



Newsletter

Volume V, Issue 1

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Special points of interest:

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- Tsunami Donations

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You can put more into your IRA this year

Though the amount that taxpayers could put into other retirement plans has increased annually for the last several years, the annual IRA contribution limit remained at \$3,000 (\$3,500 for those 50 or older). That changes this year. In 2005 you can put up to \$4,000 into an IRA (traditional, spousal, or Roth) if you're under age 50 and up to \$4,500 if you're 50 or older.

Another IRA reminder: You have until April 15 of this year to contribute to an IRA for 2004. If you didn't reach the 2004 contribution limit by December 31, 2004, and you make IRA contributions on or before April 15, 2005, designate them as being for 2004 (not 2005) until you reach your 2004 limit. Then you can deduct these contributions on your 2004 tax return for a quicker tax benefit.

Nonetheless, planning can cut your tax bill. For a review of your tax-cutting options in light of current rules and recent changes, please contact our office.

Add these items to your 2005 recordkeeping

Keeping good records helps you get every tax deduction to which you're entitled. This year there are some new rules; be sure your recordkeeping takes them into account.

New rule #1. There's a new itemized deduction for state and local sales taxes on your federal income tax return. You can now choose to deduct sales taxes instead of state and local income taxes paid. If you plan to purchase big ticket items this year, or if you are taxed in a state with no or low income tax, you should keep your sales tax receipts. Here's why: The IRS provides sales tax deduction tables which can be used instead of keeping receipts throughout the year, but you can add to the table amount sales taxes paid on big ticket items such as motor vehicles, airplanes, boats, homes, mobile homes, and home building materials. When you file your 2005 tax return, you can then choose to deduct either sales taxes or state and local income taxes, whichever gives you the bigger deduction.

New rule #2. Teachers may deduct up to \$250 for the classroom supplies they purchase with their own money. Again, keep receipts so you don't miss this tax break. It's a deduction that can be taken whether you itemize or take the standard deduction.

New rule #3. If you donate a vehicle to a charity in 2005, you can no longer estimate the vehicle's fair market value to determine your deduction. You'll have to get the valuation amount from the charity, and if they sell your vehicle at auction (as most charities do), that amount is limited to the actual selling price of the vehicle.

IRS issues inflation adjustments for Health Savings Accounts

Health Savings Accounts (HSAs) allow taxpayers with high-deductible health insurance plans to set aside tax-deductible funds to pay for unreimbursed medical expenses. For 2005, the amount that an individual can put into an HSA increases to \$2,650, and the amount for family coverage increases to \$5,250. Those who are 55 or older can put an ad-



2005 donations for tsunami victims may be deductible in 2004

Americans are contributing generously to help victims affected by the tsunami disaster in Asia. The IRS issued a reminder to taxpayers about the deductibility of charitable contributions.

If you hope to deduct your contribution, note the following:

- 1 Make sure that you are giving to a legitimate organization. Don't be fooled by names that sound impressive or are intended to sound like familiar charities. (You may want to find out how much of your contribution will go to victims and how much goes to the administration costs of the charity.)
- 2 Be sure the organization is considered tax-exempt by the IRS. Contributions made to foreign charities may not qualify for deductibility.
- 3 Only if you itemize deductions on your tax return will you be able to take a deduction for your contribution, and any gift of \$250 or more requires a receipt from the charity. A cancelled check is not sufficient.
- 4 Be aware that legislation signed last month allows you to deduct tsunami relief donations made by January 31, 2005, on your 2004 tax return. Normally, charitable contributions are deductible for the year in which they are made. Congress accelerated the deduction hoping it would encourage additional giving to the relief effort.

FUTA deposit threshold increased for 2005

The IRS has good news for more than four million small businesses. Under regulations recently issued by the IRS, employers will be required to make quarterly deposits for federal unemployment taxes (FUTA) only if the accumulated tax exceeds \$500. The deposit threshold prior to 2005 was \$100. Since the maximum tax per employee is \$56 per year, the higher threshold eliminates the quarterly deposit requirement for employers with eight or fewer employees

Could you use a break on IRS recordkeeping?

Did you know the IRS has reduced recordkeeping requirements for certain types of deductions? Usually substantiation involves keeping detailed receipts and records for every deduction you claim on your tax return. Fortunately, the IRS does have a practical side that should help you reduce the paperwork needed to support some common deductions.

You're generally allowed to deduct the business-use portion of vehicle expenses, such as gasoline, repairs, and depreciation. However, an alternative to saving the receipt from every time you fill up your car is to claim

the standard mileage allowance. In lieu of deducting your actual expenses, the IRS will allow you to deduct 37.5 cents per mile in 2004. You'll need to keep a mileage log as support, but at least you won't have to keep all those expense records. It's even possible that using the standard mileage allowance might result in a higher tax deduction



over the life of the car than claiming actual expenses - especially with lower cost automobiles.

Many taxpayers do end up deducting their actual vehicle expenses, especially given the 50% bonus depreciation allowance available on new cars acquired through December 31, 2004. You can still reduce your recordkeeping by using sampling to prove your business-use percentage on personal automobiles. Maintaining a mileage log for the entire year isn't necessary - IRS regulations actually allow you to just keep a log for a representative time period like, say, three months instead. As long as the period fairly reflects what your annual vehicle usage would be and you maintain other support demonstrating that it is representative, you'll have met the substantiation requirements.

Traveling expenses can result in lots of receipts. It's very easy to forget to ask for a receipt, and in some cases a receipt just won't be available. Fortunately, there are some simplified methods for supporting your traveling expenses. You'll generally need to keep receipts for all lodging expenses, but for other travel expenses a written record like a travel diary is fine, as long as the expenses are under \$75. There's also an optional per diem method for meals and incidental expenses whereby you're treated as substantiating the amount of the expense as long as you use rates listed in IRS tables. Rates vary by location.

If you'd like some help with other recordkeeping shortcuts, please call us.

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MORTON, PA
PERMIT 58



The Morley Group, Inc.
13 Kedron Ave
Morton, PA 19070-1513
610-544-1094
610-544-1693
mjm@mgiconsulting.com

Brogan & Morley, Ltd.
801 Yale Ave.
Suite G6A
Swarthmore, PA 19081
610-544-4600
610-544-6423
mjm@broganmorley.com

We're on the Web!
www.mgiconsulting.com

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We wish you a happy holiday and a prosperous 2005!

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