

Tax Calendar

November—December 2005:

Time for 2005 Year-End and 2006 Tax Planning. This is especially true if you have substantial increases in income or fewer deductions.

December 31, 2005: *Last day to pay deductible expenses for 2005 return (this doesn't apply to IRA, SEP or Keogh contributions) all of which can be made after December 31, 2005.*

January 31, 2006: *Deadline for providing 1099's and W-2 to those people you paid during 2005. If you're a business owner or rental property owner, and you paid \$600 or more for the services of individuals during the year, you need to provide 1099s for those workers by January 31, 2006.*

February 28, 2006: *Deadline for filing (sending) 1099s and W-2s to the government.*

April 17, 2006: *Deadline for individuals to file a 2005 Federal return (if you must pay) or request an extension of time to file.*



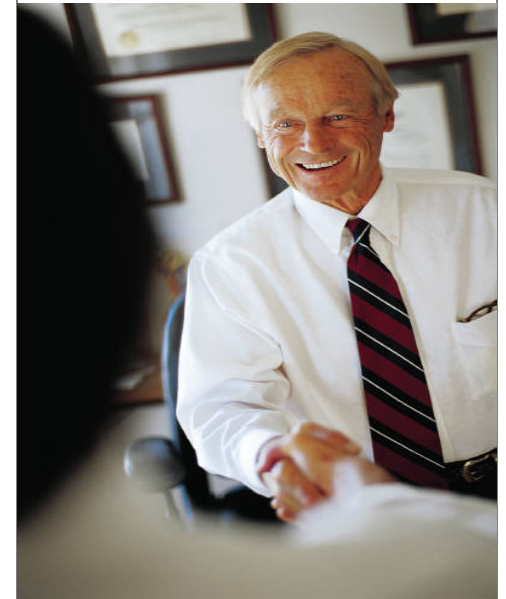
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Saving you tax dollars
is Our business!

**Business Expenses for
Sole Proprietorship
LLC
Corporation
Partnership**



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**Q: How can I turn high-taxed income
into tax-free or low-taxed income?
(Answer on page 2)**

Small Business Advisor



What can I deduct as a business expense?

Business Expenses

Business expenses are the cost of carrying on a trade or business. These expenses must be both ordinary and necessary.

An ordinary expense is one that is common and accepted in your trade or business.

A necessary expense is one that is helpful and appropriate for your trade or business. An expense does not have to be indispensable to be considered necessary.

It is important to separate business expenses from the following expenses: capital expense and personal expense.

Cost of Goods Sold

If your business manufactures a product or purchase them for resale, some of your expenses may be included in figuring the cost of goods sold. You deduct the cost of goods sold from your gross receipts to figure your gross profit for the year.

If you use an expense to figure the cost of goods sold, you cannot deduct it again as a business expense.

Capital Expenses

You must capitalize, rather than deduct some costs. These costs are a part of your investment in your business and are called capital expenses. The deduction taken over a number of years is usually called “depreciation” but in some cases it is called “amortization.” There are many rules for how different types of assets must be written off. The tax code dictates both absolute limits on some depreciation deductions for all asset purchases.

Section 179 deduction

A valuable tax break creating an exception to the long-term write-off rules is found in IRS §179. A small business can write off in one year most types of its capital expenditures, up to a grand total of \$102,000 in 2004 and \$105,000 in 2005. Some assets don’t qualify for this deduction: real estate, inventory bought for resale, and property bought from a close relative.

Charitable Donations

Stricter rules now apply for determining the value of donated property, for the records that the donor must keep and for the documents that must be filed with the IRS. For cash donations less than \$250, a canceled check, credit card or cash receipt will suffice. For contributions of \$250 or more, documentation from the charity is required. For donation of cars, the deduction is limited to the amount a charity receives after selling the vehicle. Charities are required to furnish the donor a receipt stating the sales price. Vehicles worth \$500 or less are exempt from the rule, as are vehicles that are materially improved or used by the charity itself.



A: Shift business income to lower taxes

IRS Splits Mileage Rates for 2005

- ◆ In recognition of the increased cost of operating vehicles due to higher fuel prices, the IRS has increased the standard mileage allowance to 48.5 cents per mile for business miles driven between September 1 and December 31 of 2005.
- ◆ The business allowance remains at 40.5 cents per mile for January through August of 2005. The unusual split mileage allowance for the year adds complexity because it requires taxpayers using the optional mileage allowance to keep separate records for the two periods in 2005.
- ◆ Medical travel and moving allowances have also been increased for the last four months of 2005. The allowance for charitable travel is .15 cents per mile until September 1, 2005 and .22 cents per mile September 1—December 31, 2005 and generally remains unchanged.
- ◆ Moving expense miles are .15 cents per mile until September 1, 2005 and .22 cents per mile September 1—December 31, 2005

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