

Important Changes that Could Affect Estimated Tax Payments for 2005

Standard Mileage Rates: Beginning January 1, 2005 the optional standard mileage rates will increase for computing the deductible costs of operating an automobile for business, charitable, medical or moving expense purposes.

- 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.

Retirement savings plans. The following paragraphs highlight changes that affect retirement arrangements such as individual retirement accounts (IRAs), pension plans or others.

■ **Traditional IRA income limits.** If you have a traditional IRA and are covered by a retirement plan at work, the amount of income you can have and not be affected by the deduction phase-out increases. The amounts vary depending on filing status.

■ **Limit on elective deferrals.** The maximum amount of elective deferrals under a salary reduction agreement that can be contributed to a qualified plan increases to \$14,000 (\$18,000 if you are age 50 or older). However, for SIMPLE plans, the amount increases to \$10,000 (\$12,000 if you are age 50 or over).

■ **IRA deduction expanded.** The amount you, and your spouse if filing jointly, may be able to deduct as an IRA contribution will increase to \$4,000 (\$4,500 if age 50 or over at the end of 2005).

Deduction for clean-fuel vehicle. You can claim the maximum amount allowed for a clean-fuel vehicle or other clean-fuel vehicle property you place in service in 2005. The 50% reduction of the maximum amount for 2005 has been eliminated.

Tax credit for qualified electric vehicle. You can claim the maximum tax credit allowed for a qualified electric vehicle property you place in service in 2005. The 50% reduction of the maximum credit for 2005 has been eliminated.

Uniform definition of a child. Beginning in 2005, the definition of "qualified child" for the following tax benefits will change:

- Dependency exemption
- Head of household filing status
- Earned income credit (EIC)
- Child tax credit
- Child and dependent care credit.

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