

## **Working Families Tax Relief Act of 2004**

*signed into law on October 4, 2004*

1. \$1,000 *child tax credit* extended through 2010
2. Elimination of the *marriage penalty* in the standard deduction and 15% tax bracket extended through 2010
3. Expanded *10% bracket* extended through 2010
4. Higher *alternative minimum tax exemptions* extended through 2005
5. Research & Development Credit extended for amounts paid or incurred after June 30, 2004 and before 2006
6. Teacher's classroom expense deduction is extended for 2004 and 2005 (\$250 above-the-line deduction)

## **American Jobs Creation Act of 2004**

*signed into law on October 23, 2004*

1. Manufacturers deduction:
  - Effectively reduces the top corporate income tax rate on domestic manufacturers from 35% to 32%
  - Manufacturers are defined as:
    - Ø Traditional Manufacturers
    - Ø Construction
    - Ø Engineering
    - Ø Energy production
    - Ø Computer Software
    - Ø Films and video tape; and
    - Ø Processing of Agricultural products
  - When fully phased in by 2010, the deduction will be equal to nine (9) percent of the *lesser* of:
    - (1) qualified production activities income for the year; OR
    - (2) taxable income for the year
  - The new deduction starts as a transition percentage of:
    - t** 3% for 2005 and 2006
    - t** 6% for 2007, 2008 and 2009
    - t** 9% for 2010 and thereafter

- The deduction is limited to 50% of the W-2 wages paid by the taxpayer during the tax year
  - Corporations, individuals, S Corps, partnerships, estates and trusts can take advantage of the deduction
2. Expensing limits (section 179):
- The higher limits in effect set to expire 12/31/04 are extended thru 2007. The threshold is indexed for inflation starting in 2004. It is \$102,000 for 2004 with a \$410,000 property cap.
3. SUV Deduction:
- The expensing deduction for vehicles weighing not more than 14,000 pounds is capped at \$25,000 effective for property placed into service after the date of enactment.
4. Depreciation:
- Qualified *leasehold improvements* to nonresidential real property placed into service after date of enactment and before January 1, 2006 are depreciated over a 15 year straight line method. Previously, this was 39 years. A qualified leasehold improvement is an improvement to the interior of a building made by either the lessor or lessee and placed into service more than 3 years after the building was placed into service.
  - Qualified *restaurant property* placed into service after date of enactment and before January 1, 2006 are depreciated over a 15 year straight line method. Qualified restaurant property is a building improvement placed into service more than 3 years after the building is placed into service. The restaurant must use more than half of the buildings square footage.
5. S Corporations:
- Permissible number of shareholders increases from 75 to 100
  - All members of a family will be treated as 1 member
6. State Sales Deduction:
- For tax years beginning after 2003 and before 2006, individuals can elect to deduct state sales taxes instead of state and local income taxes via 2 options:
    - (1) Accumulation of receipts OR
    - (2) Tables to be prepared by the Secretary of the Treasury based upon average consumption and other factors

- Note that there are 9 states that currently do not impose personal income taxes on individuals

- (1) Florida
- (2) Alaska
- (3) Texas
- (4) Washington
- (5) South Dakota
- (6) Nevada
- (7) Wyoming
- (8) New Hampshire (tax interest and dividends only)
- (9) Tennessee (tax interest and dividends only)

7. Vehicle Donations:

- For donations of vehicles after December 31, 2004, the amount of the charitable deduction will depend upon how the charity uses the vehicle
  - Ø If the charity sells the vehicle without the vehicle in any significant way, the amount of the charitable deduction cannot exceed the gross proceeds of the sale
  - Ø If the charity uses the vehicle for its own use, the charity must provide acknowledgment as to the value which must be produced by the taxpayer