

TAKE ADVANTAGE OF THE AMERICAN JOBS ACT

OCTOBER 2005

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004 (AJCA). The AJCA has allowed for some beneficial changes for both business and personal filers. Unfortunately many of our new clients are completely unaware and unprepared for the new deductions. Don't worry it isn't too late yet!

Manufacturing Deduction

THE AJCA enacted an income deduction based on a percentage of the lesser of "qualified production activities income" (QPAI, defined below) or taxable income to be phased in over five years as follows:

Year	Percent of QPAI
2005–2006	3%
2007–2009	6%
After 2009	9%

The deduction is effective for taxable years beginning after December 31, 2004. The deduction is limited to 50% of the W-2 wages of the employer for the taxable year. The deduction is available to all business entities: C corporations, S corporations, partnerships, sole proprietorships, cooperatives, estates, and trusts. All members of an expanded affiliated group will be treated as a single taxpayer for the computation of this deduction.

Qualified Production Activities Income

QPAI is an amount equal to the excess, if any, of the taxpayer's domestic production gross receipts for the taxable year over the sum of:

- the cost of goods sold that are allocable to such receipts;
- other deductions, expenses, and losses that are directly allocable to such receipts;
- A ratable portion of other deductions, expenses, and losses that is not directly allocable to such receipts.

Domestic production gross receipts are defined as the gross receipts of the taxpayer that are derived from the following:

- Any sale, exchange, or other disposition, or any lease, rental, or license, of qualifying production property that was manufactured, produced, grown, or extracted by the taxpayer in whole or in significant part within the United States;
- Any sale or other disposition, or any lease, rental, or license, of a qualified film produced by the taxpayer;
- Any sale, exchange, or other disposition of electricity, natural gas, or potable water produced by the taxpayer in the United States;
- Construction activities performed in the United States; and
- Engineering or architectural services performed in the United States for construction projects located in the United States.

Depreciation

The AJCA extended the \$100,000 maximum deduction allowed. The AJCA also extended the \$400,000 phase-out provisions of IRC section 179 through 2007 (also formerly scheduled to lapse after 2005). The section 179 deduction for sport utility vehicles rated at not more than 14,000 pounds gross vehicle weight is limited to \$25,000, effective for vehicles placed in service after October 22, 2004.

The AJCA provides that qualified leasehold improvements, as defined in IRC section 168(k), placed in service before January 1, 2006, are entitled to be depreciated under a 15-year recovery period, and continue to be eligible for the “bonus” first-year depreciation.

The AJCA provides that qualified restaurant property placed in service before January 1, 2006, may be depreciated under a 15-year recovery period. The allowance of a 15-year recovery period also permits qualified restaurant property to utilize “bonus” first-year depreciation.

Other Provisions

Deduction of state and local sales taxes. For taxable years 2004 and 2005, taxpayers that itemize deductions may elect to deduct state and local general sales taxes instead of state and local income taxes. Taxpayers electing to deduct state and local general sales taxes can either save all of their receipts and deduct the exact amount paid, or use a table (based on adjusted gross income, provided by the IRS) plus the actual tax on certain “big-ticket” items such as a motor vehicle, but only up to the amount of tax paid at the general sales tax rate; an aircraft, boat, home (including mobile or prefabricated), or home building materials, if the tax rate is the same as the general sales tax rate.

If this sounds like a foreign language to you, we suggest contacting us before it is too late.

Don't give Uncle Sam more than he is due.