



## Welcome to Tax News

In addition to providing tax preparation and personal financial planning services to our clients we will be preparing a weekly newsletter of relevant information that will strive to help you achieve your financial goals and lower your taxes.

In each weeks newsletter you will find:

- ◇ A calendar of upcoming tax deadlines
- ◇ A web site of the week that is relevant to business or taxes
- ◇ A question of the week that will be appropriate to most taxpayers situations
- ◇ Tax tips that will help reduce your taxes
- ◇ Plus much more

*Enjoy the read and profit from the experience of Tax News*

## In Today's Issue

### American Jobs Creation Act—What Is It?

The timing of our newsletter couldn't be more appropriate. The President is expected to sign into law the American Jobs Creation Act of 2004 within the next 2 weeks.

### Scary Thought For The Week

Our Deficit Debt

### Website Of The Week

The IRS: You're One Stop Tax Shop

### Tax Tidbits

This Week's tax tips

### Ask John

"How much federal tax will I save on mortgage payments for a second home?" - Part 2

## American Jobs Creation Act—What Is It?

The timing of our newsletter couldn't be more appropriate. The President is expected to sign into law the American Jobs Creation Act of 2004 within the next 2 weeks. While aimed at business this \$137 BILLION bill sprinkles largess on almost all sectors of the economy.

While primarily aimed at reducing high duties on products exported to Europe, the pork barrel politics in an election year had to be seen to be believed.

In the end individuals got some significant benefits as well. For clients in Texas, Nevada and Florida the biggest change is the deductibility of sales tax for the first time since 1986 – remember all those years ago!

You will be able to use IRS tables and not have any receipts or you will be able to substantiate sales tax amounts that you paid during the year. You will get to use the IRS table and the tax that you paid on cars, boats etc. This will be effective for tax years 2004 and 2005. This provision is expected to expire at the end of 2005. For those living in states with income taxes you will be able to deduct the higher of the sales tax or state income tax – but not both. You will need to itemize to take advantage of this deduction.

If you have been donating cars to charity this has been tightened up. You will need to have to deduct the actual amount that the charity sold the car for. Given that this could be at a local auction you may be better off selling the car on your own and donating the resulting cash and get a better deduction with no hassles.

There was also a clarification of the taxation of awards from lawsuits or settlements where the total amount was taxed but only some of the legal fees were deductible. Now to make the playing field more level you will have an above the line deduction. The law is not retroactive, but going forward this change makes an inequitable situation much fairer.

There are a host of changes in this tax bill and over the coming weeks I will highlight the ones that will have the most impact on your personal situation.

Welcome to BBS Tax weekly – feel free to email me directly at [john@bbstax.com](mailto:john@bbstax.com) if you have any comments or questions.

PRESIDENT

## Dates For The Diary

### November 1

Federal unemployment tax due today, deposit the tax owed through September if it is more than \$100.

Social Security, Medicare and withheld income tax due, File form 941 for the third quarter of 2004. Deposit any undeposited tax, if you deposited the tax for the quarter in full and on time, you have until November 10 to file the return.

## Tax News

President George W Bush is expected to sign a new bill to cut big, first year tax breaks on sports utility vehicles used for business purposes.

Currently when you buy a new SUV that weighs more than 6,000 pounds and is used at least 50 percent of the time for business, you can write off the entire cost in one year of your federal income taxes.

However with this planned new bill instead of having a deduction limit of \$100,000 it will now be \$25,000 for the first year of ownership.

## Contact

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## Scary Thought For The Week!

### Our Deficit Debt

The US debt level has now exceeded \$1.7 TRILLION dollars – the interest alone on this debt costs \$350 BILLION a year, and rising as we see long-term interest rates trending up. The interest alone accounts for \$1,000 a year for every man woman and child in the United States. This is not a partisan political issue – it is a fact that our economy is the most indebted country of all time and we are now incredibly dependent on the investors in other foreign countries to continue to invest in the United States.

The US federal annual deficit for the year ending September 30, 2004 was \$425 BILLION. Total spending by the federal government for 2005 will be \$2.5 TRILLION with a greater deficit than 2004 fiscal year.

The only two choices are stark and not particularly appealing,

- a) raise taxes or
- b) reduce benefits and spending. At this stage over 70% of the budget goes to entitlement programs that are basically impossible to change (this Medicare, Social Security etc.) which means that reduction in spending has to come from departments like education and FAA etc.

As the Chinese say – “may you live in interesting times”.

## Website Of The Week

### The IRS: You're One Stop Tax Shop!

[www.irs.gov](http://www.irs.gov)

The Internal Revenue Service is more than just another Government operated site, it's a jam packed adventure along the taxation superhighway! The IRS website provides information on all things tax related for individuals, businesses, Charities and non-profit organizations, tax professionals and many others.

As well as providing information about all things tax, the IRS website provides visitors with the option of electronically filing their tax return which goes straight to the people who need to process it, the Internal Revenue Service.

While visiting the website all are encouraged to read through current publications and releases on new tax information and any changes that have come into play, as well as have the ability to download all the various tax forms that are available and required when dealing with taxation.

Education is a focus that the IRS have turned its attention to on their website, by providing a range of fact sheets and tax topic tips as well as a frequently asked questions section, have all been designed to help keep the public informed and knowledgeable of all this tax related.

The Internal Revenue Service website is packed full of information and useful tips to help anyone with a tax related issue, even providing you with everything you need to know on how to contact the IRS and where their offices are located throughout the nation.

For everything you want to know about the Government department and all things tax, the Internal Revenue Service website is the place to go. This *website of the week* is a one stop tax shop.





## What's On Offer

At Taxlogic, the accountants are all professionals with over 25 years experience in the taxation industry with an extensive knowledge and focus on electronic filing.

By using the team at Taxlogic to prepare and file your tax returns, not only will you be given excellent service, but you will also be treated like a person not just a number.

From any computer, anywhere in the world, 24 hours a day, seven days a week Taxlogic can help you with your tax preparation.

As well as the ability to prepare personal tax returns the team at Taxlogic also are very knowledgeable with corporate/business returns for the current or previous years.

The team also provide services to help with company formations, annual minutes for corporations and payroll preparation.

Bookkeeping courses and weekly newsletters are provided by Taxlogic to help keep you informed on the latest and greatest of all things tax orientated.

Help can also be given when preparing your employee handbooks

For all things tax related, look no further than the team at Taxlogic.

## Tax Tidbits

- ◇ Selling a home that you used as a principal residence for at least two of the last five years? You won't need to pay any tax gain unless it exceeds \$250,000 as a single or \$500,000 for a married couple filing jointly. You normally can claim this exclusion no more than once in any two year period. Meanwhile if you purchase a new house you'll be able to deduct your interest payments and possibly any points you paid to get the loan.
- ◇ Thinking of adopting a child, well you will be delighted to hear that tax laws make this process much less expensive. If you adopt, you can generally claim a credit of up to \$10,390 for expenses for each child you adopt. If your credit wipes-out your tax for the year you are claiming the credit, you can carry the unused portion over to future years.
- ◇ Farmers living in poor weather condition areas are not penalized but are given help in the form of tax breaks for their coping mechanisms. If you sell more livestock in a single year than normal because of a drought or other weather related condition you gain from selling additional animals can be included in the next year's income. The livestock does not have to been raised or sold in a drought, but the sale must occur solely because of the weather condition causing problems with the requirements of raising livestock.
- ◇ Are you paying for someone else to care for your child while you work? You could qualify for a childcare credit. To be eligible for the childcare credit you need to keep track of the amount you pay your caregivers. Not all expenses are deductible, even if they're necessary however you are encouraged to contact your local tax advisor and they will provide you with more information.

## Ask John

### The Question

*"I am considering buying a second home – a vacation home – how much federal tax will I save on the mortgage payments?"*

### The Answer - Part 2

Following up from last weeks question, lets look at additional benefits from ownership of a second home. This assumes that the home is not rented full time.

You will be able to rent the house for 14 days or less each year and not declare the income received for this period. This would be of particular interest to those that live in seasonal areas where an event draws high-income crowds – think of the Super Bowl, Final Four, or Mardi Gras.

You will be able to deduct the interest and any points on the acquisition of the mortgage, and annual real estate taxes on your schedule A. To be of benefit you need to be able to itemize. These amounts will be reported to you annually on the Form 1098 that the mortgage company sends you, which shows the mortgage balance and escrow payments for taxes, insurance and late fees.

As a second residence, the insurance and if a condo, the condo fees would not be deductible. Any repairs would be added to the cost basis of the property and used to reduce any profit upon the sale of the property. Historically the best reason for investing in the second property – other than the intangible benefit of having your own place to go to, has been capital gains. Traditional coastal properties have experienced significant gains in the past decade.

Planning opportunities arising from selling primary residences and moving into second homes for the requisite time frame and gaining significant tax reductions can be achieved with the right planning. Be aware that some lenders will treat the additional house differently than a primary residence as to interest rates and the percentage of down payment. Ensure that you understand all the ramifications before you take the leap into an additional property.