

Changes for 2005 for Small Business

Standard Mileage Rates

The optional standard mileage rates will increase for 2005 for computing the deductible costs of operating an automobile for business, charitable, medical or moving expense purposes. Beginning January 1, 2005, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) will be:

- 40.5 cents a mile for all business miles driven, up from 37.5 cents a mile in 2004;
- 15 cents a mile when computing deductible medical or moving expenses, up from 14 cents a mile in 2004; and
- 14 cents a mile when giving services to a charitable organization.

The 3-cent increase in the business mileage rate was the largest one-year rise ever. The primary reasons were higher prices for vehicles and fuel during the year ending in September. The charitable standard mileage rate is set by law.

Simplified Tax Deposit Rules for Small Businesses

Under new rules effective January 1, 2005 employers are required to make quarterly deposits for unemployment taxes if the accumulated taxes exceed \$500. The previous threshold was \$100.

Debut of Redesigned Form 941 in 2005

Form 941, Employer's Quarterly Federal Tax Return, has been redesigned. The new version will be used for the first quarter of 2005 (March 31, 2005). A team of subject matter experts from across the IRS worked closely together since 2002 to redesign Form 941, critically reviewing each line. In addition, IRS brought in "plain language" contractors to help ensure the form and accompanying instructions are clear and easy to understand. In November 2003, an early draft of the form was shared with key stakeholders in the payroll community to solicit their comments and feedback. These comments were reviewed and incorporated to the extent possible by the team. The form was placed on IRS.gov for public comment as well. IRS conducted focus group testing and many group participants liked the new format and felt the redesigned form would be easier for new users to learn. There are a number of highlights to note about the format changes including:

- Open Design
- Plain Language
- Darkened background, which highlights entry spaces
- Form divided into six distinct parts
- Quarters clearly identified
- Checkbox added.

Social Security Wage Base is Up for 2005

The Social Security wage base for 2005 is \$90,000, up from \$87,900 in 2004. Beginning January 1, 2005, employers should withhold Social Security taxes (6.2%) from employees' wages up to \$90,000 and withhold the Medicare tax (1.45%) on all wages. Employers must match the tax payments withheld from employees' wages. Employees earn one Social Security credit for each \$920 in earnings, up to a maximum of four credits for the year.

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