TAX CHANGES THAT MAY IMPACT YOUR RETURN

Author: Wayne A. Tibbetts - CPA, MST
Director of Tax for Keats, Connelly & Associates, Inc.

There are two tax acts that may affect your tax liability this year and in coming years. The two acts: *the Working Families Tax Relief Act* and *the American Jobs Creation Act* recently took effect on October 23, 2004. The changes may result in reduced tax liability, extension of tax breaks or a limiting of tax breaks.

If you fit any of the scenarios described below, be sure to consult your financial planner and/or tax advisor to determine how the tax changes impact you:

IF YOU ARE CONSIDERING BUYING AN SUV

One large tax break is going away for almost all business assets purchased after December 31, 2004 – the 50 percent bonus deduction. This deduction, enabling you to expense new business assets of up to $100,000 ($102,000 in 2004 and $105,000 in 2005), was due to be reduced to $25,000 after the 2005 tax year. It has been extended through 2007. One exception is for SUVs purchased after October 22, 2004 with Gross Vehicle Weight Rating (GVWR) between 6,000 and 14,000 lbs., the expense limit is reduced to $25,000 by Section 179*. Therefore, if purchased before 2004 year-end and used 100 percent for business purposes, a $50,000 SUV would still result in a write off of $40,000. If purchased in 2005, the write-off would be reduced to a maximum of $30,000 because of the expiration of the 50 percent bonus depreciation. There are other limitations that affect your ability to utilize the Section 179 deductions. Therefore, as with any tax issue, don't forget to consult your tax advisor.

*The provisions of Internal Revenue Code Section 179 allow a sole proprietor, partnership or corporation to fully expense tangible property in the year it is purchased, up to a specified limit.

IF YOU ARE CONSIDERING DONATING YOUR VEHICLE TO A CHARITABLE ORGANIZATION

New restrictions took effect June 30, 2004 for those interested in donating their vehicle to a charitable organization. Because many of the charitable organizations immediately sell donated vehicles, the donation in these cases will be limited to the actual amount received by the charity, which is often below fair market value. If the charity; however, keeps and uses the vehicle for a minimum period of time then the deduction is at fair market value, but must be accompanied by a statement from the charity stating the vehicle will be used by the organization. Values claimed in excess of $5,000 require a signed appraisal.

IF YOU STARTED A NEW BUSINESS

During any given year, thousands of new businesses are started that will have start-up and organization costs. Previously, these costs were recovered through amortization over 60 months. Now, they are recovered over 15 years with the first $5,000 of each type deducted and the balance amortized over 15 years. The deduction is reduced if total costs of each exceed $50,000.

IF YOU LIVE IN A NON INCOME TAX STATE

One change is particularly interesting to people who live in states without income tax. Taxpayers in these states may now choose between deducting the state and local income taxes or sales taxes paid during the year. Tables will be made available by the IRS to use in lieu of actual receipts. Taxpayers must keep in mind what taxes qualify as general sales tax. Most special taxes such as excise taxes paid on the purchase of a home will not qualify. In order to qualify, the tax must be assessed at the same rate as the general sales tax with exceptions for the reduced rates on motor vehicles, food, medical supplies and clothing in some states. This is not limited to these states, but they are most likely to benefit as well as purchasers of luxury goods that pay large sales tax.

IF YOU HAVE INCOME FROM A FOREIGN SOURCE

Taxation of foreign source income can be of particular concern for Canadians. Each year, more and more Canadians choose to live in the U.S. temporarily or establish permanent residence. The U.S. is not just a weather haven for Canadians—it can also be a tax haven. Proper planning prior to exiting Canada can save tens (even hundreds) of thousands of dollars that would normally be paid to Canada Revenue Agency. By combining portfolio management and carryover of foreign tax credits, Canadians can lower future federal income taxes paid in the U.S. This planning has become a little easier and more effective with the extension of the time period for using foreign tax credits. Currently, excess foreign tax credits must be used within five years following the year of occurrence. However, with the enactment of the *American Jobs Creation Act* (Jobs Act), excess foreign tax credits can now be used up to 10 years following the year of occurrence giving taxpayers an additional five years to generate foreign source income to utilize these credits and offset the tax on this income. It also reduces carry back from two years to one year. Additional changes have simplified the calculation of foreign tax credits and enhanced their usability.

There are many more changes that cannot be addressed in limited space. Most of the changes will provide taxpayers with extended or additional tax breaks. Proper consultation and planning will help taxpayers maximize their tax returns.