HIGHLIGHTS OF THE WORKING FAMILIES TAX RELIEF ACT OF 2004

Federal income tax cuts in the past few years have given relief to virtually all individuals and small businesses. Recent passage of The Working Families Tax Relief Act and the American Jobs Creation Act of 2004 mainly focused on accelerating and amending existing tax relief benefits for families. Highlights of the two tax acts are as follows:

Marriage Penalty Elimination

The provision for reducing the negative effect of two married individuals paying a higher total tax(as compared to two single individuals) has been extended through 2010. Married non-itemizers will receive a standard deduction which is double that of single taxpayers. The lower income tax brackets of 10% and 15% will effectively be the same for both single and joint returns.

Sales Tax Deduction

The itemizing of sales tax paid by individuals will be allowed based on either actual sales tax paid, or state income tax paid, which ever is higher.

Alternative Minimum Tax

The increased AMT exemption of 58,000, for married filing jointly returns, has been extended through 2005.

Adoption Credit

All costs associated with qualified adoptions are now subject to an allowable credit of up to $10,630 per child. Income level phase-outs have increased to allow taxpayers with income of $159,450 or below to receive full adoption tax credit benefits.

Sale of Personal Residence

Individuals will continue to enjoy tax free gains on the sale of personal residences without regard to how the proceeds are used. The current law excludes all gains on sales of up to $500,000 if the taxpayers maintained residency in at least 2 of the last 5 years.

Education Credits

Hope Scholarships and Lifetime Learning Credits will be phased out at higher levels of income. College tuition and student loan interest may be alternate benefits to individuals who find that they are phased out of the credits because of their adjusted gross income.

Small Business Equipment Expensing

The direct expensing of most equipment used for business(Section 179) increases to a maximum of $102,000, per year, until 2007.

Business Use of Automobiles

The rate for 2005 is 40.5 cents per mile for unreimbursed business miles driven on cars used by W-2 employees and self-employed individuals. Many taxpayers neglect to claim beneficial deductions such as charitable(14 cents/mile) and medical(15 cents/mile) mileage.

Health Savings Accounts

The new act created health savings accounts(HSA) which are custodial accounts that act similar to IRAs. Self-employed taxpayers who have high deductible health plans can benefit by a tax deduction of $5,250(for family coverage) regardless of whether qualified medical expenses are incurred, up to that amount.

Although there were not many radical changes associated with the new acts, the law most definitely encourages taxpayers to maximize their tax situation with proper planning and timing. Education, estate and investment strategies become more important than ever in ensuring that working families remain in favorable situations. Proper professional guidance and advice should be secured in order to gain assurance and peace of mind in regards to financial status. I welcome your thoughts, questions and remarks.