

CPA

WERMER, ROGERS, DORAN & RUZON

755 ESSINGTON RD., STE 100.

JOLIET, IL 60435-2845

APRIL 2005

Client Bulletin

BUSINESS & TAX PLANNING IDEAS *for* OUR CLIENTS *and* FRIENDS

You Can Claim January 2005 Tsunami Donations in 2004 Return

Thanks to a law signed January 7, 2005, you can choose to claim any cash charitable donation that you made for tsunami relief through January 2005 on your 2004 tax return, as if you made the donation on or before December 31, 2004.

Generally, charitable contributions are only deductible for the year in which they are actually made. But if you were one of the many millions of Americans who made a charitable contribution to benefit relief victims of the December 26, 2004 tsunami in the Indian Ocean, you have the option to claim that donation either in your 2004 or 2005 return.

What to do if you've already filed for 2004

If you made a deductible contribution in January 2005, but already filed your 2004 tax return, you can either file an amended return, claiming your January 2005 deduction for 2004, or you can claim the deduction next year on your 2005 return. Just make sure you don't deduct the same contribution on both returns—you can deduct some January tsunami relief donations in 2004 and some in 2005, but you may not divide any single donation between these two years.

Follow the rules

All of the standard rules for charitable contributions apply, meaning you can only claim

IN THIS ISSUE

**You Can Claim January 2005
Tsunami Donations in 2004 Return**
PP. 1

**Optional Standard Mileage Rates
for 2005: On the "Up and Up"**
PP. 1-2

**Will You Receive an EITC Refund
for Tax Year 2004?**
P. 2

**Did You Receive a Large Gift
From a Foreigner?**
P. 3

**Achieve Year-Round Financial
Fitness**
P. 3

**Personal Exemptions Increased
for 2005 Tax Year**
P. 3

Tax Calendar
P. 4

Did You Know?

More than 950,000 taxpayers
in 2004 paid their federal
taxes by credit card,
an increase of 70% over 2003.

Source: www.irs.gov

this deduction if you itemize. The extension does not require any additional forms, but be certain to claim only those donations that you sent by the end of January 2005. To qualify, the contributions must have been made (1) in cash (including checks and credit cards), (2) to a qualified charity, and (3) specifically for the relief of victims in areas affected by the tsunami. Noncash charitable contributions are subject to the normal rules, that is, they are deductible only in the year that they are actually contributed.

You can make sure that the charity through which you sent your tsunami donation is a "qualified" organization, as determined by various IRS guidelines, by checking www.irs.gov and searching the list of organizations.

Optional Standard Mileage Rates for 2005: On the "Up and Up"

The IRS recently announced its 2005 optional standard mileage rates. These rates are used by employees, self-employed individuals, and other taxpayers who need to compute the deductible costs of operating an automobile (including vans, pickups, or panel trucks) that they own or lease for business purposes. Different rates are also used to compute the deductible costs of operating

continued on page 2

CPA Client Bulletin

continued from page 1 — Optional Standard Mileage Rates for 2005: On the "Up and Up"

automobiles for charitable, medical, or moving expenses.

The new—and increased—rates apply to automobile costs incurred on or after January 1, 2005, and are as follows:

- For transportation expenses incurred for business purposes, the standard mileage rate is 40.5 cents per mile, up from 37.5 cents in 2004.
- The standard mileage rate for use of your car for medical reasons is 15 cents per mile, up from 14 cents in 2004.
- For an automobile used to provide free services to a charitable organization, the standard mileage rate remains 14 cents per mile.
- The standard mileage rate to use when computing deductible moving expenses is now 15 cents a mile, up from 14 cents a mile in 2004.

The three-cent increase in the business mileage rate is the largest rise ever in a one-year period, a decision that was predominately driven by steep 2004 increases in automobile and fuel prices.

The standard mileage rate is provided by the IRS as a convenience to taxpayers. You still have the option to calculate your actual costs instead of

using the standard mileage rate. However, special rules apply when changing between the standard mileage rate and actual cost methods. Please contact our office if you think you might benefit from changing methods.

While the standard mileage rate includes most expenses associated with an automobile, there are some things that you can still deduct on top of them, including your parking fees, tolls, interest payments on the car, and any property taxes associated with your automobile.

Automobile-related fringe benefits

The IRS also increased exclusion amounts for qualified transportation fringe benefits: \$105 per month for transportation in a commuter highway vehicle and for transit passes and \$200 per month for qualified parking for tax year 2005.



Will You Receive an EITC Refund for Tax Year 2004?

Earned income tax credit (EITC) refunds totaled over \$36 billion last year. Were you one of the over 21 million taxpayers who received a refund? If not, it's in your interest to determine whether you qualify for this refundable federal income tax credit, which is based on income and family size.

Go online to see if you are eligible

The IRS recently released a new online tool, the EITC Assistant, aimed at helping taxpayers (1) decide their earned income tax credit eligibility, (2) estimate how much credit they are likely to receive, and (3) determine whether they can claim a child under the qualifying child guidelines.

You can find out if you are eligible for the EITC by answering a few

simple questions and providing basic income information. The program will also help you determine your correct filing status and whether your child(ren) meet(s) the tests for a qualifying child, and estimate the amount of credit that you may receive.

This new online tool is available in English and Spanish on the IRS Web site at www.irs.gov.

Changes in EITC for tax year 2004

For tax year 2004, the maximum amount of income you can earn while remaining eligible for the credit is:

- If you have more than one qualifying child, your earned income must be less than \$34,458 (\$35,458 if married filing jointly);
- If you have one qualifying child, your earned income must be less than \$30,338 (\$31,338 if married filing jointly); or

- If you do not have a qualifying child, your earned income must be less than \$11,490 (\$12,490 if married filing jointly).

The government also increased the maximum amount of investment income you can receive while remaining eligible for the credit—set for \$2,650 for tax year 2004. You can also elect to have any nontaxable combat pay included in earned income for the earned income credit.

There are a lot of rules associated with qualifying for EITC, and your CPA and the IRS can make it easy for you to navigate them. The EITC Assistant can help you determine whether you are likely to qualify for the EITC tax credit, and your CPA can figure it out for certain.

CPASM

America Counts on CPAs

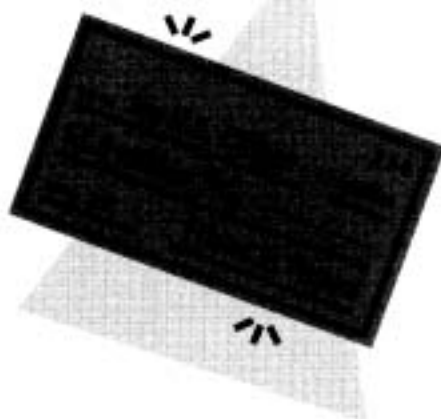
Did You Receive a Large Gift From a Foreigner?

Did you grow up in Poland, move to the United States, and leave your family in the old country? If a member of your family, an old friend, or even a corporation or partnership—any “foreign person”—sends you a sizable gift, you *must* report it to the IRS.

U.S. individuals are required to report any gift or inheritance of USD \$100,000 from an overseas individual or USD \$12,375 (for 2005, indexed for inflation) if the gift is made from a foreign business.

You can receive any size gift, but you must report the substantial ones

There is no limit to the size of a gift



you can receive from a foreigner, which will always be tax-free to you, but any amounts over these thresholds must be reported. Be

advised, the IRS often challenges “gifts” from any business, foreign or otherwise. The Service may question whether the transfer is a gift or actually disguised compensation. Only bona fide gifts are tax-free to you, whereas compensation is taxable as ordinary income.

Call to tell us about each gift you receive from a foreign individual, corporation, or partnership so we can determine whether you need to report the gift on the appropriate government document, known as Form 3520. This form must be mailed by the date your tax return is due.

Failure to report the gift might cause the IRS to recharacterize it as income. Additionally, you can be penalized between 5% and 35% of the amount not reported.

Achieve Year-Round Financial Fitness

Now that the busiest part of the tax year is here (or, if you're smiling while you are reading this, your tax return is already filed), you probably aren't thinking about tax and investment strategies, savings, and other financial matters quite as much as you were in recent weeks.

But the federal government, not to mention your CPA, would like to see you thinking about such matters year-round.

The more you know about your money, the better your chances to achieve overall financial fitness. A federal law, Title V of the Fair and Accurate Credit Transaction Act (FACTA), established the Financial Literacy and Education Commission to improve Americans' financial literacy. This vast undertaking involves an easy-to-access trove of information, all of which is written in nontechnical, easily digestible English and Spanish.

Just as you can't overindulge all week and hope that your 'weekend warrior' tactics will save your waistline, financial fitness isn't achieved in

December or April alone. Financial fitness, like a healthy diet, is a lifestyle you must practice throughout the year.

Go online or call toll-free

Call 1-888-MyMoney or visit www.MyMoney.gov to learn more about the following topics:

- Budgeting and taxes
- Credit
- Financial planning
- Home ownership
- Paying for education
- Privacy, fraud, and scams
- Responding to life events
- Retirement planning
- Saving and investing
- Starting a small business

Each topic is divided into many subcategories. You can also order a sample of these publications by requesting a free “My Money” toolkit either by phone, as listed above, or while visiting the Web site.

As another valuable resource, the American Institute of Certified Public Accountants (AICPA) with the support of state CPA societies is spearheading a program called “360 Degrees of Financial Literacy.” The program encourages CPAs to take a broad leadership role in volunteering to educate

the American public, from school children to retirees, on financial topics that apply specifically to their particular stage of life. You can talk with our office for more information or e-mail financialliteracy@aicpa.org.

Personal Exemptions Increased for 2005 Tax Year

Each personal exemption is worth \$3,200 for tax year 2005. Generally, you may claim exemptions for yourself, your spouse, and for any qualified dependent, as long as you provide more than half of his or her support and meet certain other requirements.

Personal exemptions are phased out once your adjusted gross income (AGI) reaches a certain threshold based on your filing status. The phase-out ranges are as follows:

Status	AGI Begin Phase-Out	AGI Fully Phased Out
Single	\$145,950	\$268,450
Head of household	\$182,450	\$304,950
Married, filing jointly/surviving spouse	\$218,950	\$341,450
Married, filing separately	\$109,475	\$170,725

Tax Calendar

APRIL 2005

April 11

Employees who work for tips. If you received \$20 or more in tips during March, report them to your employer. You can use Form 4070.

April 15

Individuals. File an income tax return for 2004. If you want an automatic four-month extension of time to file the return, file Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*, or you can get an extension by phone or over the Internet if you pay part or all of your estimate of income tax due with a credit card. Then file Form 1040, 1040A, or 1040EZ by August 15.

If you are not paying your 2005 income tax through withholding (or will not pay in enough tax during the year that way), pay the first installment of your 2005 estimated tax. Use Form 1040-ES.

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in March if the monthly rule applies.

Household employers. If you paid cash wages of \$1,400 or more in 2004 to a household employee, file Schedule H (Form 1040) with your income tax return and report any employment taxes. Report any federal unemployment (FUTA) tax on Schedule H if you paid total cash wages of \$1,000 or more in any calendar quarter of 2003 or 2004 to household employees. Also report any income tax you withheld for your household employees.

Partnerships. File a 2004 calendar year return (Form 1065). Provide each partner with a copy of Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, Deductions, etc., or a substitute Schedule K-1. If you want an automatic three-month extension of time to file the return and provide Schedule K-1, file Form 8736. Then file Form 1065 by July 15.

Electing large partnerships. File a 2004 calendar year return (Form 1065-B). If you want an automatic three-month extension to file the return, file Form 8736. Then, file Form 1065-B by July 15.

Corporations. Deposit the first installment of estimated income tax for 2005.

MAY 2005

May 2

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the first quarter of 2005.

May 10

Employees who work for tips. If you received \$20 or more in tips during April, report them to your employer. You can use Form 4070.

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the first quarter of 2005 only if you deposited the tax for the quarter in full and on time. Otherwise, Form 941 was due on May 2. See PUB 509, page 7.

May 16

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in April if the monthly rule applies.