

J W Enterprises LLC

TAX UPDATE 2005

Year End Planning and Tips & Hints

Welcome to tax Hints 2005, changes to the tax law for 2004 will affect the 2005-filing season.

Accelerating Deductions

Make qualifying purchases in 2005 to take advantage of the sales tax deduction, which ends in 2005, if the sales tax will be more than your state income tax. Prepay January mortgage payments. Prepay any deductible expenses in 2005. If short of cash, use credit cards to make purchases, or contributions. Payments won't be due until 2006.

Retirement Plans

If you are self-employed, establish a "SEP IRA" or a "KEOGH" plan before year-end. Contributions will be deductible in 2005, if the plan is in place before year-end. On that note, IRA deductions have increased to \$4000 (\$4500) if over 50 years of age at the end of 2005. Elective deferrals plans have increased to \$14000 for 2005.

Mileage Rates

Beginning January, and through August 2005, the mileage rate increased to 40.5 cents per mile for all business miles driven. The rate also increased to 48.5 cents per mile starting in September 2005. 15 cents per mile, when computing deductible or moving expenses. 14 cents a mile when giving services to a charitable organization.

Clean-Fuel and Qualified Electric Vehicle.

You can claim the maximum amount allowed for a clean-fuel vehicle placed in service in 2005. The 50% reduction of the maximum amount for 2005 has been eliminated. Likewise for a qualified electric vehicle, you can claim the maximum tax credit allowed, but the 50% reduction of the maximum credit has been eliminated.

Automobile Donations

The rules for vehicle donations have changed for 2005. The new rule provides that if the charity sells the vehicle, the donor's deduction is limited to the proceeds received by the charity. If the charity keeps the vehicle, and uses it to further the charity's exempt purpose, then the donor may be entitled to deduct the vehicle's fair market value.

AMT TAX

More than 3 million new taxpayers will be affected by AMT. This tax may apply if your income is over a certain level. (\$58,000 for married filing jointly) and many of the deductions you use for regular income tax cannot be used or fully used when figuring your AMT.

Katrina

On December 21, 2005 President Bush Signed the Gulf Opportunity Zone Act of 2005

The act carries a wide range of provisions such as: Tax incentives to encourage rebuilding of the areas ravaged by Hurricanes Katrina, Rita and Wilma. Further the Katrina emergency tax relief act provides many changes.

Some of the changes include such provisions as removing the limits on some charitable contributions, allowing generous donors to substantially reduce their 2005 taxable income. The act also includes access to retirement plans. Special provisions relating to "qualified hurricane Katrina distributions". For persons affected by hurricane Katrina. The act waives the 10 percent tax on early distributions from IRAs and pensions after August 25, 2005 and before January 1, 2007. Eligible individuals may withdraw a maximum of \$100,000 from their plans without incurring the 10 percent penalty tax. A \$500 exemption deduction is provided for individuals who provide rent-free housing in their principal residence for at least 60 days to dislocated persons. The deduction is \$500 per person housed, with a maximum of \$2000, and can be claimed in 2005, or 2006