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CWR Monthly

September-October 2005

Due to the natural disasters of Hurricane Katrina and Hurricane Rita, which our country has faced in these recent days, I have withheld putting out our monthly newsletter for September until now.

In addition, I have decided to combine the September and October newsletters into this one issue, due to my upcoming second surgery in early October. Recovery from this surgery is supposed to take about 6 weeks; therefore I should be back up and running in time to get out the November newsletter to you. The November and December newsletter will focus primarily on preparation tips for the upcoming tax season, including last minute things you can do to reduce your taxes for 2005 and preparations you need to make to get ready for tax season.

Because of almost weekly changes to provisions to assist in the disaster relief effort of Hurricane Katrina and Hurricane Rita, the IRS and Congress have been busily constructing tax relief efforts to assist the folks whose lives have been affected by the devastation of these two hurricanes. And while most of the provisions are directed primarily toward folks or businesses in the disaster areas, several provisions have been enacted to assist all taxpayers, including those whose principle tax homes are not in the disaster areas, but, who have been affected by these two natural disasters.

This newsletter will primarily address many of the provisions recently enacted by Congress to assist all taxpayers in their recovery of these two disasters. While this newsletter can in no way address all the provisions enacted it will attempt to highlight the major ones. To keep up with the multiple provisional changes you should consider going to the IRS website at www.irs.gov.

Charlie

Major Tax Relief Provisions for Taxpayers affected by Hurricane Katrina and Hurricane Rita.

I. All Taxpayers

a. Standard Business Mileage Rate Allowance Increased

The standard business mileage rate allowance has been increased from 40.5¢ per mile to 48.5¢ per mile from the period of September 1, 2005 to December 31, 2005.

b. Standard Mileage Rate for Charitable Use of your personal vehicle has increased

The standard mileage rate allowance for charitable use of your personal vehicle has increased from 14¢ per mile to a rate equal to 70% of the standard business mileage rate allowance (currently at 48.5¢ per mile) from the period of September 1, 2005 to December 31, 2006. (This provision is not set by statute, as are the standard business mileage, medical and moving mileage rate, thus the period of the extension period was enacted by Congress, on September 23rd under H.R. 3768 Hurricane Katrina Tax Relief Act of 2005).

c. Standard Mileage Rate for Medical and Moving Expense increased

The standard mileage rate allowance for deductible medical use of your personal and the standard mileage rate allowance for moving expenses have increased from 15¢ per mile to 22¢ per mile from September 1, 2005 to December 31, 2005.

d. Charitable deduction (50% of AGI cap for individuals and 10% taxable income cap for corporations) limits removed for donations made before January 2006).

Under current law charitable deductions are allowed up to 50% of AGI for individuals and up to 10% of taxable income for corporations. H.R. 3768 removes the 50% of AGI cap for individuals for any charitable contributions made up until January 2006. It also removes the 10% of taxable income cap for corporations for cash donations earmarked for Hurricane Katrina relief prior to January 2006.

e. \$ 500 deduction to those providing housing assistance to individuals dislocated by Hurricane Katrina.

A \$ 500 deduction is provided to individuals who provide rent free housing for a minimum of 60 days to individuals dislocated by Hurricane Katrina. A \$ 2000 maximum deduction can be claimed in 2005 or 2006 (but not both years with respect to the same person). The tax ID number of the dislocated person is required to claim the deduction.

f. Extensions to file returns and pay taxes granted to relief workers, as well as victims of the disaster areas.

For those who provide eligible disaster relief efforts to the affected disaster areas are granted an extension to file any and all tax returns and pay any and all taxes due until February 28, 2006. An eligible relief worker is defined as those individuals assisting in the disaster areas. When filing for extensions, filing tax returns, paying taxes or responding to inquiries by the IRS the relief worker should mark the top of appropriate forms with **HURRICANE KATRINA (in red ink)**. The relief worker can also alert the IRS by calling their hotline at 1-866-562-5227.

II. Hurricane Katrina Victims

a. Provisions noted under all taxpayers

All provisions noted under all taxpayers above apply equally as well to taxpayers in areas affected by Hurricane Katrina and Hurricane Rita. In addition, the following provisions apply specifically to those individuals directly affected by these two natural disasters.

b. Full deductibility of personal casualty losses.

Under current law, personal casualty losses limited to the excess of 10% of AGI and a \$ 100 floor to those who itemize their deductions. H. R. 3768 removes the caps on personal casualty losses and allows the individual to deduct 100% of the personal casualty loss.

c. 10% penalty for early distribution of a qualified retirement funds waived.

Victims with property in the disaster areas may withdraw up to \$ 100,000 from their IRA's or pensions without incurring the normal 10% penalty for early withdrawal. In addition, the taxes incurred on withdrawals can be paid over a three year period. The withdrawals will be tax free if the amount withdrawn is repaid within the three year period. Distributions from an eligible retirement plan are eligible for this provision if they are made between August 25, 2005 and January 1, 2007.

d. Discharge of indebtedness not taxed.

Under the provisions of H.R. 3768 individuals affected by Hurricane Katrina are not taxed on personal debt relief related to the hurricane, such as cancellation of home mortgage, provided before 2007.

e. Reinvestment period increased to 5 years if reinvestment property is located in the disaster area.

Under current law, proceeds from insurance companies are not taxed provided a business reinvests the proceeds in replacement property within two years, (four years for principal residence) in a presidentially declared disaster area. H.R. 3768 extends this period to five years if the replacement property is located in the disaster area.

f. Work Opportunity Tax Credit (WOTC) extended to employers of Hurricane Katrina victims.

The WOTC is generally available to employers who hire workers from target groups with barriers to gainful employment. This credit has been extended to employers who hire workers who resided in the disaster area before the hurricane. Employers located in the disaster area may claim this credit for workers affected by the hurricane and hired over the next two years. Employers located outside the disaster area can claim the credit for those qualified workers hired by the end of 2005.

g. Employee retention credit for small employers located in the disaster area

Small employers located in the disaster area are eligible for a tax credit through the end of 2005 if they retain eligible employees on their payroll. The tax credit equals 40% of the first \$ 6,000 of wages paid to employees from the period of August 28, 2005 to January 1, 2006. The credit is available to small employers (200 or fewer employees) whose business is inoperable due to Hurricane Katrina damage. The credit is not affected if the employee reports to work at another location while the business is inoperable.

Summary

The devastating effects of Hurricanes Katrina and Hurricane Rita are unprecedented in our nation's history. We will all feel the effects of these natural disasters for some time. For many, their lives will never be the same. For those of us not immediately affected by the tragedy of these disasters, it is an opportunity to demonstrate our caring for those less fortunate. And while this is not a plea for additional assistance, it is a reminder that disaster can strike anyone at any time and "there but by the grace of God, go I".

I would therefore encourage you to examine your resources and talents, and lend whatever helping hand that you can you to your neighbors in need at this time.

Til next time,

Charles W. Register, EA
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