Barker Business Services

2005 Tax Season News

Winter 2004-2005

Member of:

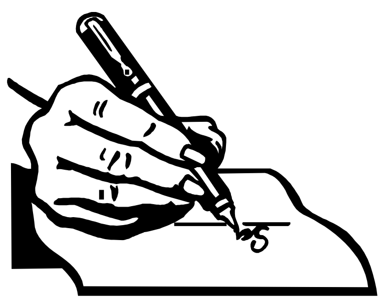
- National Association of Tax Professionals
- National Society of Tax Professionals
- National Association of Enrolled Agents
- National Society of Accountants
- American Institute of Professional Bookkeepers
- Lincoln Lakes Region Development Corporation
- Lincoln Lakes Region Chamber of Commerce

Inside this issue:

2004 Tax Law Changes

With the stroke of his pen, President George Bush signed into law two significant and separate tax bills this year: *The Working Families Tax Relief Act* (October 4) and *The American Jobs Creation Act of 2004* (October 22). Educators' Deduction: This had expired at the end of 2003, but was restored for two more years.

Child Tax Credit: Taxpayers with a credit amount more than their tax could get a refund of the difference, up to 10% of the amount by which their 2004 taxable earned income exceeds $10,750. This percentage was raised to 15% for 2004, meaning a larger refund for many of these taxpayers.



Sales Tax Deduction: Taxpayers who itemize deductions will have a choice of claiming a state and local tax deduction for either sales or income taxes on their 2004 and 2005 returns. The IRS will provide optional tables for use in determining the deduction amount, relieving taxpayers of the need to save receipts throughout the year. Sales taxes paid on motor vehicles and boats may be added to the table amount, but only up to the amount paid at the general sales tax rate. Taxpayers will check a box on Schedule A, Itemized Deductions, to indicate whether their deduction is for sales or income taxes.

Vehicle Donations

The American Jobs Creation Act of 2004 significantly changes the rules regarding the donation of vehicles to a charity. Under the new rules (effective January 1, 2005) the donation of a car to a charity can result in a much lower deduction since the amount of the deduction (in most cases) will be "limited" to the amount that the donated vehicle sells for at auction. There are exceptions where the charity uses the vehicle or substantially improves the vehicle.

Since the new rules are effective starting with the 2005 tax year – contributions of vehicles up to December 31, 2004 are governed by the old more favorable tax rules. The old rules permitted a deduction of the vehicle's fair market (blue book) value. This is one area of the tax laws that has been subject to abuse on issues of valuation – therefore the decision to tighten the rules starting January 1, 2005.

The SUV Tax Loophole

You probably are aware from newspaper articles and other publications that the 2003 Tax Act created what was called the SUV loophole. The so-called loophole allowed certain business taxpayers to immediately expense (up to $100,000) the cost of a business vehicle weighing more than 6,000 pounds. Published reports during the past year and a half have suggested that doctors, lawyers and other business professionals were out buying the large SUVs and getting the maximum tax write-off in 2003 and 2004.

The American Jobs Creation Act of 2004 closes the loophole by requiring a vehicle weight of more than 14,000 pounds to qualify for the maximum expensing opportunity. The 2004 Tax Act reduces to $25,000 the expensing available to qualifying vehicles weighing over 6,000 pounds (traditional SUVs). The effective date for the change is for purchases made after October 22, 2004 – the day President Bush signed the American Jobs Creation Act of 2004 into law.

The 2003 Tax Act added a special 50% bonus depreciation (but it expires on December 31, 2004) which when combined with the new 2004 $25,000 expensing limits might make the decision to buy this year more attractive than a delayed purchase in 2005.

Tax Brackets

One of the most significant features of the recent tax law changes was the lowering of income tax brackets. The 2001 *Economic Growth and Tax Relief Reconciliation Act* provided that individual marginal tax rates gradually decline over several years. The 2003 Tax Act accelerated the reductions.

The new tax rates/brackets are:

Now	Was
35%	38.6%
33%	35%
28%	30%
25%	27%
15%	15% (no change)
10%	10% (no change)

Note: New rates are retroactive to January 1, 2003.

> *"The Working Families Tax Relief Act retains the higher amounts through 2010."*

The 10% rate for taxable income up to $14,000 (married taxpayers) and $7,000 (single taxpayers) had been set to decline to $12,000 and $6,000 respectively. The Working Families Tax Relief Act retains the higher amounts (and they are adjusted for inflation) through 2010.

Marriage Penalty Relief Extended

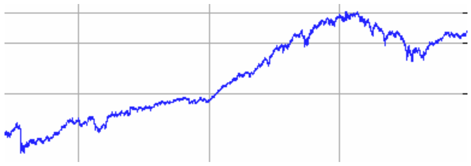
The 2003 Tax Act changed the so-called "marriage penalty" rules of the tax code. The marriage penalty is a feature of the tax code that, in some cases, leaves two working spouses worse off taxwise than they would be as singles. The marriage penalty comes about because some features of the tax laws don't always double for married couples.

The 2003 Tax Act addressed the "marriage penalty" by 1) making the standard deduction for married couples filing jointly twice the amount available to single taxpayers and 2) making the amount of taxable income in the 15% tax bracket for married couples filing jointly double the amount available to single taxpayers.

The Working Families Tax Relief Act extends through 2010 the two tax breaks that otherwise would have expired at the end of 2004.

Invest for the Long Term

The market turbulence of the past few years may have made you uneasy about investing, but did you know that your assets can grow even during periods of volatility? This means that if you're still on the sidelines, you could be missing opportunities.



If you consider the past 10 years — one of the most volatile periods in recent history — you'll see that the stock market doesn't look nearly so frightening. In fact, the unmanaged Standard & Poor's 500 Composite Index gained 185.5%, or 11.06% average annual total return for the 10 years ended December 31, 2003, despite the recent three-year market decline. Your goals are long-term — for example, paying for college or planning for retirement — so your investments should have a long-term focus, as well.

For more than 70 years, American Funds has pursued a consistent investment philosophy based on thorough research and attention to risk — and this may give you the confidence that you need to start investing again.

Bruce Barker Jr. can help you with retirement accounts, college savings plans, employer sponsored accounts, and mutual fund investing with American, Oppenheimer and many other mutual fund families.

Past results are not predictive of future results. Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so you may lose money. Investors should consider the investment objectives, risks, charges and expenses of the mutual funds. This and other important information is contained in the fund prospectuses, which can be obtained from Bruce Barker Jr. and should be read carefully before investing.

Investors Win

Investors came out a very big winner under the 2003 Tax Act. The top capital gains rate was lowered from 20% to 15%. The lowest capital gains rate decreased to 5% from 10%. Note that the lower rates were effective for transactions after May 5, 2003. The lower rates are scheduled to expire after 2008.

There was no increase in the $3,000 annual limitation on deducting excess capital losses.

For 2004 and 2005, the rates are 15% or 5% respectively.

Taxpayers in the lowest two brackets (10% and 15%) will get a one-year bonus in 2008 when they will pay no federal taxes on capital gains. The tax is reinstated after 2008.

Historically, dividend income was taxed as ordinary income. Under the 2003 tax legislation, the top dividend rate was lowered to 15%. Taxpayers in the lowest two tax brackets pay 5%. This is a very significant change when you consider the fact that the top rate for dividends was 38.6%. The new lower rates are effective for "qualified" dividends received after December 31, 2002. That's right – all "qualifying dividends" received in 2003 were taxed at the lower rates of 15% and 5% respectively.

For 2004 and 2005, the tax rates are 15% and 5% respectively.

Taxpayers in the lowest two brackets will get a one-year bonus in 2008 when they will pay no tax on dividend income. The tax is reinstated after 2008.

Investors are advised to take a fresh look at their investments. If you are thinking about getting rid of some stocks you bought years ago that are now selling for less than you paid, the end of the year could be as good a time as ever to "pull the trigger." Capital losses can help to cut your tax bill. Investors can use losses to soak up gains. If losses exceed gain, investors can deduct as much as $3,000 a year of those losses against other income. Excess losses can be carried forward to future years.

If you are really in love with the stock you are selling at a loss, you can buy it back after 31 days to avoid the wash-sale rules. If you are in love with a particular industry you can buy another stock within the industry.

BARKER BUSINESS SERVICES

29 Lee Road
Lincoln, ME 04457

Phone: 207-794-8563
Fax: 207-794-2814

Email: for tax, payroll, accounting and other business services
Bruce A. Barker: bbarker@barkerbusiness.com
Bruce Barker Jr: barkerjr@barkerbusiness.com

Email: for mutual funds, retirement plans and other financial services
Bruce Barker Jr: barkerb@cjmplanner.com
Independent Registered Representative

Barker Business Services

Open Year-Round

We're on the web!

www.barkerbusiness.com

Barker Business Services provides year-round personal & business income tax preparation, payroll processing, payroll & sales tax return preparation, bookkeeping, accounting, & financial statements.

Barker Business Services is owned and managed by Bruce A. Barker. Bruce graduated with a BS degree majoring in accounting from the University of Maine in 1962 and the University of Wisconsin Graduate School of Banking in 1976. Bruce was employed by the State of Maine for 14 years as a bank examiner and has also been the office manager for two General Motors dealerships prior to starting his own business in 1989. Initially the Business was known as Triple Check (a franchise) Tax and Business Services, but went fully independent as Barker Business Services in 2001 when Triple Check was sold to Fiducial. In 1998 Bruce passed the E.A. exam and is enrolled to practice before the IRS. With over 25 years accounting, banking, and tax preparation experience Bruce has been serving clients in the Greater Lincoln Maine area since 1976.

His son, Bruce Barker Jr., joined him in the fall of 2001 following a 20 year Air Force career. While assigned to K.I. Sawyer A.F.B., Michigan and Dyess A.F.B., Texas Bruce Jr. prepared income taxes for military members and retirees as an IRS VITA volunteer. He graduated with an associate's degree from the Community College of the Air Force in 2001. In December of 2002 Bruce Jr. passed the NASD investment products series 6 exam and is now able to sell mutual funds through C.J.M. Planning Corp as an Independent Registered Representative.

Whether its tax time or tax planning, payroll, accounting or financial services call Bruce or Bruce Jr. today. We can help you.

WIN

All *completed 2004 Income Tax return clients will be entered in our drawing for $100. Winner to be drawn at 5 pm on April 15, 2005.

Last Year's winner was Eric & Jessie Curtis of Lincoln.

NEW THIS SEASON! Take $10 off your next fee for each **new tax client you refer.

* To be eligible for the $100 drawing the tax return must be completed by Barker Business Services and picked up by 4:30 pm April 15, 2005.

** New tax client must have their tax return completed by Barker Business Services. The return may be an extended return.

Securities offered through C.J.M. Planning Corp., 223 Wanaque Avenue, Pompton Lakes, NJ 07442

Member NASD, SIPC, and MSRB 1-800-CJM-FUND