SPECIAL Report

NATIONAL ROOFING CONTRACTORS ASSOCIATION

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Dec. 1, 2004

YEAR-END TAX PLANNING

Congress recently enacted two important new laws—the Working Families Relief Act of 2004 and American Jobs Creation Act of 2004. These new laws, coupled with a new sense of tax certainty now that the presidential election is over, give members a number of ideas to consider as the year comes to a close. This report is intended to provide a brief overview of some of those ideas; members should, of course, consult with their financial advisors and attorneys before making any final decisions.

<u>A big tax break for buying new business assets ends Dec. 31, 2004</u>. Because of a 50 percent bonus depreciation, half of an asset's cost is deductible in the year it is placed in service provided that occurs before 2005. And there is no limit to the amount of depreciation that can be claimed. Most assets qualify, including machines, equipment, and land improvements and leasehold improvements made for tenants in commercial property.

<u>A tax break for expensing Section 179s is available through 2007</u>. For 2004, companies can write off as much as $102,000 ($100,000 indexed for inflation) of the cost of new or used assets that are placed in service by the end of the year. The tax break starts to phase out once a company puts more than $410,000 of assets in use during the tax year.

<u>There are tax breaks for buying new, heavy sport utility vehicles (SUVs) for business this year</u>. For SUVs that have loaded vehicle weights between 6,000 pounds and 14,000 pounds, expensing has been reduced to $25,000 if the vehicles are used after Oct. 22, 2004. The first-year write-off for a $60,000 heavy SUV can be as much as $46,000 under the new rules.

Caution: If more than 40 percent of 2004 purchases fall in the last quarter, regular depreciation for all 2004 assets is figured on a quarterly basis.

<u>Consider taking some dividends instead of regular salary</u>. If you are the owner of your company and in the 28 percent (or higher) tax bracket, paying out some dividends in place of salary may net you more cash after all taxes are paid.

<u>Consider increasing contributions to 401(k) plans</u>. The limit for contributions is $13,000 but increases to $16,000 for those who are 50 years old or older in 2004. Next year, the cap rises to $14,000 and to $18,000 for those born before 1956.

<u>The presidential election virtually guarantees upper-income tax rates will remain at 33 percent and 35 percent</u>. This means there is no particular urgency to accelerate income from 2005 into 2004.

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Marriage penalty relief has been extended through 2010. Previously enacted legislation, which changed the amount of income taxed at the 15 percent rate for married couples to twice the comparable amounts for single taxpayers, was set to expire in 2005. New legislation has extended the 200 percent differential through 2010.

$1,000 per child tax credit is retained. Under previous law, the child tax credit of $1,000 per qualifying child (for up to three qualifying children) was scheduled to decrease to $700 in 2005 and gradually increase again to $1,000 in 2010. The new law retains the $1,000 credit through 2010.

Work opportunity and welfare-to-work tax credits are extended through 2005. The new law makes this retroactive to Jan. 1, 2004; therfore, the credits are available for wages paid or incurred for individuals beginning work in 2004 or 2005.

There are changes in the qualification rules for Subchapter S corporations. Among other things, the new law increases the number of eligible shareholders to 100 and provides relief from inadvertently invalid qualified Subchapter S subsidiary (QSST) elections.

Charitable deduction rules have been tightened. Getting a deduction for charitable contributions of cars, boats and/or airplanes will be more difficult beginning in 2005. The "Blue Book" value no longer can be used; instead, the deduction will be limited to the amount for which the charity subsequently sells the vehicle. There also are new limits to donations of intellectual property and real property.

Consider giving appreciated stock to a charity. If you have owned a stock more than one year, you can deduct the full value of your donation and avoid paying any income tax on the stock's appreciation. Also, if you give stock owned for more than one year to a child who is 14 years old or older, the tax on the gain when the child sells the stock will likely be much less than you would pay. This is a good strategy for creating college funds.

The 10 percent tax bracket increase is extended through 2010. Tax legislation in 2001 created a new 10 percent income tax bracket below the 15 percent bracket, which previously had been the lowest tax bracket.

Itemized deductions for state and local sales taxes. Individuals who itemize their deductions can now elect to deduct state and local sales taxes instead of state and local income taxes. The amount of the deduction can be based on actual taxes paid or by using IRS-prepared tables.

This provision is retroactive to Jan. 1, 2004. Therefore, the deduction will be available for individual returns due April 2005, and the IRS may have to scramble to incorporate this change. Taxpayers and tax return preparers should be alert for last-minute changes or corrections as the 2004 filing season approaches.

NRCA is in the process of developing a more detailed analysis of the new tax laws; it will be available on NRCA's Web site, www.nrca.net.

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