

2004 Tax Law Changes for Small Business

Standard Mileage Rate Business-related mileage: For 2004, the standard mileage rate for the cost of operating your car, van, pickup or panel truck increases from 36 cents a mile to 37.5 cents a mile for all business miles.

Meal Expenses When Subject to “Hours of Service” Limits: Generally, you can deduct only 50% of your business-related meal expenses while traveling away from your tax home for business purposes. Also, you can generally deduct only 50% of certain reimbursements you make to your employees for meal expenses they incur while traveling away from home on business. You can 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. (These limits apply to workers who are under certain federal regulations.) The percentage increases to 70% for 2004.

Electric and Clean-Fuel Vehicles: For vehicles placed in service in 2004, the maximum clean-fuel vehicle deduction and qualified electric vehicle credit are scheduled to be reduced by 25%, as compared to 2003.

Depreciation and Section 179 Expense:

- **Extension of acquisition date.** Property will meet the “acquisition date test” for purposes of qualifying for the 30% special depreciation allowance if the property was acquired before January 1, 2005 (extended from September 11, 2004).

- **Increased section 179 limits.** The maximum Section 179 deduction you can elect for property you place in service in 2004 is increased from \$100,000 to \$102,000 for qualified Section 179 property (\$137,000 for qualified zone property, qualified renewal property, or qualified New York Liberty Zone property). This limit is reduced by the amount by which the cost of Section 179 property placed in service during the tax year exceeds \$410,000 (increased from \$400,000).

Self-Employment Tax: The self-employment tax rate on net earnings remains the same for 2004. This rate, 15.3%, is a total of 12.4% for Social Security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance.) The maximum amount subject to the Social Security part for tax years beginning in 2004 increases to \$87,900. All net earnings of at least \$400 are subject to the Medicare part.