

WORKING FAMILIES TAX RELIEF ACT OF 2004

The Working Families Tax Relief Act of 2004 was signed into law by President Bush on October 4, 2004.

CHILD TAX CREDIT

- ❖ The child tax credit was increased to \$1,000 by the 2003 tax law, but only for 2003 and 2004. It was scheduled to revert to \$700 in 2005. This law keeps the credit at \$1,000 through 2010.
- ❖ The increase from 10% to 15% in the refund ability of the child tax credit is accelerated to 2004. Combat pay is treated as earned income for purposes of the refundable credit.
- ❖ As under prior law, higher-income taxpayers may not qualify for the full credit. It starts to phase out when adjusted gross income reaches \$110,000 for joint filers and \$75,000 for singles and heads of household.

MARRIAGE PENALTY RELIEF

- ❖ The standard deduction for married taxpayers filing a joint return will remain double the standard deduction for single taxpayers through 2010.
- ❖ The 15% tax bracket that applies to married taxpayers will be double the 15% tax bracket for single taxpayers through 2010.
- ❖ Though these two provisions provide some relief from the marriage penalty, which results in higher taxes for some working married couples, they do not eliminate the penalty completely. Tax brackets above 15% and several other areas of the tax law still penalize married taxpayers.

EXPANDED 10% TAX BRACKET

The 2003 tax law expanded the 10% tax bracket effective for 2003 and 2004. Therefore, the 10% tax rate applied to the first \$7,000 of income for singles and to the first \$14,000 of income for married couples. The 10% bracket was scheduled to revert in 2005 to the first \$6,000 of income for singles and \$12,000 for couples. The new 2004 law retains the expanded 10% bracket through 2010 and adjusts the amounts annually for inflation.

ALTERNATIVE MINIMUM TAX

- ❖ The alternative minimum tax (AMT) was created years ago to keep high-income taxpayers from using credits and deductions to reduce their tax liability to zero. The law exempted a certain amount of income from the AMT so that most taxpayers would not be hit by this tax. However, the exemption amount was not adjusted for inflation. Over the years, an increasing number of middle-income taxpayers found themselves subject to the AMT.
- ❖ The exemption amount in 2003 and 2004 was \$40,250 for single taxpayers and \$58,000 for couples. These amounts were scheduled to revert in 2005 to \$33,750 for singles and \$45,000 for couples. The new law keeps the higher exemption amounts through 2005.
- ❖ The 2004 law allows taxpayers to continue to take certain personal tax credits, such as the child tax credit and the dependent care credit, in calculating the AMT.

TEACHER'S DEDUCTION

- ❖ The \$250 above-the-line deduction for classroom supplies purchased by teachers is reinstated for 2004 and 2005. It originally expired at the end of 2003.
- ❖ Receipts should be kept to substantiate the deduction. Since it's an "above-the-line" deduction, even educators who don't itemize deductions will benefit from this tax break.

ELECTRIC AND CLEAN-FUEL VEHICLES

- ❖ Taxpayers who buy an electric vehicle may qualify for a tax credit of 10% of the cost, up to a maximum of \$4,000. This credit was gradually phasing out, but is reinstated in full for 2004 and 2005.
- ❖ The deduction for clean-fuel vehicles, which also was gradually phasing out, is reinstated to the original amounts for 2004 and 2005. For most qualifying clean-fuel automobiles, the maximum allowable deduction is \$2,000.

BUSINESS TAX CREDITS

- ❖ The law provides for the seamless extension of several expired tax credits through 2005. Among the credits extended are the research and development credit, the work opportunity credit, the welfare-to-work credit, and the renewable electricity production credit.

OTHER PROVISIONS

- ❖ The law makes a number of technical corrections to previous tax laws.
- ❖ A uniform definition of "child" is created for various provisions in the tax law, including the dependency exemption, earned income tax credit, dependent care credit, and head-of-household filing status.

If you have questions about how these tax changes will affect you, please contact L.F. Harris & Associates, CPA, P.A. at 407-228-0560.