantly promoted. Promotion takes lots of money. As the Schmitz's found out, there is no contractual right to income from tapes and seminars in the AQMOs. Just like your job, you can be fired at a moment's notice. Executive Diamond distributor Sitcler was "fired" from the speaker's circuit for living with his new girl friend before his divorce was finalized. The "tools business" is by invitation only. Some people in WWDB claim they pay no tools bonuses. Contrary to what many WWDB distributors claim, World Wide Group is not a nonprofit organization.

"Defendants continue to represent that a fortune may be made through the sale of Amway products and the recruitment of other Amway distributors when in fact Defendants know but do not disclose that the vast majority of their own revenue and income is derived from the "Yager system" of motivational tapes, seminars and rallies." Morrison vs. Yager, Amway, et al