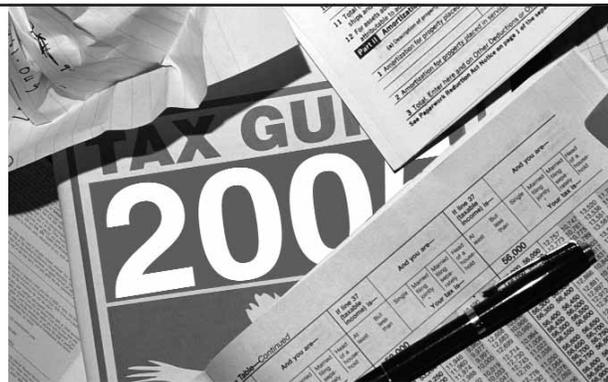


Tax Time Tips



With 2005 coming to a close, income tax season is just around the corner. To help make tax time easier, we've put together some information to help you prepare for it.

As a Pampered Chef® Kitchen Consultant, you are considered a self-employed individual for tax purposes. You are responsible for keeping track of your income and expenses. The tax laws can be confusing at times. However, an organized recordkeeping system and basic knowledge of what you can and cannot deduct will help make the process easier.

1099 Forms and Income

If your commissions are more than \$600 in a calendar year, The Pampered Chef® will send you a Form 1099-MISC showing the amount of commissions paid. The fair value of any other items you received, such as prizes, awards and incentive trips will also be included. It is possible, however, that you will not receive a Form 1099-MISC from The Pampered Chef®. The Internal Revenue Service (IRS) does not require that a 1099-MISC form be provided for any income less than \$600. Even though The Pampered Chef® does not generate 1099s to report income of less than \$600, you are still responsible for reporting this income on your tax return.

Your 1099-MISC tax form from The Pampered Chef® will be postmarked no later than Jan. 31, 2006, as required by law.

Tax Materials and Filing a Return

If you do not use a tax preparer to file your return, consider using a software program such as *TurboTax*. Remember that the due date to file is April 17, 2006.

The Internal Revenue Service offers many useful free publications. *Publication 911* "Tax Information for Direct Sellers" is a very valuable reference, and can help you prepare your 2005 tax return. Another publication you may find helpful is #463 "Travel, Entertainment, Gift and Car Expenses."

You can order tax forms from the IRS by calling (800) TAX-FORM. Many libraries also have reference sets of IRS publications to read or copy. The IRS is also on the Internet. You can download forms and instructions from their Web site at www.irs.gov.

As part of your Form 1040, you will need to report your business income and expenses on Schedule C, "Profit or Loss From Business." As a self-employed individual, your net income is subject to income tax, as well as self-employment or Social Security tax. The self-employment tax, completed on Schedule SE, is an additional 15.3 percent on net earnings up to \$90,000 (2005) and 2.9 percent on each dollar thereafter. One-half of the self-employment tax paid should be taken as a deduction on page one of your Form 1040.

Record Keeping Suggestions

- Keep a separate checking account for your business activities. This way you will have a record of all your business expenses in one place.
- Remember that you are taxed on your net income (gross income less expenses). You can withdraw money for your personal needs at any time simply by writing a check on your business account and depositing it into your personal account.
- Keep a separate charge card for your business expenses.
- If you have a computer, consider using a basic accounting package such as *Quickbooks* or *Quicken* to track your cash activity. This can be a real timesaver.

Expenses

Business expenses are deductible if they are considered "ordinary and necessary," and not personal in nature. Typical deductible expenses for a Kitchen Consultant may include:

- Business conferences
- Business insurance
- Business legal and accounting fees
- Business license fees
- Business rent
- Business start-up expenses
- Business telephone charges

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The Pampered Chef®

- Computer software used in your business
- Depreciation of business property
- Food samples for business
- Interest on business loans
- Office supplies for business
- Paperwork/forms for business
- Postage for business
- Promotional materials for business
- Business wages/salaries

We suggest you always consult with a tax advisor regarding the deductibility of your business expenses.

Keep receipts and canceled checks to support your business expenses. These will help you in the preparation of your tax returns and will be necessary if you are ever audited.

Some expenses require special treatment. For example, meals and entertainment expenses are only 50 percent deductible. Health insurance premiums are 100 percent deductible in 2005 on page 1 of your Form 1040.

If you use your vehicle for business purposes, deductions may be computed in either of two ways. You may take a flat 40.5 cents per mile, plus actual money spent for parking fees and tolls. Also, the IRS has instituted a temporary rate of 48.5 cents per mile for the period from September 1 through December 31, 2005. Alternatively, you may deduct the business portion of your actual costs of operating and maintaining your vehicle. Such expenses would include gas, oil, repairs, insurance, depreciation, interest, etc. Generally, the miles driven to and from a Kitchen Show® to your home are a nondeductible cost. The miles are treated as a personal commuting

expense, unless your home qualifies as your principal place of business.

Regardless of which method you use, it is a good idea to keep a log of your business driving. This can be done informally, even in your appointment book.

Your Home Office

Two criteria must be met to qualify your home office as a principal place of business:

- the home office is regularly and exclusively used for business-connected administrative or management work.
- there is no other fixed location where you conduct substantial administrative or management activities for your business.

If you are eligible to claim home office deductions, you may deduct all the direct costs of your home office and the allocable portion of your indirect costs. Indirect costs are expenses that benefit the entire house such as utilities, insurance, depreciation and so forth. Indirect costs can be allocated in one of two ways: number of rooms in the home or square footage. Use the method that gives you the biggest deduction.

Retirement Savings

The most common method used by self-employed individuals to save for retirement is through the use of an Individual Retirement Account (IRA). An individual may contribute the lesser of earned income or \$4,000 to their IRA account for 2005. Individuals who reach age 50 before the close of the tax year will be able to make additional catch-up IRA contributions. The otherwise allowable maximum contribution limit for these individuals will be

increased by \$500. This amount may not be deductible if you or your spouse participates in a "qualified retirement plan," such as a 401(k), pension, etc., and your adjusted gross income exceeds certain limits.

- An individual can make a nondeductible contribution to a Roth IRA. The maximum contribution amounts are the same as the deductible IRA contributions above. If the funds are kept in the account for at least five years, and the tax-payer is older than 59½ years of age at distribution, then all amounts, including earnings, are tax-free.
- For 2005, Coverdell ESAs (formerly Education IRAs) may be established in amounts up to \$2,000 per child under age 18. The Coverdell ESA is similar to the Roth IRA. Contributions are nondeductible, but all withdrawals, including earnings, are tax-free as long as they are used for qualified educational expenses. These expenses include tuition, fees, basic room and board. Qualified expenses will also include elementary and secondary tuition, extended-day program costs, tutoring and other expenses. The purchase of computer equipment and software, Internet access and services will also be considered a qualified expense.

Retirement and other investment accounts can be established with Principal Financial Group® under The Pampered Chef® Consultant Investment Program (see Consultant's Corner), or through a financial planner of your choice.

Tax season will be less stressful if you are prepared and informed. Take steps now to ensure that tax season is less taxing!

Questions?

Any questions you have on how to complete your tax returns should be directed to your tax accountant. If you have questions regarding the accuracy of your Form 1099-MISC, call The Pampered Chef® Tax Information Line at (630) 261-8528 or send e-mails to taxline@pamperedchef.com. Be sure to leave your name, Consultant number and phone number with area code. Calls will be answered in the order they are received.