

Summary of the Working Families Tax Relief Act of 2004

Provided by:



The Working Families Tax Relief Act of 2004 (WFTRA) was passed by Congress on September 23, 2004 and signed into law by President Bush on October 4, 2004. This tax package is primarily designed to extend two sets of expiring tax provisions for individual and business taxpayers.

If these extensions had not passed, withholding and estimated tax payments for many individuals would have been higher in 2005 and several important tax credits would no longer have been available to businesses. The provisions of WFTRA amount to an estimated \$132 billion tax cut for individuals and a \$14 billion tax cut for business.

As you review the attached summary, pay particular attention to any provisions you feel may impact on your situation. If you would like additional information on the 2004 Tax Act or to discuss the impact of specific provisions on your planning, please call my office.

Working Families Tax Relief Act of 2004

The Working Families Tax Relief Act of 2004 (WFTRA), signed into law by President Bush on October 4, 2004, is primarily designed to extend certain tax relief provisions that were accelerated by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), and which were scheduled to expire at the end of the 2004 tax year. The tax relief provisions extended by WFTRA are only temporary in nature and will expire in future years unless Congress takes action to extend them or make them permanent.

Individual Tax Relief:

Tax relief for individuals comes primarily in the form of fully phasing-in certain tax benefits called for in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) that were accelerated by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). It should be remembered that most EGTRRA tax benefits automatically sunset at the end of 2010.

10% Tax Bracket Expansion

The threshold for the 10% bracket continues at \$14,000 for married couples and \$7,000 for single taxpayers through 2010 and indexes them for inflation. Heads of household retain \$10,000 as their end point for the 10% tax bracket.

JGTRRA had accelerated the \$14,000 and \$7,000 thresholds for 2003 and 2004 only. Without the action taken by WFTRA, these 10% tax bracket thresholds would have reverted to \$12,000 and \$6,000 in 2005 - 2007, and then increased to \$14,000 and \$7,000 in 2008 - 2010. Due to EGTRRA sunset provisions, the 10% tax bracket disappears in 2011.

10% Tax Bracket Thresholds					
Threshold Limit:	2002	2003	2004*	2005 - 2010**	2011 and later
Joint Filers	\$12,000	\$14,000	\$14,300	\$14,000	No 10% bracket
Single Filers	\$6,000	\$7,000	\$7,150	\$7,000	No 10% bracket

* As indexed for inflation in 2004
** Will be indexed for inflation

Child Tax Credit

The amount of the child tax credit continues at \$1,000 through 2010. The child tax credit is not indexed for inflation.

Without WFTRA, the child tax credit would have fallen back to \$700 in 2005 and then gradually increased to \$1,000 in 2010 under the provisions of EGTRRA. The child tax credit is currently scheduled to fall back to \$500 in 2011 when EGTRRA "sunset."

The child tax credit continues to phase out for taxpayers with adjusted gross income above \$110,000.

For low-income families, beginning in 2004, the child tax credit is refundable to the extent of 15% of a taxpayer's taxable earned income in excess of \$10,750 (indexed for inflation). The percentage had been 10% for 2004.

Child Tax Credit		
2002	2003 - 2010	2011 and later
\$600	\$1,000	\$500

Marriage Penalty Relief

The standard deduction for married couples will remain twice that of single taxpayers through 2010.

EGTRRA had phased in marriage penalty relief through an increased standard deduction, with the double the amount of the standard deduction available to single taxpayers first available in 2009. The standard deduction "doubling" was accelerated by JGTRRA, but only for 2003 and 2004. WFTRA now makes the doubling of the married/filing jointly standard deduction permanent until 2011, when EGTRRA sunsets and the standard deduction reverts to a statutory dollar amount.

Joint Filer Standard Deduction (as a % of single filer standard deduction amount)		
2002	2003 - 2010	2011 and later
Not applicable	200%	Not applicable

In 2004, the standard deduction is \$9,700 for married couples and \$4,850 for single taxpayers.

In addition, the "width" of the 15% tax bracket for married couples remains twice that for single taxpayers through 2010.

EGTRRA had phased in an increase in the top end of the 15% tax bracket for married couples, reaching double that of single taxpayers in 2008 - 2010. JGTRRA accelerated the doubling, but only for 2003 and 2004. WFTRA now makes the doubling of the married/filing jointly 15% tax bracket permanent until 2011, when EGTRRA sunsets and the 15% tax bracket amounts revert to statutory dollar amounts.

Joint Filer 15% Tax Bracket Size (as a % of single filer 15% tax bracket)		
2002	2003 - 2010	2011 and later
Not applicable	200%	Not applicable

In 2004, the 15% tax rate applies to income from \$14,300 to \$58,100 for married couples filing jointly and to income from \$7,150 to \$29,050 for single taxpayers.

Alternative Minimum Tax Relief

WFTRA extends the JGTRRA increase in the AMT exemption amount (\$58,000 for married couples and \$40,250 for single taxpayers) through 2005. Without this action, the AMT exemption amount would have reverted to \$49,000 for married couples and \$35,750 for single taxpayers in 2005.

Beginning in 2006, without Congressional action, AMT exemption amounts will return to their pre-2001 levels of \$45,000 for married couples and \$33,750 for single taxpayers.

Alternative Minimum Tax Exemption Amounts			
Filing Status:	2002	2003 - 2005	2006 and later
Joint Filers	\$49,000	\$58,000	\$45,000
Single Filers	\$35,750	\$40,250	\$33,750

Other Provisions

- **The teacher's classroom expense deduction, allowing professional educators to deduct, above-the-line, up to \$250 out-of-pocket classroom expenses, is extended for 2004 and 2005.** This deduction had expired at the beginning of 2004.
- **The full \$2,000 tax deduction for qualified electric and clean fuel vehicles will remain available for vehicles acquired in 2004 and 2005.** This tax break had been scheduled for phase-out.
- **Contributions to Archer Medical Savings Accounts (MSAs) are extended through 2004 and 2005.**
- **Combat pay is treated as earned income for purposes of calculating the refundable portion of the child tax credit.**
- **Beginning in 2005, WFTRA creates a uniform definition of a child throughout the Tax Code,** for purposes of the dependency exemption, child tax credit, earned income tax credit, dependent care credit and head of household filing status.

Business Tax Relief:

Most of the extensions made available to businesses had already expired prior to the passage of WFTRA. The new law generally extends these provisions retroactively back to when they expired. The business tax relief includes:

- **The research and development tax credit** is extended for amounts paid or incurred after June 20, 2004 and before 2006.
- **Extension of the work opportunity and welfare-to-work tax credits** for wages paid or incurred for qualified individuals beginning work after 2003 and before 2006.
- **Enhanced deduction for charitable contributions** (generally to schools and libraries) **of qualified computers** is extended for tax years beginning after 2003 and before 2006.

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