2004 Tax Legislation: Tax Breaks for Individuals

There are important new tax laws that have recently been enacted in 2004. Two major tax laws have been approved: the *Working Families Tax Relief Act of 2004* and the *American Jobs Creation Act of 2004* . Both new acts have important effects on your personal tax return. They also affect many individuals as small business owners and as investors in multinational corporations. This letter outlines the changes that impact your personal tax situation and recommends some initial steps that you might take to maximize your tax benefits.

Working Families Tax Relief Act of 2004

Child credit. Parents of children under 17 can continue to claim a $1,000 child tax credit for every child through 2010. Without the new law, the child credit would have dropped to $700 per child in 2005.

Marriage penalty relief. Married taxpayers filing jointly will continue to benefit from full marriage penalty relief. Through 2010, joint filers will pay tax at double that of single filers for the 15 percent rate. For 2005, this means having the high end of the 15 percent tax bracket pegged at $59,400, rather than at $53,450. The change in the standard deduction for married couples filing jointly is equally as dramatic, $10,000 in 2005 instead of $8,700.

The 10 percent tax bracket's upper limit for married taxpayers filing jointly stays at $14,000 ($14,600 inflation indexed) for 2005 rather than dropping to $12,000. For single taxpayers, it stays at $7,000 rather than dropping to $6,000.

AMT relief. The alternative minimum tax (AMT) exemption amount remains at $40,250 for single individuals and $58,000 for married couples for one more year. Taxpayers can also use the personal nonrefundable credits against AMT liability for one more year.

American Jobs Creation Act of 2004

If you run a small business, many benefits in this new law will show up on your personal tax return. A broad-reaching manufacturer's deduction (which even reaches some service-intensive businesses), S corporation reform that helps family businesses, and an extended accelerated "section 179 expensing" deduction are among the more important small business provisions. Farmers also share in additional tax breaks.

Several notable provisions in the American Families Tax Relief Act of 2004, however, will have a direct impact on your individual tax return:

SUV deduction. Large sports utility vehicles will no longer be able to be driven through a tax loophole by business owners. Because the vehicle caps on depreciation do not apply to cars or trucks weighing more than 6,000 pounds, those who have any sort of business operation (even a profitable sideline business) could deduct up to the full cost of the SUV immediately as a section 179 deduction. The section 179 deduction was limited only by a $100,000 per year cap. Effective for vehicles placed in service after October 22, 2004, the expensing deduction is limited by a $25,000 cap, rather than $100,000. But the loophole is not fully closed yet. Regular vehicles generally are limited to a $2,960 write off in the year of purchase, so buying a heavy SUV still may save you considerable up front costs.

Vehicle donations. Congress voted to limit dramatically the deduction for vehicles contributed to charity. If the charity sells your vehicle without using and improving it (which is usually the case under most vehicle-donation programs), your charitable deduction cannot exceed the gross proceeds that it receives from the sale, usually a deeply discounted below-wholesale price. Stiff penalties will be imposed on charities that don't approach this obligation honestly. The charity also is required to pass along to the IRS the information in a written acknowledgment that it is required to give to the donor.

The new acknowledgment rule for arm's-length sales applies for contributions made after December 31, 2004. If you are thinking about donating a vehicle, doing so before 2005 may make sense as far as the size of your charitable deduction is concerned.

State sales tax deduction. The new law allows individuals to deduct state sales taxes instead of deducting state and local income taxes as an itemized deduction. This election is available in 2004 and 2005. If you elect to deduct state and local sales taxes paid, you will have two options: determine the deductible amount by accumulating receipts, or by using tables to be prepared by the Secretary of the Treasury based on average consumption and other factors.

This deduction is available for all states, including states without an income tax. If you make several major purchases for the year, such as a luxury car or boat, you may find that electing to deduct sales tax will pay off if you combine those purchases with daily sales tax expenses. Because this election is available for the entire 2004 tax year, getting organized and finding your sales receipts since January 1, 2004, should be a priority.

Tax shelters. If you invested in tax shelters, your past may haunt you. Certainly, you need to be more cautious going forward in investigating any private investment offering in light of the Congress's continuing campaign against tax shelters and abusive tax schemes. Congress approved increasing penalties for promoters and investors failing to disclose their participation in abusive transactions. The new law also relaxes the confidentiality rules, making conversations about tax-deals more subject to disclosure to the IRS than ever before.

An invitation

If you'd like more information about how the new tax laws affect your unique tax situation and how to adjust your customized tax plan to maximize your tax benefits (or avoid paying even more taxes because of the revenue-raising provisions), please do not hesitate to call this office. If you have any questions on the business side of the new law, we are ready to help you there, too.

This is a complex pair of tax laws and the biggest since 1997, so there will be additional rulings issued by the IRS interpreting them over the next few months. The immediate focus for your tax situation should be to catch all the changes that affect you in enough time to execute some year-end tax planning before the year closes and that opportunity is lost.