

# 2004 Tax Law Changes for Individuals

Here are some of the changes that will effect 2004 Tax Returns for individuals.....

**Educators' Deduction.** This had expired at the end of 2003, but was restored for two more years.

**Clean Fuel Vehicle Deduction.** The maximum amount of this deduction was scheduled to drop for 2004 and 2005, but has been retained at the \$2,000 level.

**Child Tax Credit.** Taxpayers with a credit amount more than their tax could get a refund of the difference, up to 10% of the amount by which their 2004 taxable earned income exceeds \$10,750. This percentage was raised to 15% for 2004, meaning a larger refund for many of these taxpayers.

**Combat Pay.** The tax laws provide some special benefits for active members of the U.S. Armed Forces, including those serving in combat zones. They may qualify for certain tax deadline extensions because of their service in a combat zone.

**Sales Tax Deduction.** Taxpayers who itemize deductions will have a choice of claiming a state and local tax deduction for either sales or income taxes on their 2004 and 2005 returns. The IRS will provide optional tables for use in determining the deduction amount, relieving taxpayers of the need to save receipts throughout the year. Sales taxes paid on motor vehicles and boats may be added to the table amount, but only up to the amount paid at the general sales tax rate. Taxpayers will check a box on Schedule A, *Itemized Deductions*, to indicate whether their deduction is for sales or income taxes.

**Expense Limit for SUVs.** Businesses should be aware of a change regarding the deduction for certain sport utility vehicles (SUVs) placed in service after October 22, 2004. Under the American Jobs Creation Act of 2004, businesses cannot take a first year deduction of more than \$25,000 for an SUV. The business would depreciate the remaining cost. (The limit for vehicles placed in service before October 23, 2004 was \$100,000.) The new limit does not affect other types of property where the taxpayer decides to expense the cost instead of depreciating the property.

**Sale of Personal Residence Acquired in a Like-kind Exchange.** Taxpayers who convert rental property to a principal residence should know that a tax law change may limit their ability to exclude gain on the sale of that residence if they obtained the property through a like-kind exchange. Generally, a taxpayer can exclude up to \$250,000 of gain on the sale of a home, provided the individual has owned and used it as a principal residence for two out of the five years before the sale. The exclusion is \$500,000 for a married couple if both meet the use test. The American Jobs Creation Act of 2004 does not allow any exclusion if the taxpayer sells the home within five years of acquiring the property through a like-kind exchange. The new law applies to sales after October 22, 2004.

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