

WHAT'S NEW ON FORM 1040 FOR 2004

The IRS has electronically posted to its website final tax forms and instructions for the 2004 tax year, including Form 1040, along with some of its schedules. The new forms, schedules and instructions reflect retroactive law changes made by the recently enacted Working Families Tax Relief Act of 2004 (WFTRA) and American Jobs Creation Act of 2004 (Jobs Act) which apply for the 2004 tax year. The following discussion reviews the key changes made on the 2004 Form 1040 and related schedules. Changes generally are listed in the order in which they appear on the return, schedule or form.

■ **Form 1040 - U.S. Individual Income Tax Return**

● **Certain business expenses of reservists, performing artists and fee-basis government officials (new line 24)**

The following expenses are deductible when arriving at adjusted gross income (AGI) and are reported on new line 24:

1. certain business expenses of National Guard and reserve members who traveled more than 100 miles from home to perform services as a National Guard or reserve member;
2. performing-arts-related expenses for a qualified performing artist; and
3. business expenses of fee-basis state or local government officials.

● **IRA deduction (Line 25)**

The AGI phase out ranges for making deductible contributions to regular IRAs by taxpayers who are active participants in an employer-sponsored retirement plan are higher for 2004. The phase out range is \$65,000 to \$75,000 for joint return filers and \$45,000 to \$55,000 for single taxpayers.

● **Tuition and fees deduction expanded (Line 27)**

Taxpayers may be able to deduct up to \$4,000 on Line 27 if their AGI is not more than \$65,000 (\$130,000 if married instruction filing jointly) or deduct up to \$2,000 if their AGI is higher than that limit but not more than \$80,000 (\$160,000 if married filing jointly).

● **Unlawful discrimination claims (line 35)**

Under a Jobs Act change, a taxpayer may be able to take a deduction on line 35 of Form 1040 for attorney fees and court costs paid after October 22, 2004, for actions settled or decided after that date involving a claim of unlawful discrimination, a claim against the U.S. Government or a claim

made under section 1862(b)(3)(A) of the Social Security Act, but only up to the amount included in gross income in 2004 from such claim.

- **Health savings account (HSA) deduction (line 38)**

Eligible taxpayers can take a deduction, if contributions (other than employer contributions) were made to their HSAs for 2004, on Line 38 and by attaching Form 8889.

- **Standard deduction (Line 39)**

For 2004, the standard deduction is \$4,850 for single filers and married persons filing separately, \$9,700 for joint filers and qualifying widow(er)s and \$7,150 for heads of household.

- **Personal exemptions (Line 41)**

The exemption amount for 2004 is \$3,100. Exemptions phase out if AGI exceeds: \$142,700 for single filers, \$107,025 for married persons filing separately, \$214,050 for joint filers and qualifying widow(er)s and \$178,350 for heads of household.

- **Tax computation worksheet (Line 43)**

For 2004, taxpayers with taxable income of \$100,000 or more are directed to use the Tax Computation Worksheet carried in the instructions to Form 1040, instead of the Tax Rate Schedules, to compute their tax on Line 43.

Observation: The IRS developed the Tax Computation Worksheet in order to simplify the calculations for higher income taxpayers. The Worksheet and the Tax Rate Schedules produce the same tax results.

- **Education credits (Line 49)**

Availability of the Hope Credit and Lifetime Learning Credit phases out ratably for taxpayers with modified AGI of \$42,000 to \$52,000 (\$85,000 to \$105,000 for joint return filers).

- **Adoption credit (Line 52)**

The maximum adoption credit is higher (\$10,390) and phases out when modified AGI exceeds \$155,860.

- **Self-employment tax (Line 57)**

The maximum amount of self-employment income subject to Social Security tax is \$87,900. There is no ceiling on the Medicare tax wage base.

- **Earned income credit (EIC) (Line 65)**

For 2004, taxpayers may be able to take the EIC if:

1. a child lived with them and they earned less than \$34,458 (\$35,458 if married filing jointly), or
2. a child didn't live with them and they earned less than \$11,490 (\$12,490 if married filing jointly).

Under the WFTRA, for tax years ending after October 22, 2004, and before January 1, 2006, members of the U.S. Armed Forces who served in a combat zone may elect to include their non-taxable combat pay as earned income when calculating the EIC. In addition, the maximum earned income credit is higher and the AGI-based phase out figures are revised.

- **Excess social security and RRTA tax withheld (Line 66)**

The maximum Social Security (OASDI) tax for 2004 is \$5,449.80 (computed on the first \$87,900 of wages) for purposes of the credit for excess tax withheld if a taxpayer has two or more employers during the year.

- **Additional (refundability) child tax credit expanded (line 67)**

Under the WFTRA, for tax years beginning after 2003, the child tax credit refundability percentage is increased to 15% of earned income which exceeds \$10,750 (other rules may apply for taxpayers with three or more qualifying children). Also under the WFTRA, for tax years beginning after 2003, nontaxable combat pay of a member of the U.S. Armed Forces may be counted as earned income for purposes of this refundable child credit.

- **Schedule A - Itemized Deductions**

- **Sales tax deduction (Schedule A, line 5)**

For tax years beginning in 2004 and 2005, under the Jobs Act, taxpayers can elect to deduct state and local general sales taxes instead of state and local income taxes as an itemized deduction on Schedule A, Form 1040. Generally, taxpayers can use either their actual expenses or the Optional State Sales Tax Tables to figure their state and local general sales tax deduction. The 2004 instructions to Schedule A say the State Sales Tax Tables are in IRS Publication 600. If the State Sales Tax Tables are used, taxpayers can add to the table amount any state and local general sales tax they paid on motor vehicles, boats and any other item not specified in Publication 600, which has not been yet released.

Observation: IRS Publication 600 should be made available before the end of the year.

- **Unreimbursed employee business expenses (Schedule A, line 20)**

For 2004, the standard mileage rate for business travel is 37.5¢ a mile.

- **Total itemized deductions (Schedule A, line 20)**

Adjusted gross income over \$142,700 (\$71,350 if married filing separately) triggers a reduction in itemized deductions.

■ **Schedule J - Farm Income Averaging**

● **Income averaging for farmers and fishermen**

Under the Jobs Act, for tax years beginning after 2003, fishermen can join farmers and elect to use income averaging on Schedule J to reduce their tax. Also, the full benefit of income averaging is extended to farmers and fishermen who owe the alternative minimum tax.

■ **New Filing Locations**

Taxpayers may be mailing their 2004 returns to different service centers than in past years because the IRS has changed the filing location for several areas. Envelopes included in tax packets mailed from IRS should reflect any change to the filing location, which also can be determined from the instructions to Form 1040.

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