



# Tax Changes for 2005

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# Tax Changes in 2005

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- Working Families Tax Relief Act of 2004
    - Child Tax Credit
    - Alternative Minimum Tax
    - Marriage Penalty Relief
  - American Jobs Creation Act of 2004
    - Manufacturers Tax Break
    - Small Business Deductions
    - State Sales Tax Deduction
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# Child Tax Credit

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- Originally: Expected to increase to \$1,000 by 2010.
  - In 2001, Congress accelerated the credit to \$1,000 for 2003 and 2004, with it planned to return to \$700 in 2005.
  - “Working Families of 2004”: Remains at \$1,000 until 2010.
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# Higher Alternative Minimum Tax

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- Originally: Congress never addressed the problem of inflation.
  - Without interference, millions of taxpayers will eventually pay AMT.
  - In 2003, exemptions were raised to postpone many taxpayers from paying AMT.
  - “Working Families of 2004”: Remains at higher levels for 1 more year, to give Congress more time to address problems.
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# Alternative Minimum Tax

- The AMT is a separate tax system.
- AMT is calculated via Form 6251, which is then attached to the 1040.
- In effect, you are simply adding back some tax deduction and income exclusions to your regular taxable income to arrive at your alternative minimum taxable income, which is then subject to different tax tables (26% on the first \$175,000 of income).

# Alternative Minimum Tax

- The AMT ignores several itemized deductions:
  - investment expenses
  - employee business expenses
  - medical/dental expenses
  - investment-related transactions
    - income from tax-exempt bonds
    - the “spread” on incentive stock options
  - state and local taxes
  - many others

# Alternative Minimum Tax

- Calculating the AMT
  - Complete tax return in usual manner.
  - Fill out Form 6251, which calculates taxable income using AMT rules.
  - Subtract an exemption, based on marital status.
  - End Result = new taxable amount of income.
  - AMT tax is calculated via the AMT tax tables.

# Marriage Penalty Relief

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- Originally: Married couples standard deduction was less than double that given to single individuals.
  - In 2001, EGTRRA phased in relief starting in 2009, and JGTRRA accelerated relief for 2003 and 2004.
  - “Working Families of 2004”: Accelerated benefits were extended from 2005 to 2009.
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# Manufacturers Tax Break

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- Originally: Manufacturers were taxed at 35%.
  - “American Jobs of 2004”: Dropped tax rate to 32%.
  - Also extended definition of manufacturing to include construction, engineering, computer software and processing of agricultural products.
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# Small Business Deductions

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- Original: Small businesses could expense up to \$25,000 of equipment each year, and SUV's could be deducted without limits.
  - In 2003, Congress extended the \$25,000 limit to \$100,000, set to fall back in 2006. SUV deductions were still without limits.
  - "American Jobs of 2004": Extends \$100,000 limit to 2007, and reduces SUV deduction limit to \$25,000.
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# State Sales Tax Deduction

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- Original: Taxpayers who itemized could deduct state and local income taxes paid.
  - “American Jobs of 2004”: Taxpayers who itemize now have a choice between deducting state and local income taxes paid OR deducting state sales taxes paid.
  - Amount is determined either by accumulating receipts or using tables prepared by the Secretary of the Treasury based on average consumption.
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Questions?

