

2005 TAX SEASON NEWSLETTER

I) ELECTRONIC FILING PAYMENT OPTIONS

New York State

Taxpayers may elect to pay their balance due by authorizing a direct debit from their savings or checking account in 2005. Taxpayers must specify at the time their return is electronically filed, the type of account (savings or checking), account number, routing number of the bank account and the date they wish the debit to occur. The direct debit option must be chosen before the state income tax is transmitted to New York State.

Taxpayers can pay their 2004 tax liability with their credit cards (American Express, Discover, MasterCard or VISA), by contacting one of the two credit card service providers listed below. Taxpayers must contact these providers directly.

Official Payments Corp
Call - 1-800-2PAYTAX
www.officialpayments.com

Link 2 Gov Corp
Call – 1-866-TAXESNY
www.nytaxpayment.com

You can also connect to either of these sites by visiting the NYS Tax Department's website www.tax.state.ny.us

Internal Revenue Service

Taxpayers can pay their federal taxes using a direct debit or credit cards (American Express, Discover, MasterCard or VISA) in 2004. Direct debit payments can be made by calling 1-888-353-4537 or by setting up the payment schedule with your tax preparer at the time of your tax appointment.

You can pay income taxes using either of the two credit card service providers listed below. Taxpayers must contact these providers directly.

Official Payments Corp
Call - 1-800-2PAYTAX
www.officialpayments.com

Link to Gov Corp
Call - 1-888-PAY1040
www.PAY1040.com

II) 2004 TAX FIGURES

Standard Deductions for 2004

Married Filing Jointly	9,700.00
Single	4,850.00
Head of Household	7,150.00
Married Filing Separately	4,850.00

Personal Exemptions for 2004

\$3,100.00 per person

2004 Phase-Out Amounts / Adjusted Gross Income Ranges

<u>Filing Status</u>	<u>Lifetime Learning & Hope Scholarship</u>	<u>Coverdell ESA</u>	<u>Student Loan Int</u>
Married Filing Joint	\$85,000-105,000	\$190,000-220,000	\$100,000-130,000
Single	42,000 - 52,000	95,000 - 110,000	50,000-65,000
Head of Household	42,000 - 52,000	95,000 - 110,000	50,000-65,000
Married Separately	Do Not Qualify	95,000 - 110,000	Do Not Qualify

<u>Filing Status</u>	<u>Regular IRA Active Participant</u>	<u>Roth IRA</u>	<u>Child Tax Credit</u>
Married Filing Joint	\$70,000-80,000	\$150,000-160,000	(under)\$ 110,000
Single	50,000-60,000	95,000-110,000	(under) 75,000
Head of Household	50,000-60,000	95,000-110,000	(under) 75,000
Married Separately	0-10,000	0- 10,000	(under) 55,000

<u>Filing Status</u>	<u>Tuition & Fees Deduction</u>	
	<u>First Phaseout</u>	<u>Second Phaseout</u>
Married Filing Joint	\$0-130,000	& \$130,000 – 160,000
Single	0-\$65,000	& \$ 65,000 – 80,000
Head of Household	0-\$65,000	& \$ 65,000 – 80,000
Married Separately	Do Not Qualify	

III) 2004 KEY CHANGES DUE TO THE WORKING FAMILIES TAX RELIEF ACT OF 2004 AND AMERICAN JOBS CREATION ACT OF 2004

New Itemized Deduction for State and Local General Sales Tax

For tax years 2004 and 2005, taxpayers can elect to deduct their state and local general sales and use taxes as an itemized deduction, instead of deducting their state and local income taxes. Even though the Act was passed on October 22, 2004 taxpayers electing to deduct their actual sales tax paid for the year, should include January 1, 2004 through December 31, 2004.

Taxpayers who make this election may choose from two options in calculating their sales tax deduction:

- 1) Deduct their actual sales taxes paid during 2004 or
- 2) Use IRS published tables plus sales tax paid for any motored vehicles, boats and other larger priced items specified by IRS.

Please note: IRS has not issued the published tables at this time. They are hopeful to have the tables available by the start of the upcoming filing season. Itemized Deduction for State and Local Sales Taxes

Tuition and Fees Deduction

The Tuition and Fees Deduction has increased to \$4,000 in 2004 from \$3,000 in 2003. The deduction allows for up to \$4,000 of tuition and fees paid for the enrollment at an eligible educational institution. In 2004 if taxpayer's Adjusted Gross Income is above the first phase out amounts of \$130,000 for MFJ and \$65,000 for Single or Head of Household they can qualify for a reduced deduction. The reduced deduction of \$2,000 is

available only if the taxpayer's Adjusted Gross Income does not exceed \$160,000 for Married Filing Joint and \$80,000 for Single or Head of Household taxpayers.

Educator's Expenses

Similar to 2003, an above the line deduction is available for kindergarten through grade 12 teachers, that purchase books, supplies, equipment used in the classroom. The deduction is limited to \$250 per taxpayer, as long as the taxpayer spends at least 900 hours during the year as an educator. This deduction was set to expire in 2003; however, new legislation has allowed the deduction for tax years 2004 and 2005.

Student Loan Interest Deduction

Taxpayers can deduct up to \$2,500 of interest on qualified educational loans for college or vocational school expenses as an adjustment to income.

Qualified Electric Vehicle Credit and Clean-Fuel Vehicle Deduction

The phase out percentage of the Qualified Electric Vehicle (QEV) Credit and Clean-Fuel Vehicle deduction in 2004, 2005 and 2006 has been eliminated. The amount of the QEV is 10% of the vehicle's cost up to a maximum credit of \$4,000. The Clean-Fuel Vehicle deduction is an adjustment to gross income not to exceed \$2,000. Both the credit and deduction were slated for a 25% reduction in 2004, 50% in 2005, and 75% in 2006.

Non-Taxable Combat Pay Income

Starting in 2004 non-taxable combat pay can be treated as earned income for purposes of the refundable child credit.

Also, for tax years 2004 and 2005 taxpayers can elect to treat combat pay that is otherwise excluded from gross income as earned income for purposes of the earned income tax credit.

Special Depreciation Allowance 30% / 50%

IRS Code Section 168, Special Depreciation Allowance, on Qualified Depreciable property acquired after 5/16/03 is about to expire after 12/31/04. Qualifying assets can claim a first year depreciation deduction equal to 30% or 50% of the adjusted basis of the qualified property.

Example: Mike purchases a new piece of equipment for his construction company costing \$30,000 on 9/15/04. Mike can claim a special depreciation deduction of \$15,000 (\$30,000 x 50%) in the first year, along with regular depreciation of \$2,144 (\$15,000 x 14.29%) for a total first year write off of \$17,144.

This is an effective tax-planning tool for businesses that is about to expire after 12/31/04.

New Section 179 Expensing of Sports Utility Vehicles (SUV's)

For property placed in service after 10/22/04 the act limits taxpayer's ability to fully deduct heavy SUV's, those with Gross Vehicle Weights over 6,000 pounds and higher. Effective 10/22/04 only \$25,000 of the cost of a heavy SUV may be expensed. Previously a heavy SUV used 100% for business could be fully deducted up to \$102,000.

Example: Joan purchased an SUV for her consulting business on 11/20/04 for \$50,000. She uses the vehicle 100% for business and fully qualifies for section 179 expensing.

Joan can expense \$25,000 in 2004, in addition to a regular depreciation deduction of \$5,000 ($\$25,000 \times 20\%$), for a total depreciation deduction of \$30,000. Prior to 10/23/04 Joan could have fully depreciated the SUV of \$50,000 in the year of acquisition.

New 15-Year Recovery Period for Qualified Leasehold Improvements & Restaurant Property

Qualified Leasehold Improvements

For property placed in service from 10/22/04 to 12/31/05, the Act provides a statutory straight-line 15-year depreciation period for Qualified Leasehold Improvement property placed in service before 2006. Previously leasehold improvements were depreciated as a 39-year property.

In general terms, qualifying leasehold improvements are interior improvements made under a lease to commercial property and placed in service more than three years after the building was first placed in service. Certain structural improvements or expansions do not qualify.

Qualifying Restaurant Property

Similar rules apply for Restaurant Property placed in service from 10/22/04 to 12/31/05. The act provides a 15-year straight-line depreciation for qualified restaurant property.

Qualified restaurant property is any improvement to a building if the improvement is placed in service more than three years after the building was originally placed in service and more than 50% of the building's square footage is devoted to the preparation of or seating for on-premises consumption of prepared meals.

Child Tax Credit

The 2004 child tax credit will remain at \$1,000 per qualifying child thru 2010.

Standard Mileage Rate for 2004

The standard mileage rate for 2004 is 37.5 cents per mile up from 36 cents in 2003.

New Federal Personal & Fiduciary Tax Rates

Below is a table detailing the tax rates for all Federal Taxpayers.

Married Filing Jointly or Qualifying Widower Taxable Income:

\$ 0 to 14,300	X 10%	minus \$ 0.00	= Tax
14,301 to 58,100	X 15%	minus 715.00	= Tax
58,101 to 117,250	X 25%	minus 6,525.00	= Tax
117,251 to 178,650	X 28%	minus 10,042.50	= Tax
178,651 to 319,100	X 33%	minus 18,975.00	= Tax
319,101 and over	X 35%	minus 25,357.00	= Tax

Single Taxable Income:

\$ 0 to 7,150	X 10%	minus \$ 0.00	= Tax
7,151 to 29,050	X 15%	minus 357.50	= Tax
29,051 to 70,350	X 25%	minus 3,262.50	= Tax
70,351 to 146,750	X 28%	minus 5,373.00	= Tax
146,751 to 319,100	X 33%	minus 12,710.50	= Tax
319,101 and over	X 35%	minus 19,092.50	= Tax

Head of Household Taxable Income:
 \$ 0 to 10,200 X 10% minus \$ 0.00 = Tax
 10,201 to 38,900 X 15% minus 510.00 = Tax
 38,901 to 100,500 X 25% minus 4,400.00 = Tax
 100,501 to 162,700 X 28% minus 7,415.00 = Tax
 162,701 to 319,100 X 33% minus 15,550.00 = Tax
 319,100 and over X 35% minus 21,932.00 = Tax

Married Filing Separately Taxable Income:
 \$ 0 to 7,150 X 10% minus \$ 0.00 = Tax
 7,151 to 29,050 X 15% minus 357.50 = Tax
 29,051 to 58,625 X 25% minus 3,262.50 = Tax
 57,626 to 89,325 X 28% minus 5,021.25 = Tax
 89,325 to 159,550 X 33% minus 9,487.50 = Tax
 159,551 and over X 35% minus 12,678.50 = Tax

Fiduciary (Estates and Trusts) Taxable Income:
 \$ 0 to 1,950 X 15% minus \$ 0.00 = Tax
 1,951 to 4,600 X 25% minus 195.00 = Tax
 4,601 to 7,000 X 28% minus 333.00 = Tax
 7,001 to 9,550 X 33% minus 683.00 = Tax
 9,551 and over X 35% minus 874.00 = Tax

Updated New York State Tax Brackets

Below is a chart detailing the tax rate schedule for NYS taxpayers.

Married Filing Jointly or Qualifying Widower Taxable Income:
 \$ 0 to 16,000 X 4.00% minus \$ 0.00 = Tax
 16,001 to 22,000 X 4.50% minus 80.00 = Tax
 22,001 to 26,000 X 5.25% minus 245.00 = Tax
 26,001 to 40,000 X 5.90% minus 414.00 = Tax
 40,001 to 150,000 X 6.85% minus 794.00 = Tax
 150,001 to 500,000 X 7.375% minus 1,581.00 = Tax
 500,001 and over X 7.70% minus 2,547 = Tax

Single Taxable Income and Married Filing Separately:
 \$ 0 to 8,000 X 4.00% minus \$ 0.00 = Tax
 8,001 to 11,000 X 4.50% minus 40.00 = Tax
 11,001 to 13,000 X 5.25% minus 122.50 = Tax
 13,001 to 20,000 X 5.90% minus 207.00 = Tax
 20,001 to 100,000 X 6.85% minus 397.00 = Tax
 100,001 to 500,000 X 7.375% minus 922.00 = Tax
 500,001 and over X 7.70% minus 2,547.00 = Tax

Head of Household Taxable Income:
 \$ 0 to 11,000 X 4.00% minus \$ 0.00 = Tax
 11,001 to 15,000 X 4.50% minus 55.00 = Tax
 15,001 to 17,000 X 5.25% minus 167.50 = Tax
 17,001 to 30,000 X 5.90% minus 278.00 = Tax
 30,001 to 125,000 X 6.85% minus 563.00 = Tax
 125,001 to 500,000 X 7.375% minus 1,218.75 = Tax
 500,001 and over X 7.70% minus 2,844.00 = Tax

IV) WHAT'S AHEAD IN 2005

Uniform Definition of Child

Starting in 2005 IRS has established a uniform definition of a qualifying child for purposes of claiming the following five commonly used provisions:

- 1) The dependency exemption
- 2) The child tax credit
- 3) The earned income credit
- 4) The dependent care credit
- 5) Head of Household filing status

Under the new uniformed definition, a child generally is a qualifying child of a taxpayer if the child satisfies the following three tests:

- 1) Residency Test – A child must have the same principal place of abode as the taxpayer for more than half the year.
- 2) Relationship Test - A child must be the taxpayer's son, daughter, stepson, stepdaughter, brother, sister, stepbrother, stepsister, or a descendant of any such individual.
- 3) Age Test – A child must generally be under the age of 19 (or under 24 in the case of a full-time student) to be a qualifying child. The new uniformed guidelines retain the same age limitations for the dependent care credit (under age 13) and the child tax credit (under age 17).

Please Note – This will eliminate a significant number of taxpayers from claiming any or all of the five commonly used provisions.

Charitable Donations of Automobiles

Starting in 2005, tougher rules will apply to the charitable deduction for vehicles donated to charities if the vehicle has a claimed value of more than \$500. If the charitable organization immediately sells the vehicle, your charitable deduction generally cannot exceed the charity's gross proceeds from the sale. Previously, the charitable deduction was based only on the fair market value of the vehicle regardless of how used by the organization. If the charitable organization keeps the vehicle for their use your claimed deduction will still be based on the fair market value of the vehicle at the time of the donation.

When making a donation the charitable organization must substantiate the contribution with a written acknowledgment containing the donor's name, identification number of the donor, and the vehicle identification number. More importantly if the charitable organization sells the donated vehicle they must include the gross proceed amount and provide this information to the donor within 30 days.

This law will establish more due diligence for the taxpayer and charitable organization when donating vehicles.

Year End Tax Planning Tip: If you are thinking of donating a vehicle you may wish to consider a donation in 2004 to maximize your deduction.

Dependency Exemption

In 2005 the dependency exemption will increase to \$3,200.

Estate Tax Exemption

The Estate tax unified credit will remain at \$1,500,000 for 2005.

Standard Mileage Rate

IRS has announced that the standard mileage rate for business use has increased to 40.5 cents in 2005, up from 37.5 cents in 2004, the largest increase in one year.

Social Security Tax

Social Security tax will be assessed on the first \$90,000 of wages in 2005 up from \$87,900 in 2003.

Kiddie Tax Threshold

The 2005 threshold amount for application of the kiddie tax is increased to \$1,600.

Section 179 Expensing

Section 179 maximum expensing amounts will increase to \$105,000 in 2005, with a phase-out when over \$420,000 of property is placed in service.

PLEASE NOTE:

REMEMBER, THE TOPICS COVERED IN THIS NEWSLETTER ARE AN ABRIDGED VERSION TO THE ACTUAL TAX LAWS AND CODES COVERED BY THE IRS AND NEW YORK STATE. THEREFORE SOME INFORMATION MAY BE SUBJECT TO CHANGE ON A CASE-BY-CASE BASIS. IF YOU HAVE ANY QUESTIONS REGARDING THE ABOVE INFORMATION PLEASE EMAIL US AT KSPNBRG@NYCAP.RR.COM.