DECEMBER 2004

MURPHY FINANCIAL SERVICES, INC.

Tax & Financial Guide

Business and Personal ACCOUNTING, TAX, SOFTWARE & FINANCIAL PLANNING SERVICES

If you need to pay tax estimates, please call our office with your income and expense information by December 20, 2004.

Please call our office to discuss any of the items in this newsletter that may pertain to you.

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Still Time For Tax Savings

The tax laws can provide opportunities for the wise and traps for the unwary. Often, tax savings can be achieved by taking action before year end. Call us before implementing any of these.

Jobs Creation Act

The *American Jobs Creation Act of 2004 (AJCA)* offers provisions that are retroactive, some immediately effective, some effective next year, and others which are not implemented until 2006.

Here are some of the more significant provisions of the *AJCA:*

Enhanced expensing limits extended. The Act extends for an additional two years the increased Section 179 deduction, and the choice to revoke the election on a prior year's return. The extension applies through the 2007 tax year.

The maximum annual expensing for tax years that begin in 2004 is $102,000. These rules have not been adopted by all states for state income tax.

New limits on expensing SUVs. For property placed in service after October 22, 2004, the AJCA limits the ability of taxpayers to claim deductions under Code Section 179 for certain vehicles to $25,000. The change applies to sport utility vehicles rated at 14,000 pounds gross vehicle weight or less.

New rules for certain charitable donations. The Act generally limits the deduction for motor vehicles, boats and airplanes contributed to charity after 2004, for which the claimed value exceeds $500. If this potential deduction applies to you, please call us for details on IRS limitations. You must make your donation before December 31, 2004 for the best tax advantage.

Itemized deduction for state and local sales taxes. The Act allows taxpayers who itemize their deductions to deduct state and local sales taxes, instead of taking an itemized deduction for state and local income taxes. Taxpayers who make this election may either:

(a) deduct their actual sales taxes, or

(b) use the IRS-published tables and then add to that the actual sales tax for motor vehicles, boats and other items specified by the IRS.

Start saving receipts in case it is more advantageous to use the sales tax deduction.

Working Families Act

The *Working Families Tax Relief Act of 2004 (WFTRA)* extended and simplified efforts to defer scheduled reductions in tax breaks for individuals. Significant provisions include:

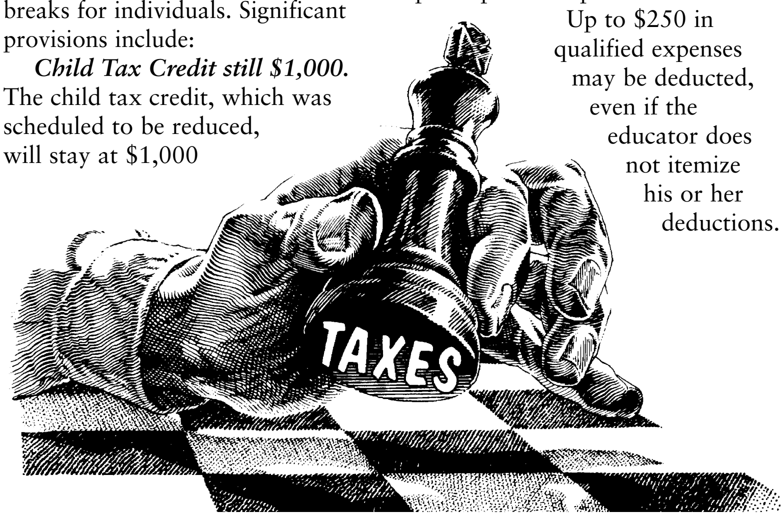
Child Tax Credit still $1,000. The child tax credit, which was scheduled to be reduced, will stay at $1,000 through 2010.

Combat pay and the earned income credit. Combat pay that is excluded from gross income under Code section 112 can be treated as earned for purposes of the earned income credit, for any tax year ending after October 4, 2004, and before January 1, 2006.

Archer MSAs extended. The 2004 WFTRA extends Archer MSAs through 2005.

2005 AMT exemption. In recent years, Congress has provided a measure of relief from the AMT by raising the AMT "exemption amounts," thereby reducing the likelihood of an AMT liability. The Act extended the higher exemption amounts to 2005.

Educators' deduction extended. The IRS advises teachers to save their receipts for purchases of books and classroom supplies. Such out-of-pocket expenses could lower their taxes. To be eligible a person must work at least 900 hours during a school year as a teacher, instructor, aide, counselor or principal in public or private schools. Up to $250 in qualified expenses may be deducted, even if the educator does not itemize his or her deductions.



Murphy Financial Services, Inc. web site is at www.murphyEA.com If you misplace your newsletters, or your information sheets that I have given you (i.e. contributions, enrolled agents, etc.), you will be able to find them on the web site.

Please note that our new e-mail address is: info@murphyea.com.

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information only to IRS or state authorities and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.

Health Savings Accounts (HSA)

New for 2004, an HSA is a trust created or organized in the U.S. for the purpose of paying the qualified medical expenses of an account beneficiary. An HSA can only be established for the benefit of an "eligible individual" who is covered under a high deductible health plan.

Within limits, an above-the-line deduction is allowed for an individual's contribution to an HSA. Some states do not follow this tax treatment.

Employer contributions to an HSA on an employee's behalf are neither included in the employee's federal income, nor subject to employment taxes.

Any individual can establish an HSA with a qualified trustee (Insurance Company, Bank or Third Party Administrator), in much the same way that individuals establish individual retirement accounts.

No IRS authorization is required to establish an HSA. Also, an eligible individual who is an employee may establish an HSA with or without the employer's involvement.

Year-end Tax Planning Tips

It is usually advantageous for individuals to postpone income until 2005 and accelerate deductions into 2004 to lower their tax bill. This may allow larger deductions, credits, and other tax breaks for 2004 that are phased out over varying levels of adjusted gross income.

If your 2004 income is lower than normal, it may be advantageous to convert IRAs to Roth IRAs.

Take advantage of bonus depreciation. Business owners may want to take advantage of the 50% bonus depreciation by putting new equipment in service before year-end. This year (2004) is the last year for the bonus allowance.

$11,000 gift tax exclusion. Taxpayers can save gift and estate taxes by making sheltered gifts before the end of the year. For 2004, taxpayers can give $11,000 per year, per individual.

Note: If the gift is made by check, it is not considered a completed transfer until the check is cashed.

Bunch deductions. Some taxpayers who file Schedule A Form 1040 may do well to "double itemize." Individuals can pre-pay expenses to generate almost twice the itemized deductions every other year. For "opposite" tax years (when he or she has virtually no itemized deductions) the taxpayer is still allowed to use the standard deduction. Call us to see if this would be advantageous for you.

Use flexible spending accounts. Because a cafeteria plan cannot allow participants to defer compensation from one year to the next, employees are reminded to submit claims to the employer for eligible expenses before the end of the year.

Participants must forfeit any amount remaining in their flexible spending accounts at the end of the plan year. This is commonly referred to as the use-it-or-lose-it rule.

Mutual fund tax consequences. If a fund's investment portfolio has done well in a given year, the fund may make a large distribution near the end of the year. These gains will be taxed to the investor as ordinary dividends if short-term gains, and as capital gain distributions if long-term gains.

In general, investors should buy mutual fund shares after the record date for a shareholder distribution, especially large year-end capital gain distributions.

Noteworthy

The standard mileage rate is 37.5¢ per mile in computing the deductible costs of operating up to *four* automobiles used for business. The rate in 2005 will be 40.5¢ per mile.

The IRS has tens of thousands of refund checks that have been returned to them. If you have a refund due, make sure you receive it each year. If you have your refunds automatically deposited in your bank account, you won't have to worry about getting your refund check.

If you don't want all the telephone solicitors calling you, make sure you renew your telephone number on the Wisconsin no-call listing. Call 1-866-966-2255.

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