

2005 - A Taxing Year

By Reg P. Wydeven
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2005 was a tumultuous year. We started the year reeling from a devastating tsunami off the coast of Indonesia that caused billions of dollars of damage and resulted in hundreds of thousands of deaths. We're ending the year reeling from Hurricane Katrina, another natural disaster that caused billions of dollars of damage and resulted in thousands of deaths.

As a result of the hurricane, Congress passed the Katrina Emergency Relief Act of 2005. The law was passed to provide incentives for Americans to help hurricane victims in several different ways.

First of all, taxpayers can take a tax deduction of \$500 per person, up to a maximum of \$2,000, for taking displaced Katrina evacuees into their homes. This one-time deduction can be taken in either 2005 or 2006 if the taxpayer provides rent-free housing for at least 60 days. Taxpayers can also deduct 34¢ per mile for vehicle mileage related to relief work for Hurricane Katrina.

Individual and corporate taxpayers can also take unlimited tax deductions for contributions made to Hurricane Katrina relief funds between August 28 and December 31, 2005. Individuals can also take unlimited deductions for contributions made to any other charity. Typically, deductions for charitable contributions are limited to 50% of an individual's adjusted gross income, and 10% of a corporation's taxable income.

Businesses can earn a 40% Work Opportunity Tax Credit for up to \$6,000 for hiring workers displaced by Hurricane Katrina. As long as the employee is hired by December 31, the business qualifies for the credit no matter where the employee works. Jobs provided within the disaster area qualify for the credit until August 28, 2007.

Another law passed this year that contains over \$14 billion of incentives is the Energy Tax Incentives Act of 2005. Individual taxpayers were allowed a tax deduction of up to \$2,000 for purchasing fuel-efficient vehicles, like hybrids or lean diesel vehicles. This deduction expires on December 31, 2005, however, it is replaced in 2006 with a tax credit ranging from \$250 to \$3,400 for the purchase or lease of environmentally friendly vehicles.

Starting in 2006, individuals can also receive tax credits for making energy-saving improvements to their homes. Energy conservation improvements, such as insulation or windows, qualify for lifetime credits of up to \$500. Energy efficient equipment, like solar hot water heaters or other solar-powered devices, is eligible for a maximum annual credit of \$2,000.

Contractors who construct homes complying with energy efficiency standards can qualify for up to \$2,000 of tax credit for each home built. A deduction of \$1.80 per square foot can be taken for energy-saving improvements made to commercial buildings. Credits are also available for manufacturers of energy efficient appliances like dishwashers, refrigerators, and clothes washers and dryers.

The American Jobs Creation Act of 2004 also provides for a tax deduction that went into effect for 2005 for almost every U.S. business that produces something. Commonly called the "manufacturing deduction", the Act provides a deduction of up to 3% for countless domestic businesses.

Contact your accountant to determine if you qualify for this deduction, and if you do, remember to drink an entire pot of coffee before sitting down and having the accountant explain how the deduction is calculated.

May God bless you and your families in 2006 and here's looking to a boring, disaster-free year.

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