

NEW TAX LEGISLATION – HOW DOES IT AFFECT YOU?

Extensive new tax legislation has been signed into law recently: **The Working Families Tax Relief Act of 2004** and **American Jobs Creation Act of 2004**. Everyone will be affected in some way and should incorporate these changes into year-end planning. We have chosen to highlight the most pertinent provisions as bullet points in order to get the maximum information to you. Please call us with any questions so we can help you with your specific tax planning issues.

American Jobs Creation Act of 2004

- Under the FSC/ETI rules, qualifying U.S. exporters are eligible for an exclusion from gross income for qualifying extraterritorial income.

The new law gradually repeals the FSC/ETI regime, starting next year. Taxpayers will be able to claim 100% of their FSC/ETI benefits in 2004, 80% in 2005, 60% in 2006, and 0% (a complete repeal) thereafter. The full exclusion generally remains in effect for taxpayers that had entered into binding contracts on September 17, 2003.

- Congress has created a new deduction for manufacturers. The deduction will effectively reduce the corporate income tax rate for domestic manufacturing three percent points, from a top rate of 35% down to 32%. Many domestic producers qualify for the new deduction.
- Two years ago Congress raised the threshold for small business expensing from \$25,000 to \$100,000. The new law extends the higher small business expensing amounts through 2007.
- The deduction for SUV vehicles weighing not more than 14,000 pounds is capped at \$25,000, effective for property placed in service after October 22, 2004.

- There is now a 15-year recovery period, using straight line depreciation, for qualified leasehold improvements to non-residential real property placed in service after October 22, 2004 and before January 1, 2006.
- The permissible number of S corporation shareholders increases from 75-100 treating all of the members of a family as one S corporation shareholder.
- The new law allows individuals to deduct state sales taxes instead of deducting state and local income taxes. This election has been made available for tax years beginning after 2003 and before 2006. Taxpayers electing to deduct state and local sales taxes paid will have two options: determine the deductible amount by accumulating receipts or using tables to be prepared by the Secretary of the Treasury based on average consumption and other factors.
- Foreign tax credit income is now reduced to two categories: passive category income and general category income.
- The new law also calls for a 10-year carryover of the foreign tax credit and a one year carryback period.
- The new law allows the foreign tax credit to offset 100% of the taxpayers AMT in 2005.
- Taxpayers failing to report their foreign financial accounts risk a heightened civil penalty of \$10,000.
- The law limits the deduction for vehicles contributed to charity. The amount of the deduction will depend on how the donee organization uses the vehicle. If the charity sells the vehicle without improving it or using it in any significant way, the amount of the deduction cannot exceed the gross proceeds from the sale.
- There is a provision for an above-the-line deduction for attorney's fees and costs

stemming from “unlawful discrimination” lawsuits.

- The exclusion of certain like-kind exchange property from the home sale gain nonrecognition rules.

The Working Families Tax Relief Act of 2004

- Extensions of the \$1,000 child tax credit, the full elimination of the marriage penalty in the standard deduction and the 15-percent tax bracket, and the full increase in the size of the 10-percent tax bracket result in these provisions continuing seamlessly at their enhanced levels through 2010.
- Extending higher alternative minimum tax exemptions through 2005.
- Acceleration to 2004 of the increase from 10-percent to 15-percent refundability of the

- Teachers’ classroom expense deduction of \$250 is extended for 2004 and 2005.
- Repeal of the phase-out for qualified electric vehicle credit and clean fuel vehicle deduction for property acquired in 2004 and 2005.
- Contributions to Archer Medical Savings Accounts (MSA’s) are extended through 2004 and 2005.
- Tax exemptions for investments in the District of Columbia are extended through December 31, 2005. This extension includes the special zero percent capital gains rate and the D.C. first-time homebuyer’s credit.

While many of these provisions may seem insignificant; when taken together, they represent broad changes in our tax code. Let us know if you want to take a closer look at how these changes will impact your situation.

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child credit for low-income families.

- The research and development tax credit is extended for amounts paid or incurred after June 30, 2004 and before 2006.
- The enhanced deduction for charitable contributions of qualified computers by corporations is extended for contributions made in tax years beginning after 2003 and before 2006.