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## TAX PLANNING FOR 2004

Some new items of interest for 2004 are many retirement plan limits will increase, first year bonus depreciation deduction on qualified property will continue, and over the counter drugs can be paid with pre-tax dollars.

Many Retirement Plan limits will increase in 2004. The annual limit for defined benefit plans will increase from \$160,000 to \$165,000. Defined contribution plans limit on annual additions increases from \$40,000 to \$41,000. The annual compensation limit for various qualified plans increases from \$200,000 to \$205,000.

The first year bonus depreciation deduction on qualified property will continue to be in effect on property placed in service after May 5, 2003 and before January 1, 2005. Property is only eligible for bonus depreciation if: (1) it is property of a specified type; (2) its original use commences with the taxpayer after May 5, 2003; (3) it is acquired within the statutory time periods; and (4) it is placed in service by a statutory date. Taxpayers may elect not to claim bonus depreciation or, for a class of property eligible for 50% bonus depreciation, elect to claim 30% bonus depreciation instead.

In September 2003, the Treasury Department and the IRS announced that over-the-counter drugs can be paid with pre-tax dollars through health care Flexible Spending Accounts. Reimbursements by health care Flexible Spending Arrangements (FSAs) and other employer health care plans for the cost of over-the-counter drugs available without prescription are not subject to income tax if properly substantiated by the employee (i.e. receipts).

Other income tax changes for 2004 are:

- The 401(k) plan limits increase to \$13,000
- Standard mileage rates:
  - Business use of your vehicle is 37.5 cents per mile
  - Use of your vehicle to get medical care is 14 cents per mile
  - Use of your vehicle for charitable purposes is 14 cents per mile
- Estate tax exemption increase to \$1.5 million, top rate changed to 48%
- Social Security wage base is \$87,900 up from \$87,000 for 2003
- Child Tax Credit decrease to \$600
- AMT – Maximum exemption is \$58,000 for MFJ
- Personal exemption \$3,100 – Phase out starts at \$214,050 (MFJ)

Some Items of interest that have not changed are:

- The IRA limit stays the same at \$3,000 (\$3,500 for taxpayers over 50)
- Estimated Tax – there is a penalty if you do not pay the safe harbor amount of 90% of tax for the current tax year or 110% of tax for the prior tax year (over \$150,000 AGI)
- Sale of Residence Exclusion - \$250,000 if it was your residence for 2 of the last 5 years.
- Annual Gift Exclusion - \$11,000
- Self-employed health insurance still 100% deductible.
- Nanny tax threshold - \$1,400
- Lifetime Learning Credit - \$2,000.

Another item to consider in your future tax planning is that many of the tax breaks we have enjoyed the last couple of years are not permanent. For example, unless Congress changes the rules again, the tax breaks for married filing jointly are slated to be watered down after 2004, the AMT exemption amounts will drop after 2004, and the maximum child tax credit will drop after 2004.

Please call to schedule an appointment if you would like to review your tax planning.