

Federal Tax Legislation

By Jim Bailey

Every dollar you pay in taxes is a dollar that isn't available to spend on something else or save towards goals.

Whether you are a business or an individual, tax planning is an important tool, so make it a priority to save taxes. Understanding Federal tax laws and implementing them into your spreadsheet each year will save you money as well as time. A positive impact for the individual and a business is the priority. Two tax bills have been enacted at the Federal level that have far reaching results, **The Working Families Tax Relief Act of 2004** and **The American Jobs Creation Act of 2004**.

For those individuals, the extension of The Working Families Tax Relief Act of 2004 has accelerated tax benefits. Through 2010, the Federal Government is offering a \$1,000 per child tax credit, has expanded the 10-percent tax bracket, and offers the marriage penalty relief in the 15% tax bracket and the full marriage penalty relief in the standard deduction. You will also note the extension of the higher alternative minimum tax exemptions through 2005.

Most state and local individual income taxes are deductible in the year paid. With the new law, individuals can deduct state sales taxes *instead of* deducting state and local income taxes for tax years beginning after 2003 and before 2006.

The American Jobs Creation Act of 2004 has extended a choice of business tax credits. One being the research and development credit which has extended for amounts incurred after June 30, 2004 and before 2006. With the welfare-to-work and work opportunity credits, there is an extension for wages incurred for qualified individuals starting work after 2003 and before 2006.

Additional provisions under the new Acts will benefit qualifying U.S. "manufacturers", by providing for a new deduction that will effectively reduce the corporate income tax rate by three percentage points. Traditional manufacturers, construction and engineering firms qualify for the new deduction.

Changes have also occurred with the **Section 179 Deduction**. This special expense election allows eligible businesses to deduct the full cost of annual asset acquisitions (not real estate) in lieu of depreciation. Two years ago the maximum Section 179 deduction was raised to \$100,000 and has been indexed for inflation and extends the higher expensing amounts through 2007. You may also claim deductions on the business-related use of an automobile using the standard mileage rate method or the actual expense method. If you own a large sports utility vehicle weighing more than 6,000 pounds but not more than 14,000 pounds you will now be subject to a Section 179 cap of \$25,000.

You will also find that qualified leasehold improvements to nonresidential real property placed in service before January 1, 2006 may use a 15-year recovery period and straight-line depreciation. Prior law required the use of a 39-year recovery period.

As an **S corporation**, many business owners elect this corporation status to avoid the double taxation issue. An S corporation generally does not pay federal corporate taxes. The company passes through its income, losses, deductions, and credits to the owners for inclusion on their tax returns. Under the new law, the permissible number of S corporation shareholders increases from 75 to 100 and Congress approved treating all members of a family as one S corporation shareholder.

Remember, tax planning and staying ahead of the legislation will allow you to take advantage of favorable provisions and avoid pitfalls that could cost you unnecessary taxes.

No one has ever said tax rules are easy! We all know they are complex. The best plan of action is to find strategies that are right for you, either as an individual or a business, and you will understand the right one for each situation. And, always obtain professional consultation when in doubt.

(Editor's note: Jim Bailey is a principal in the Rockland, MA CPA firm Needel, Welch & Stone, P.C., which works with businesses, individuals and not-for-profits on matters of taxation and business consulting. 1001 Hingham St., Rockland, MA. 781-982-1001.www.nwscpas.com)