

Tax News Update

Cogen Sklar LLP

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Katrina Emergency Tax Relief Act of 2005

By Alan Denis, J.D., CPA

As you probably know, Congress recently passed the *Katrina Emergency Tax Relief Act of 2005*. Besides providing tax breaks for individuals and businesses adversely affected by this devastating storm, KETRA contains a number of provisions that are more broadly applicable, specifically with respect to charitable giving.

Following is a summary of the Act's key provisions. Cogen Sklar LLP offers this information to help you understand how KETRA may affect you or someone you know, and how you might take advantage of it to reduce your tax liability. Please contact us with any questions you may have about this new law or other tax matters. Just call us at (610) 668-9700 or send an email to info@cogensklar.com and let us know how we can help.

CHARITABLE PROVISIONS

Increase in deductibility of cash contributions. The usual limit of 50% of adjusted gross income (AGI) will increase to 100% of AGI for cash contributions made to public charities from Aug. 28, 2005, through the end of 2005.

Increase in charitable mileage allowance. To the extent that a vehicle is used for Katrina-related relief efforts, the charitable mileage rate will be 34 cents per mile. This higher rate, computed as a percentage of the standard business rate, is effective for charitable mileage starting Aug. 29, 2005, through the end of 2006.

Additional exemption for providing housing. Taxpayers may take an additional exemption of \$500 for each Hurricane Katrina displaced person (up to four people) that they provide housing for. The housing must be the taxpayer's primary residence to qualify, and the exemption may be claimed just once per displaced individual in either 2005 or 2006. Unlike other personal exemptions, this one isn't subject to phase-out rules.

KATRINA-RELATED LOSSES

Discharge of indebtedness. Taxpayers may exclude from income any discharge of debt to the extent the discharge is attributable to Katrina-related damage. This is valid for debts discharged after Aug. 25, 2005, through Dec. 31, 2006.

Casualty losses. Individuals who suffer Katrina-related casualty losses aren't subject to the 10% AGI limitation or the \$100 floor for deducting such losses.

BUSINESS-RELATED PROVISIONS

Donations of book inventories. Businesses can get a deduction for books contributed to qualified charities, but only if the books will be used by the charity for educational purposes. The deduction, subject to other limitations already in the law, is allowed for the lesser of the fair market value or twice the basis of the books contributed and applies to contributions made after Aug. 28, 2005, through the end of 2005.

Donations of food inventories. A similar deduction will also be allowed for contributions of food inventory.

Work Opportunity Tax credit. A new class of targeted group - Hurricane Katrina employee survivor - was created for the Work Opportunity Tax credit. To qualify, the survivor must have lived, as of Aug. 28, 2005, in a Katrina disaster area. This applies to an employee who begins work for an employer anytime between Aug. 28, 2005, and Dec. 31, 2005. In the case of a job at a location within a Katrina disaster area, the hiring period is expanded to the two-year period commencing on August 28, 2005.

Employee Retention credit. Certain employers, located in a Katrina disaster area, whose businesses were inoperable for at least one day as a result of Katrina, qualify for a 40% tax credit on the first \$6,000 of wages paid to eligible employees. Qualified wages include those paid from the time the business first became inoperable until such time as the business resumes significant operations at the location. The credit is available through 2005.

"New provisions for charitable giving"

Avoid surprises—start your 2005 tax planning now.

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Katrina Emergency Tax Relief Act of 2005 (cont'd)

RETIREMENT PLAN PROVISIONS

Waiver of penalty for early withdrawal. Katrina victims may take a distribution from their retirement plans—even if they aren't 59 ½ years old—without penalty. The distribution amount, however, is limited to \$100,000, and the distribution must be made within one year of the declaration of the disaster area.



Repayment of qualified disaster relief distribution. During the three years following the time an individual takes a qualified disaster relief distribution, that individual may repay the amount and have the repayment treated as if it were a rollover contribution into the account. As such, affected individuals will be able to replenish their retirement accounts without being treated as having made an excess contribution to the account.

Taxability of withdrawals. Individuals who take a qualified disaster relief distribution will, unless they elect otherwise, be treated as having made the withdrawal ratably over a three-year period starting with the year in which the withdrawal is made.

Recontribution of withdrawals. To the extent a withdrawal was made to pay for the down payment on a principal residence in a Katrina disaster area, and it wasn't purchased or constructed as a result of Katrina, individuals may recontribute the withdrawal, and thereby avoid the tax that would otherwise be due. The amount must be recontributed no later than Feb. 28, 2006.

WE'RE HERE TO HELP

This latest tax act comes on the heels of several others over the past few years. Plus, Congress is considering a variety of additional tax legislation. So, more tax law changes may occur soon.

To help you understand how all these changes affect you and how you might take advantage of them to reduce your tax liability, we would welcome the opportunity to discuss them with you. Again, feel free to call us at (610) 668-9700 or send an e-mail to info@cogensklar.com and let us know how we can be of assistance.

Cogen Sklar LLP specializes in helping individuals and businesses minimize their taxes and maximize their financial well-being. We look forward to helping you keep more of your money where it belongs—in your pocket, not the government's.

KETRA is among the latest tax legislation that may affect you. Stay informed.

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