

# Federal Update

## Six-Month Extension

The IRS has increased the automatic extension available on Form 4868 to six months from four months.

Beginning with 2005 returns due in 2006, individuals will be able to use a single IRS form (Form 4868) to get an automatic six-month extension of time to file. This will replace the existing two-step process under which an automatic extension was only allowed for four months, generally until Aug. 15. If more time was needed, a taxpayer had to explain why, using a second extension request form (Form 2688). About 6% of individual taxpayers request the initial four-month extension, and about a third of those go on to request a second extension, usually for two months until October 15. Form 2688 will be eliminated.

Extension procedures will also be streamlined for business taxpayers, thus eliminating three existing forms. Under existing procedures, only corporations can request an automatic six-month tax-filing extension. The new regulations will also make this option available to most noncorporate business taxpayers, including partnerships and trusts.

## Charitable Contributions of Vehicles, Boats, and Aircraft

If you donate a vehicle (including a boat or aircraft) to a qualified organization after December 31, 2004, your deduction is limited to the gross proceeds from its sale by the organization. This rule applies if the claimed value of the donated vehicle is more than \$500.

For complete details, check module 2, page 8 of the text book that you used for your 20 hrs. of continuing education.

## Uniform Definition of a Qualifying Child

Beginning in 2005, one definition of a qualifying child will apply for each of the following tax benefits.

- \* Dependency exemption.
- \* Head of household filing status.
- \* Earned income credit (EIC).
- \* Child tax credit.
- \* Credit for child and dependent care expenses.

For complete details, check module 2, page 6 of the text book that you used for your 20 hrs. of continuing education.

## Katrina Emergency Tax Relief Act of 2005

This act provides tax relief for people affected by Hurricane Katrina. The provisions of the act are explained in Publication 4492.

# California Update

## California conforms to federal law for the following:

- \* For purposes of the Child and Dependent Care Expenses Credit, compensation received by a member of the armed forces for active service shall be considered earned income whether or not the member is domiciled in this state
- \* An exclusion for qualified foster care payments;
- \* The uniform definition of a child; and
- \* Qualifying expenses associated with the adoption of children with special needs.

## New California Form Sch W-2

No more Schedule W. Tax practitioners would attach paper copies of the Form(s) W-2s, W-2Gs, 1099, 592-B, 594, and 597 to the Schedule W instead of attaching them to the face of the Form 540 or Form 540A tax return. For taxable years beginning on or after January 1, 2005, you can use the CA Sch W-2. Attach this schedule to side 2 of the income tax return. You can keep the W-2's for your own records. This is an optional form, as you can still attach W-2's to the front of the return if you choose not to complete the CA Sch W-2.

## Prior Name Line

There is a new line on Form 540A and 540 for taxpayers who may have filed their 2004 income tax return under a different last name. If your client had a different last name, please write the last name only from the 2004 tax return on this new line.

## New Voluntary Contribution Funds for California:

Veterans' Quality of Life Fund, California Sexual Violence Victim Services Fund and California Colorectal Cancer Prevention Fund.

## Net Operating Loss (NOL)

For taxable years beginning on or after January 1, 2004, California has reinstated the Net Operating Loss (NOL) carryover deduction. The carryover periods for NOL deductions that were incurred:

- \* beginning before Jan. 1, 2002, has been extended for two years.
- \* beginning on or after Jan. 1, 2002, and before Jan. 1, 2003, has been extended for one year.

The California Teacher Retention Tax Credit has been suspended for 2004 and 2005.

California now offers web payment of your taxes. You must obtain a customer service number from the Franchise Tax Board. Please go to [www.ftb.ca.gov/online/webpay](http://www.ftb.ca.gov/online/webpay) for more information.

**The Tax Institute  
Quick Tax Facts**

**Key Figures for the 2005 tax year**

**STANDARD DEDUCTIONS**

Married, filing joint return	\$10,000
Surviving spouse	\$10,000
Head of Household	\$7,300
Single	\$5,000
Married, filing separate return	\$5,000
Dependent standard deduction minimum	\$800
Additional amount for blindness and / or age	\$1,000
Additional amount as above if single or HH	\$1,250

**EXEMPTIONS**

Personal and Dependent Amount	\$3,200
Estate Amount	\$600
Simple Trust Amount	\$300
Complex Trust Amount	\$100
Joint returns or surviving spouse (Phaseout)	\$218,950
Head of Household (Phaseout)	\$182,450
Single (Phaseout)	\$145,950
Married, filing separate return (Phaseout)	\$109,475

**ITEMIZED DEDUCTIONS**

Married, filing separate (Phaseout)	\$72,975
Others (Phaseout)	\$145,950

**TRANSPORTATION**

Fringe Benefit: Employer-provided passes and vehicles	\$105/mo.
Fringe Benefit: Qualified parking limit	\$200/mo.
Business Mileage Rate	\$0.405
Charitable Mileage Rate	\$0.14
Medical and Moving Mileage Rate	\$0.15
Depreciation Component of Standard Mileage Rate	\$0.17
High Cost Per Diem Travel Rate (after 10/31/04)	\$204
Low Cost Per Diem Travel Rate (after 10/31/04)	\$129

**RETIREMENT PLANS**

Maximum Annual Benefit for Defined Benefit Plan	\$170,000
Maximum Annual Contribution Defined Contribution Plan	\$42,000
Highly Compensated Employee Definition (In general)	\$95,000
SIMPLE Contribution Limit	\$10,000
SEP De minimis Compensation Amount	\$450
SEP Nondiscrimination Compensation Amount	\$210,000
401 (k) Maximum Compensation Amount	\$210,000
401(k) Maximum Exclusion (In general)	\$14,000
IRA Deduction Limit (In general)	\$4,000
Catch-up Contributions (Extra amount for taxpayers over age 49)	
Traditional and Roth IRAs	\$500
SIMPLEs	\$2,000
401(k), 403(b) and 457 Plans	\$4,000

## Key Figures for the 2005 tax year

### CAPITAL GAIN RATES (ASSETS HELD MORE THAN 12 MONTHS)

General Rate:	15%
Low Rate: (Taxpayers in 10% or 15% bracket)	5%
High Rate: Collectibles (coins, art, antiques)	28%
Recaptured gain on real estate (Sec. 1250 gain)	25%
Dividends, qualified (General rate)	15%
Dividends, qualified (Taxpayers in 10% or 15% bracket)	5%

### PAYROLL TAXES

Soc. Sec. (Self-employed) Combined rate (OASDI+Medicare)	15.3%
Soc. Sec. (Employer or Employee) Rate (OASDI+Medicare)	7.65%
OASDI Maximum Base	\$90,000
FUTA Rate	6.2%
FUTA Wage Base	\$7,000
Nanny Tax Threshold	\$1,400

### ADJUSTED GROSS INCOME LIMITS

Casualty Loss Threshold	10%
Medical Deduction Threshold	7.5%
Miscellaneous Itemized Deduction Floor	2%

### EDUCATIONAL TAX INCENTIVES

Hope Scholarship Credit	\$1,500
Lifetime Learning Credit	\$2,000
Higher Education Deduction	\$4,000
Coverdell Education Savings Account Contribution	\$2,000
Student Loan Interest Deduction	\$2,500
U.S. Savings Bond Interest Exclusion (Phaseout)	
Married, filing joint return	\$91,850
Single, QW or head of household	\$61,200
Married, filing separate return	\$0

### VARIOUS OTHERS

Exclusion of gain from sale of residence:	
joint filers	\$500,000
single filers	\$250,000
Maximum child tax credit (per qualifying child)	\$1,000
Maximum Section 179 deduction limitation	\$105,000
Teacher's Classroom Expense Deduction	\$250
Foreign earned income exclusion	\$80,000

### CALIFORNIA KEY FIGURES FOR 2005

Dependent exemption credit	\$272
Personal exemption credit, single, MFS or HH	\$87
Personal exemption credit, MFJ or QW	\$174
Standard Deduction Single or Married filing Separate	\$3,254
Standard Deduction Married filing Joint, Head of household, or Qualifying widow	\$6,508
State Disability Insurance rate (2005)	1.08%
State Disability taxable wage limit (2005)	\$79,418
Maximum State Section 179 Deduction Limitation	\$25,000
Renter's Credit (nonrefundable):	
Single or MFS and AGI does not exceed \$30,794	\$60
HH and married couples and AGI does not exceed \$61,588	\$120