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As the shadow of April 15th looms larger, it is again time to compile the information necessary for your 2004 tax filing. There have been recent changes in the Tax Law which have done much to reduce regular Federal income tax bills for many. These Tax Law changes, however, did not do much to lower the odds individuals will enter the "AMT Zone".

Alternative Minimum Tax. Thirty years ago, the AMT Alternative Minimum Tax was simply a nuisance for less than 20,000 taxpayers. Today, the IRS statistics indicate over 3 million are subject to the AMT. The reason for the increase is probably principally due to inflation. While the "regular" tax brackets and other aspects of the regular tax have been inflation adjusted, the AMT brackets and exemptions have not been. Those at highest risk for entering the AMT Zone are taxpayers with several children, interest deductions from second mortgages, significant capital gains, high state and local taxes and possibly incentive stock options. If you are in the AMT Zone, this means that your AMT tax, which is generally taxed at 26%, will be greater than your regular income tax rate and requires you to pay that differential in addition to your regular income tax. Beyond the AMT, here are some other general "tax theme" thoughts:

Real Estate. Appreciation on real estate continues to skyrocket. Even in areas that have only modest increases in appreciation, real estate gains often exceed gains in the stock market. While you can not sell real estate as easily as stocks or mutual funds, you may be able to sell it without paying capital gains tax or at least postponing it. That, combined with a potential for tax deductions, continues to make real estate a desired investment.

Property owned for more than one year can be sold at a gain which qualifies for capital gains treatment. There are two capital gains rates which apply to the sale of real estate; a portion of the gain attributable to the depreciation deductions taken over the years will be taxed at 25%, while the appreciation will be taxed at 15%. This compares with up to 35% for regular income.

Business and investment real estate also receives tax favored treatment under the like kind exchange rules. These rules, in combination with the ability to "step up" your basis in assets at death to their fair market value without paying any income tax, supports the tax practitioner's mantra of "Defer, Defer, Defer and Die!".

TAXING TIMES ...

The like kind exchange rules basically allow you to sell your investment or business real estate and pour the proceeds back into another investment or business property. Done right, all of the gain on the initial sale of your property will be deferred. It is essential, however, to follow the road map set out in the tax laws.

Some Changes in 2004. There have been some tax law changes in the last year which will impact the preparation of your 2004 tax return. One is the sales tax deduction which allows taxpayers who itemize deductions to choose between claiming state and local tax deductions for either income taxes (which in the past was your only choice), or sales taxes. The IRS has published tables to assist in determining the amount of sales taxes one would be entitled to deduct and you can add sales taxes paid on motor vehicles and boats. This provision will be useful for those who live in states that have no income tax (e.g., Florida), or persons who have substantial tax exempt income which is not subject to state tax (e.g., triple tax-free bonds).

Also in 2004 there was added the requirement that any personal residence acquired in a like kind exchange be owned for at least 5 years before selling in order to take advantage of the general exclusion of gain on the sale of a home (\$250,000.00 exclusion for a single and married filing separate, and \$500,000.00 for a married couple). Normally, taxpayers need only live in a home two years to get the benefit of this exclusion. The 2004 Tax Law also restricts charitable donations of cars, which has been popular in recent past. Until now, you could use the market or "Blue Book" value for determining your charitable deduction. You are now required to use the charity's actual sale price of the car, which will usually be less than the Blue Book value.

Looking Ahead to 2005 Planning. Finally, it is worthwhile considering where you will be next year at this time when preparing your 2005 taxes. Here are some basic numbers for 2005 (numbers are based on a joint return):

- Beginning of 33% bracket - \$182,801
- Beginning of 35% bracket - \$326,451
- Standard Deduction - \$10,000
- Each Personal Exemption - \$3,200
- Beginning of Phase-out for Itemized Deductions - \$145,951
- Beginning of Phase-out for Personal Exemptions - \$218,951
- Maximum 401(k) Salary Deferral - \$14,000
- Additional 401(k) Contribution (catch-up) if Age 50 or older - \$4,000
- Wage Cap on Social Security Tax - \$90,000
- Annual Federal Gift Tax Exclusion - \$11,000
- Federal Estate Tax Exemption - \$1,500,000

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