

New laws
signed
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New Tax Law Update

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President Signs New Tax Laws Time to Update Your Tax Plan

During the last few weeks President Bush signed two new Acts, the Jobs Creation Act of 2004 and the Working Families Tax Relief Act of 2004. Both these Acts affect many areas of the income tax laws for both individuals and businesses.

Even though both Acts were signed very late in the year, both have changes that are retroactive to the beginning of the year and both may change your tax strategies for the remaining two months of 2004.

Need a scorecard? Take a look at these statistics for just the Jobs Creation Act.

- Two years in the making
- 173 Act provisions
- 274 Code amendments
- 44 major changes effective immediately
- 61 revenue raisers
- 35 major changes effective 1/1/05
- 663 page Conference report



Sales and Use Tax Deduction – It's Back Again

For the 2004 and 2005 tax years you may elect to deduct either sales taxes or your state income tax on your Federal return. The IRS will issue tables that consider, among other things, the sales tax rate, family size and income level. This means that you have three options available to you for your state tax deduction.

- Deduct state and local income tax (including SDI).
- Deduct actual sales and use tax based on receipts (you've kept all your receipts this year didn't you?).
- Deduct sales and use tax based on a table to be provided by the IRS and add the tax paid on motor vehicles, boats and other items specified by the IRS.



Tax Planning Time is Now!

While you may have a million other things to do this fall, don't let your tax planning slip through the cracks. Making time for 2004 tax planning is more important now than ever. We can help by reviewing with you the new tax laws, discussing tax planning ideas, projecting your tax bill due this April and discuss other financial strategies available to you. So call our office at **800-747-5967** for assistance. Remember, there are only 2 months left to organize your affairs to lower your taxes.

If you pay little state income tax, have a large family, or made large purchases during 2004 you may want to deduct actual sales and use tax rather than income tax. From a planning standpoint, if you do take the sales tax deduction you should consider the following.

- Pay your 2004 fourth quarter state estimated tax payment in 2005 instead of December 2004.
- Remember that the sales tax deduction is not a deduction for calculating your alternative minimum tax (AMT).
- Find your receipts or tally taxable sales tax items from credit card statements and receipts.
- Add to the table amounts the general sales tax paid on motor vehicles, boats, etc.

SUV Deduction Change

Effective October 22, 2004 a limit of \$25,000 was put on your ability to claim a §179 deduction for many SUVs. This is a reduction from the prior \$102,000 limit. Let us clarify a common misperception about your new SUV and income taxes. To use your SUV as a tax deduction the vehicle must be actively used in your trade or business. An SUV solely for personal use or for limited business use does not provide the generous tax deductions.

One additional planning opportunity still exists before year-end however.

The new rule is not nearly as restrictive as it may seem because SUVs are still eligible for a 50 percent bonus depreciation and the first year depreciation of a 5-year accelerated depreciation schedule. As a result, a taxpayer who purchases an SUV for \$50,000 can still deduct a total depreciation of \$40,000 in the first year, which contrasts sharply with the \$10,710 first-year limitation placed on other cars.



Exchange and Sale of Your Residence



The new law closes a common tax-planning loophole by providing that the exclusion of gain on the sale or exchange of a principal residence does not apply if your principal residence was originally acquired in a like-kind exchange in which any gain was not recognized within the prior five years. This provision is effective with sales after the date of the Act.

If you are thinking of exchanging rental property, converting it to your principal residence, and subsequently selling your home and excluding the gain under the rules for selling your residence you must take a long-term view and carefully examine the new stricter rules.

Other Tax Law Changes



Automobile Donations: In general, when you donate a vehicle to charity, you can only deduct the amount of the actual sales proceeds. If the charity keeps and uses the vehicle, you can deduct only the amount the charity acknowledges as its value, with steep penalties imposed for misrepresenting the value.

This provision goes into effect for donations made after December 31, 2004. If you are thinking about donating a vehicle to charity it is best to do so before the end of the year. For those of you in California you will be reporting different deduction amounts on your Federal and state returns. California law as not (yet anyway) adopted the new Federal rules.

Child credit: The child credit, which is \$1,000 per child for 2004 but was scheduled to drop to \$700 for 2005 through 2008 and to rise to \$800 for 2009, will stay at \$1,000 through 2010. Also, the 15% refundability percentage of the child credit is accelerated so that it applies for tax years beginning after 2003 (instead of after 2004).

Marriage penalty relief: Two provisions that provide a measure of relief from the marriage penalty are extended. The provision setting the basic standard deduction for joint filers at twice that of single taxpayers, and the provision that increases the size of the 15-percent rate bracket for married couples filing joint returns, both of which were due to expire at the end of 2004, are extended through 2010.

And Hundreds More Changes

These are just a few of the many changes made to our Federal tax laws in the past few weeks. If you have specific questions or concerns please call us and we'll be happy to discuss your concerns.

If you would like to email us with your questions or concerns email info@schollcpa.com.

An Important Message

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