

4-Serenity, Inc.

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Mon-Fri 9:00am to 7:00pm (thru April 15th)

Quarterly Individual & Small Business Newsletter

1st Quarter 2005

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Tax Appointments

I encourage you to make appointments for tax preparation services early! Tax Organizers will be mailed out in mid-January. There are four ways to schedule an appointment or to send your tax information to me:

1. Telephone – (770) 465-8861
2. Fax – (404) 795-0467
3. email – lwalker@4-Serenity.com
4. Mail – 5259 Rockbridge Drive
Stone Mountain, GA 30087

Electronic Filing Services

The IRS is scheduled to begin accepting e-filed tax returns on January 14, 2005. The State's do not begin accepting until after January 20th. You may file your Federal return first, and have the State return sent later, although the State's encourage simultaneous filing. Following are your refund and payment options.

1. **Direct Deposit** – Refund's in 10-16 days with no additional fees.
2. **Refund Anticipation Loans (RAL)** – Refund's in as little as 1-3 days with additional fees ranging from \$34 to \$97 depending on the amount of the Loan. Checks are printed in my office. (Not available on State refunds or after April 15th).
3. **Electronic Refund Deposit (ERD)** – Have your tax preparation fees deducted from your refund and the

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balance direct deposited to your bank account. Bank processing fees are \$28 for Federal and \$10 for State refunds. Refunds in 10-16 days.

4. **Electronic Refund Check (ERC)** – Have your tax preparation fees deducted from your refund and a check for the balance printed in my office. Bank processing fees are \$33 for Federal and \$10 for State refunds. Refunds in 7-14 days. (Ideal for those who do not have bank accounts or who simply wish to receive a check.)
5. **Owe Taxes?** Defer your direct debit or credit card payment until April 15th.

Major Filing Deadlines

January 15th – December payroll tax deposits, and individual 4th quarter estimated tax payments.

January 31st – Corporate W-2's, W-3's, 1099's, and 1096's.

January 31st – 4th Quarter Payroll Tax Returns.

March 15th – Corporate Income Tax Returns or extensions.

April 15th – Individual & Partnership Returns or Extensions.

April 30th – 1st Quarter Payroll Tax Returns.

May 15th – Non-Profit Income Tax Returns or extensions.

Copy of Tax Return

Beginning this year you have the option of receiving a copy of your returns in PDF format on either 3.5 floppy diskette, by email, or on CD.

Quick Summary . . .

Highlights of 2004 and 2005 Tax Law Changes

For your quick reference, here is a summary of what we view as the most generally used and significant tax law changes for 2004 and 2005.

Single (S) or head of household (HH)	\$40,250
Married filing separately (MFS)	\$29,000
Estates and trusts	\$22,500

§179 Expensing

- For 2004, taxpayers may expense up to \$102,000 of qualifying property acquired for use in a trade or business.
- The phase-out threshold begins at \$410,000 on purchases of qualifying property in 2004. In 2005, the phase-out threshold begins at \$420,000.
- In 2005, taxpayers may expense up to \$105,000.
- Taxpayers may deduct up to \$25,000 on qualifying SUVs.

Adoption

- The maximum credit for 2004 is \$10,390 per adopted child.
- For 2004, the credit is phased-out for taxpayers with a modified adjusted gross income (MAGI) exceeding \$155,860.
- The credit increased to \$10,630 for 2005.
- For 2005, the credit is phased-out for taxpayers with a modified adjusted gross income (MAGI) exceeding \$159,450.

Alternative Minimum Tax

For 2004 and 2005, the alternative minimum tax (AMT) exemption amount increased as follows:

Filing Status	Exemption Amount
Married filing jointly (MFJ) or qualifying	\$58,000
Single (S) or head of household (HH)	\$40,250

Child and Dependent Care Credit

- Effective for 2004, the maximum child and dependent care credit is 35%, with reduced credits starting at \$15,000 of adjusted gross income (AGI).
- The amount of eligible expenses is \$3,000 for one child and \$6,000 for two or more children.

Child Tax Credit

For 2004 - 2010, the maximum child tax credit is \$1,000 for each qualifying child.

Daycare Optional Meal and Snack Rates

2004			
Type of Meal	Contiguous States	Alaska	Hawaii
Breakfast	\$0.99	\$1.57	\$1.15
Lunch and Supper	\$1.83	\$2.97	\$2.14
Snack	\$0.54	\$0.88	\$0.63

2005			
Type of Meal	Contiguous States	Alaska	Hawaii
Breakfast	\$1.04	\$1.64	\$1.20
Lunch and Supper	\$1.92	\$3.11	\$2.25
Snack	\$0.57	\$0.92	\$0.67

Defined Benefit Plans

The limitation on the annual benefit under a defined benefit plan increases from \$165,000 to \$170,000 for 2005.

Defined Contribution Plans

The limit on the annual additions to a participant's defined contribution account increases from \$41,000 to \$42,000 for 2005.

- For SIMPLE plans, the amount increased to \$9,000 (\$10,500 if the taxpayer is age 50 or over) for 2004 and \$10,000 (\$12,000 if the taxpayer is age 50 or over) for 2005.

Earned Income Tax Credit (EITC)

The maximum amount of income a taxpayer can earn and still be eligible for the earned income credit increased. If earned income or AGI exceeds the following amounts, the EITC will be zero.

	MFJ	Other Than MFJ
Taxpayer with one child	\$31,338	\$30,338
Taxpayer with two or more children	\$35,458	\$34,458
Taxpayer with no children	\$12,490	\$11,490

The maximum amount of investment income a taxpayer may have and still be eligible for the credit has increased to \$2,650 for 2004. In 2005, this amount increases to \$2,700.

Exemption Amount

- The personal exemption amount increased to \$3,100 for 2004 and \$3,200 for 2005.
- Taxpayers may lose all or a part of their exemption if their AGI is above a certain amount.
- The phase-out for AGI begins at:

	2004	2005
MFJ/qualifying widow(er)	\$214,050	\$218,950
Head of household (HH)	\$178,350	\$182,450
Single (S)	\$142,700	\$145,950
MFS	\$107,025	\$109,475

Education Credits

- The maximum lifetime learning credit is \$2,000 for 2004, while the Hope credit is \$1,500. Both credits are phased-out when MFJ taxpayers' MAGI is between \$85,000 and \$105,000.
- For all others, the phase-out is between \$42,000 and \$52,000.
- The credit is not allowed if the taxpayer is MFS.

Health Savings Accounts (HSAs)

- Like IRAs, funds saved in HSAs are 100% tax-deferred until distribution.
- Taxpayers may contribute the lesser of the annual deductible for medical insurance coverage, or up to \$2,600 for singles or \$5,150 for families for 2004 (\$2,650 and \$5,250 respectively for 2005).
- There is an additional catch-up provision of \$500 for taxpayers age 55 or older in 2004. This catch up provision gradually increases in subsequent tax years to \$600 in 2005, \$700 in 2006, \$800 for 2007, \$900 for 2008, and \$1,000 for 2009 and thereafter.

Elective Deferrals

- The maximum amount of elective deferrals under a salary reduction agreement that could be contributed to a qualified plan increased to \$13,000 (\$16,000 if the taxpayer is age 50 or over) for 2004 and \$14,000 (\$18,000 if the taxpayer is age 50 or over) for 2005.

Meal Expenses When Subject to "Hours of Service" Limits

- Generally, taxpayers may only deduct 50% of business related meal

expenses for traveling away from their tax home.

- Taxpayers may deduct a higher percentage if the meals take place during or incident to any period subject to the Department of Transportation's "hours of service" limits.

Tax Year Beginning In	Deductible Percentage
2004 and 2005	70%
2006 and 2007	75%
2008 and thereafter	80%

(Archer) Medical Savings Accounts (MSAs)

Taxpayers can establish a new Archer MSA through Dec. 31, 2005. The allowable plan limits for 2004 are as follows:

Health Plan	Annual Deductible	Out of Pocket	Annual Maximum Deduction
Self-only	\$1,700-2,600	\$3,450	65% of deductible
Family	\$3,450-5,150	\$6,300	75% of deductible

NannyTax

For 2004, FICA for domestic service in an employer's home is not required unless the cash wages paid are \$1,400 or more.

Self-Employed Health Insurance Deduction

For 2004, the self-employed health insurance deduction is 100%.

Social Security

The maximum wages subject to social security tax increased to \$87,900 (\$90,000 for 2005).

Standard Deduction

The basic standard deduction has increased as follows:

	2004	2005
MFJ/qualifying widow(er)	\$9,700	\$10,000
Head of household (HH)	\$7,150	\$7,300
Single (S)	\$4,850	\$5,000
MFS	\$4,850	\$5,000

Standard Mileage Rates

The allowable deductions for the standard mileage rate have changed as follows:

	2004	2005
Business miles	\$0.375	\$0.405
Charity	\$0.14	\$0.14
Medical reasons	\$0.14	\$0.15
Moving	\$0.14	\$0.15

Tax Rates

- For 2004 and 2005, the individual income tax rates are 10%, 15%, 25%, 28%, 33%, and 35%.
- For 2004 – 2010, the 15% rate bracket for married taxpayers filing jointly and qualifying widow(er) has expanded to twice that of single filers.
- The maximum taxable income subject to the 10% tax rate has increased to \$7,150 (\$7,300 for 2005) for single taxpayers and MFS [\$14,300 (\$14,600 for 2005) for MFJ and qualifying widow(er)].

Tuition and Fees Deduction

- Beginning in 2004, the amount of qualified education expenses that taxpayers may take into account for computing the tuition and fees deduction increases from \$3,000 to \$4,000 if their MAGI is not more than \$65,000 (\$130,000 if MFJ).
- No tuition and fees deduction will be allowed if the taxpayer's MAGI is more than \$80,000 (\$160,000 MFJ).