

# INVESTOR'S BUSINESS DAILY®

## Mutual Funds & Personal Finance

### Don't Forget New Tax Rules For 2005

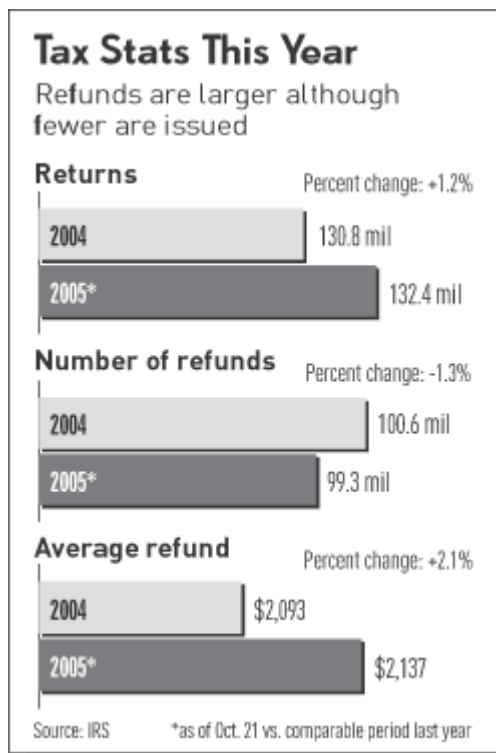
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Like Santa, you're making your list and checking it twice — your last-minute tax-planning list, that is.

But don't overlook any of the new rules for 2005. Some of the rules are especially useful to middle- and higher-income taxpayers.

One of the most important concerns the alternative minimum tax.



A key feature of AMT is that you can't use most of the deductions available for your regular tax calculation.

Instead, you can exclude a specified amount of income when figuring out your taxable income under the AMT.

That exemption amount used to be lower than it is now. The higher exemption was put in place for 2003, then for 2004 and once again for 2005.

The higher exemption is due to disappear on Jan. 1 for 2006 calculations. But Congress is debating whether to extend or even increase the exemption.

If Congress does not act, once the New Year begins the exemption will fall back to old, lower levels.

For now, you can still use the higher income shelters.

For single taxpayers the exemption is \$40,250. For marrieds filing jointly, it is \$58,000.

Unfortunately, you must meet income eligibility rules to use the exemption.

The phase-out range is higher than it used to be years ago too.

For single filers, you lose your eligibility totally once your AMT taxable income reaches \$273,500. The old cap was \$255,500.

Joint filers lose the exemption when their AMTI hits \$382,000. The old cap was \$346,000.

"It's burdensome enough having to make both calculations — your AMT liability and your regular tax liability," said Bill Smith, head of the national tax office for CBIZ Accounting, Taxes & Advisory Services in Bethesda, Md.

"Don't make extra work for yourself by forgetting to use the current exemption amounts. And don't overlook the current exemption phase-outs," Smith said.

## **Cash Contributions**

Another key rule change for 2005 impacts charitable cash contributions. Generally, charitable deductions are limited to 50% of your adjusted gross income.

But the cap for deduction of cash contributions given between Aug. 28 and Dec. 31 is 100% of AGI.

The temporary easing of the rule was part of the Hurricane Katrina relief bill.

But eligible contributions don't have to be made to a Katrina-related charity.

"Congress wanted to help other charities whose donations may have gone down because people were giving money to Katrina relief," said Bob Scharin, editor of Practical Tax Strategies, a publication for tax professionals.

The relaxed rule can be especially helpful to taxpayers with a lot of tax-exempt income.

Say your annual income is \$1 million. Suppose \$900,000 of that is from interest paid by municipal bonds. Let's say the other \$100,000 is taxable income.

If you give \$100,000 to eligible charities, basically you'd wipe out your taxable income for 2005.

Under the old rule, you'd be able to deduct only \$50,000. Still, you'd be able to carry forward the excess for up to five years.

"The rule means people with deep pockets, the right income and charitable goals should consider accelerating large contributions they may have planned for next year into this year," Smith said. "That way they can get the full benefit of this deduction rule."

Other rule changes let you deduct more for mileage if you use your car to help a charity. The general rule is you can deduct 14 cents a mile.

That's still the rule for any non-Katrina-related driving you did in 2005.

For the sake of Katrina relief and due to soaring fuel costs, Congress raised the deduction amounts for Katrina-related charitable driving. For any mileage you racked up between Aug. 25 and Aug. 31, you can deduct 29 cents per mile.

And for driving from Sept. 1 through Dec. 31, you can deduct 34 cents per mile.

Similar help was extended to taxpayers for non-Katrina medical mileage. The old allowance was 14 cents a mile. That was boosted to 15 cents per mile for driving through Aug. 31.

For driving from Sept. 1 through Dec. 31, you can deduct 22 cents a mile.

## **More Modifications**

Other rule changes for 2005:

- Being able to choose between deducting state income or sales tax.
- Tighter rules for deducting the value of a car donated to charity.
- Letting employers extend the amount of time workers have to spend health care money set aside in flexible spending accounts.
- A special deduction for people who provided certain Katrina victims with housing.

- A higher deduction for casualty losses stemming from Katrina.

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