

2004 Tax Changes for the Individual Taxpayer

Topic:	The American Jobs Creation Tax Act of 2004
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Executive Summary:	A summary of the tax changes affecting individual taxpayers for 2004 and 2005 as a result of the recent tax legislation.

Congress has passed the 2004 Tax Bill and it awaits President Bush's signature. While the legislation is primarily affecting corporations, there are a few provisions that might impact Vantage clients personally or affect their small businesses. We would like to point these out and suggest that you contact your Relationship Manager if you have any further questions.

As part of our services to clients, during the month of December we will be reviewing the tax position of each client and will contact you if we see any reason to recommend changes in your situation before year end.

Deduction of State and Local General Sales Taxes in Lieu of Income Taxes

A taxpayer who itemizes deductions can elect to deduct state and local sales taxes instead of deducting state and local income taxes. The taxpayer has the option of collecting sales tax receipts for the year or using an IRS sales tax table that will be created by the Treasury Dept shortly. If he uses the table, he can additionally add to this table amount any tax paid on the purchase of an automobile, boat and other "big ticket" purchases.

Because the Illinois income tax rate is relatively low at 3% (on all income) compared the sales tax rate of about 9% (on purchases only), it may turn out that the sales tax deduction could be advantageous for certain clients. Once the table is issued it will become clearer, but if you are considering a major purchase such as an auto or boat, you may want to hold off until you know the table values. You may want to consider the purchase in 2005 instead of 2004 depending on your tax situation.

This provision is effective for only calendar years 2004 and 2005.

Deduction for Charitable Contributions of Vehicles

Beginning in 2005, if a taxpayer donates a vehicle to a charity that sells the vehicle (which includes autos, trucks, boats and airplanes) without any significant intervening use or improvement, then the taxpayer is limited to a deduction equal to the gross proceeds received by the charity for the vehicle.

There will also be additional substantiation requirements on vehicles for which the claimed value exceeds \$500. No deduction will be allowed unless the charity gives a written acknowledgement to the taxpayer giving his name, taxpayer identification number (social security number), the vehicle identification number, and the gross proceeds received. Such acknowledgement must generally be within 30 days of the sale.

If the donated vehicle will be used by the charity or substantially improved before sale or gift, then the charity must provide a certificate of the intended use or material improvement and the vehicle will not be sold before completion of the use or improvement. In these cases if the deduction amount is too high it is subject to challenge by the IRS.

If you are considering the donation of a vehicle, you may want to donate it in 2004 to avoid the additional restrictions starting in 2005.

Exclusion from FICA and FUTA for Incentive Stock Options and EPP options

There was some uncertainty if certain stock options were subject to social security taxes upon exercise. The new Bill clarifies that income realized in the exercise of incentive stock options (ISO's) and Employee Stock Purchase Plan Stock Options (EPP) is exempt from such taxes. This applies to all stock acquired after the date of enactment.

Treatment of Nonqualified Deferred Compensation Plans

The Bill generally limits the flexibility that nonqualified plans enjoyed in the past. It is likely that most corporate plans will have to be amended for 2005.

The information contained herein is of a general nature and should not be relied upon without first consulting a financial advisor. If you would like further information please email info@vantagefinancial.com.

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