

KEY 2005 PENSION AND EMPLOYEE BENEFIT NUMBERS
KEY 2005 INCOME TAX RATES AND OTHER
ESSENTIAL DATA
KEY 2005 ESTATE PLANNING INFLATION ADJUSTMENTS

A number of figures used in the estate, financial, employee benefit, and income tax planning fields are subject to change or indexed for inflation. The following list is an update of the latest figures available with a brief explanation of their applicability.

The following figures presented in this issue are current at the time of its publication. These figures (and discussions thereof) do not take into consideration any proposed or pending legislation.

GOVERNMENTAL PLANS: The annual compensation limitation to be taken into account for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost of living adjustments to the compensation limitation (under Section 401(a)(17)) is increased from \$305,000 to **\$315,000**.

CONTROL EMPLOYEE: The compensation amounts concerning the definition of “control employee” for 1.61-21(f)(5)(i) fringe benefit valuation purposes is increased from \$80,000 to **\$85,000**.

The compensation amount under Section 1.61 21(f)(5)(iii) is increased from \$165,000 to **\$170,000**.

CATCH-UP CONTRIBUTIONS: For individuals age 50 or over, the dollar limitation for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or 408(p) is increased from \$3,000 to \$4,000. Section 414(v)(2)(B)(i).

The dollar limitation for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or 408(p) is increased from \$1,500 to \$2,000. Section 414(v)(2)(B)(ii).

IMPORTANT COLAS and SCHEDULED INCREASES

	2000	2001	2002	2003	2004	2005
Sec. 415 Limit for Defined Benefit Plans IRC Sec. 415(b)(1)(a) (Maximum yearly benefit allowed is the lesser of 100 percent of the average highest 3 years' compensation or the indicated figure. Reductions apply for plans with pre-65 normal retirement ages and for participants with less than 10 years of service.)	\$140,000	\$160,000	\$160,000	\$160,000	\$165,000	\$170,000
Sec. 415 Limit for Defined Contribution Plans IRC Sec. 415 (c)(1)(A) (Defined contribution plans with non calendar limitation years beginning before January 1, 2002, and ending after December 31, 2001, remains unchanged at \$40,000.)	\$35,000/ 25 percent of comp.	\$40,000/ 100 percent of comp.	\$40,000/ 100 percent of comp.	\$40,000/ 100 percent of comp.	\$41,000/ 100 percent of comp.	\$42,000/ 100 percent of comp.
Annual Limit on Includible Compensation IRC Sec. 401(a)(17), 404(1), 408(k)(3)(c), and 408(k)(6)(D)(ii) (This is the maximum amount of compensation that can be taken into account when determining an individual contribution to or benefit under a qualified retirement plan.)	\$170,000	\$200,000	\$200,000	\$200,000	\$205,000	\$210,000
Highly Compensated Employee IRC Sec. 414(q)(1)(B) (Highly compensated employees are those with compensation above this figure. Dollar limitation under Sec. 416(i)(1)(a)(i) concerning definition of Key Employee in top-heavy plan remains \$135,000.)	\$85,000	\$90,000	\$90,000	\$90,000	\$90,000	\$95,000
Elective Deferrals for a 401(k) Plan or 403(b) Plan or SEP (The indicated figure is the maximum salary reduction that a participant can make under Sec. 402(g)(3).)	\$10,500	\$11,000	\$12,000	\$12,000	\$13,000	\$14,000
Maximum Elective Deferrals for a SIMPLE IRC Sec. 408(p)(2)(E)	\$6,000	\$6,500	\$7,000	\$8,000	\$9,000	\$10,000
Maximum 457 Salary Reduction IRC Sec. 457(e)(15) Maximum deferral to non-qualified plans of state and local government and tax exempt orgs.) Organizations that sponsor 457(b) plans may permit employees to defer \$12,000 under a 401(k) plan, and to defer an additional \$12,000 on a pre-tax basis under a 457(b) program.	\$8,000	\$8,500	\$11,000	\$12,000	\$13,000	\$14,000
Part-time Employee Floor for a SEP IRC Sec. 408(k)(2)(c) (Employees who earn over the indicated limits must be included in a SEP if they are otherwise eligible.)	\$450	\$450	\$450	\$450	\$450	\$450
ESOP 5 YEAR Distribution Limit IRC Sec. 409(o)	\$145,000/ \$755,000	\$155,000/ \$780,000	\$160,000/ \$800,000	\$160,000/ \$810,000	\$165,000/ \$830,000	\$170,000/ \$850,000

IMPORTANT COLAS and SCHEDULED INCREASES (continued)

	2000	2001	2002	2003	2004	2005
Social Security Tax Rate (This is the percentage that the employer and employee are each taxed for social security purposes. 6.2% is for Social Security tax. 1.45% is for Medicare.)	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Social Security Tax Rate (Self-Employed) (This is the percentage at which a self-employed individual is taxed for social security purposes. 12.4% is for Social Security while 2.9% is for Medicare.)	15.3%	15.3%	15.3%	15.30%	15.30%	15.30%
Taxable Wage Base (a/k/a FICA/SE Maximum Earnings Taxable) (This "earned income ceiling" is the maximum amount of covered earnings on which Social Security OASD taxes are paid.)	\$76,200	\$80,400	\$84,900	\$87,000	\$87,900	\$90,000
Medicare Special Wage Base (This is the maximum amount of covered earnings on which Social Security hospital insurance taxes are paid. Half this tax is deductible in computing AGI.)	No Limit	No Limit	No Limit	No Limit	No Limit	No Limit
Medicare: Part B Monthly Premium: The deductible for 2005 is \$110.	\$45.50	\$50.00	\$54.00	\$58.70	\$66.60	\$78.20
Medicare: Part A: This premium is paid only by individuals who are not otherwise eligible for premium free hospital insurance and have less than 30 quarters of Medicare covered employment. The deductible paid by the beneficiary when admitted as a hospital inpatient in 2005 will be \$912.	\$301	\$300	\$319	\$316	\$343	\$375
Social Security Quarterly Earnings: Minimum amount which must be earned to receive Social Security Benefits: 40 quarters required.	\$780	\$830	\$870	\$890	\$900	\$920

SOCIAL SECURITY BENEFITS

Allowable Earned Income	2004	2005
Earnings limitation applies to retirees who have not reached normal retirement age. One dollar in benefits will be withheld for every \$2 in earnings above the limit.	\$11,640/yr (\$970/mo.)	\$11,640/yr (\$970/mo.)

Year An Individual Reaches Full Retirement Age	2004	2005
Earnings limitation applies only to earnings for months prior to attaining full retirement age. One dollar in benefits will be withheld for every \$3 in earnings above the limit.	\$31,080/yr. (\$2,590/mo.)	\$31,800/yr. (\$2,650/mo.)

Note: There is no limit on earnings beginning the month an individual attains full retirement age (65 and 4 months for retirees born in 1939; 65 and 6 months for those born in 1940).

Social Security Disability Thresholds	2004	2005
Substantial Gainful Activity (SGA) Non-Blind	\$810/mo (\$1350/mo.)	\$830/mo (\$1380/mo.)
Blind		

Trial Work Period (TWP)	\$580/mo.	\$590/mo.
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Maximum Social Security Benefit: Worker Retiring at Full Retirement Age in:	2004	2005
For retirees born in 1939, full retirement age is 65 and 4 months; for those born in 1940, 65 and 6 months. Full retirement age will gradually increase to age 67 for those born in 1960 and later.	\$1,825/month (age 65 & 4 mos.)	\$1,939/month (age 65 & 6 mos.)

SSI Federal Payment Standard	2004	2005
Individual	\$564/mo.	\$579/mo.
Couple	\$846/mo.	\$869/mo.

SSI Resources Limits	2004	2005
Individual	\$2,000	\$2,000
Couple	\$3,000	\$3,000

SSI Student Exclusion Limits	2004	2005
Monthly Limit	\$1,370	\$1,410
Annual Limit	\$5,220	\$5,670

SOCIAL SECURITY BENEFITS (continued)

Estimated Average Monthly Social Security Benefits Payable in January 2005 :	Before 2.7% COLA	After 2.7% COLA
All Retired Workers	\$930	\$955
Aged Couple, Both Receiving Benefits	\$1,532	\$1,574
Widowed Mother and Two Children	\$1,927	\$1,979
Aged Widow(er) Alone	\$896	\$920
Disabled Worker, Spouse, & One or More Children	\$1,458	\$1,497
All Disabled Workers	\$871	\$895

INCOME TAX RATE SCHEDULES

TABLE 1 – Section 1(a)

Married Individuals Filing Joint Returns and Surviving Spouses

If Taxable Income Is:	The Tax Is:
Not over \$14,600	10% of the Taxable Income
Over \$14,600 but not over \$59,400	\$1,460 plus 15% of the excess over \$14,600
Over \$59,400 but not over \$119,950	\$8,180 plus 25% of the excess over \$59,400
Over \$119,950 but not over \$182,800	\$23,317.50 plus 28% of the excess over \$119,950
Over \$182,800 but not over \$326,450	\$40,915.50 plus 33% of the excess over \$182,800
Over \$326,450	\$88,320 plus 35% of the excess over \$326,450

TABLE 2 – Section 1(b)

Heads of Households

If Taxable Income Is:	The Tax Is:
Not over \$10,450	10% of the Taxable Income
Over \$10,450 but not over \$39,800	\$1,045 plus 15% of the excess over \$10,450
Over \$39,800 but not over \$102,800	\$5,447.50 plus 25% of the excess over \$39,800
Over 102,800 but not over \$166,450	\$21,197.50 plus 28% of the excess over \$102,800
Over \$166,450 but not over \$326,450	\$39,019.50 plus 33% of the excess over \$166,450
Over \$326,450	\$91,819.50 plus 35% of the excess over \$326,450

TABLE 3 - Section 1(c)**Unmarried Individuals (other than Surviving Spouses and Heads of Households)**

If Taxable Income Is:	The Tax Is:
Not over \$7,300	10% of the Taxable Income
Over \$7,300 but not over \$29,700	\$730 plus 15% of the excess over \$7,300
Over \$29,700 but not over \$71,950	\$4,090 plus 25% of the excess over \$29,700
Over \$71,950 but not over \$150,150	\$14,652.50 plus 28% of the excess over \$71,950
Over \$150,150 but not over \$326,450	\$36,548.50 plus 33% of the excess over \$150,150
Over \$326,450	\$94,727.50 plus 35% of the excess over \$326,450

TABLE 4 - Section 1(d)**Married Individuals Filing Separate Returns**

If Taxable Income Is:	The Tax Is:
Not over \$7,300	10% of the taxable income
Not over \$7,300 but not over \$29,700	\$730 plus 15% of the excess over \$7,300
Over \$29,700 but not over \$59,975	\$4,090 plus 25% of the excess over \$29,700
Over \$59,975 but not over \$91,400	\$11,658.75 plus 28% of the excess over \$59,975
Over \$91,400 but not over \$163,225	\$20,457.75 plus 33% of the excess over \$91,400
Over \$163,225	\$44,160 plus 35% of the excess over \$163,225

TABLE 5 - Section 1(e)**Estates and Trusts**

If Taxable Income Is:	The Tax Is:
Not over \$2,000	15% of the taxable income
Over \$2,000 but not over \$4,700	\$300 plus 25% of the excess over \$2,000
Over \$4,700 but not over \$7,150	\$975 plus 28% of the excess over \$4,700
Over \$7,150 but not over \$9,750	\$1,661 plus 33% of the excess over \$7,150
Over \$9,750	\$2,519 plus 35% of the excess over \$9,750

MISCELLANEOUS CREDITS, DEDUCTIONS and EXEMPTIONS

UNEARNED INCOME OF MINOR CHILDREN TAXED AS IF IT WERE PARENT'S INCOME (THE KIDDIE TAX)

The amount used to reduce the net unearned income reported on the child's return that is subject to the "kiddie tax," is **\$800**.

This amount is the same as the **\$800** standard deduction amount.

The same **\$800** amount is used in determining whether a parent may elect to include a child's gross income in the parent's gross income and for calculating the "kiddie tax".

ADOPTION CREDIT

The maximum credit allowed for an adoption of a child with special needs is **\$10,630**.

The maximum credit allowed with regard to other adoptions is the amount of qualified adoption expenses up to **\$10,630**.

The available adoption credit begins to phase out for taxpayers with modified adjusted gross income in excess of **\$159,450** and is completely phased out for taxpayers with modified adjusted gross income of **\$199,450**.

CHILD TAX CREDIT

The value used in determining the amount of credit under that may be refundable is **\$11,000**.

HOPE AND LIFETIME LEARNING CREDITS

100 percent of qualified tuition and related expenses not in excess of **\$1,000** and **50 percent** of such expenses in excess of **\$1,000** are taken into account in determining the amount of the Hope Scholarship Credit.

A taxpayer's modified adjusted gross income in excess of **\$43,000** (**\$87,000** for a joint return) is taken into account in determining the reduction in the amount of the Hope Scholarship and Lifetime Learning Credits otherwise allowable.

EARNED INCOME CREDIT

In general, the following amounts are used to determine the earned income credit.

The “earned income amount” is the amount of earned income at or above which the maximum amount of the earned income credit is allowed.

The “threshold phase-out amount” is the amount of adjusted gross income (or, if greater, earned income) above which the maximum amount of the credit begins to phase out.

The “completed phase-out amount” is the amount of adjusted gross income (or if greater, earned income) at or above which no credit is allowed.

Item	One	Two or More	None
Earned Income Amt	\$7,830	\$11,000	\$5,220
Maximum Amt of Credit	\$2,662	\$4,400	\$ 399
Threshold Phase-out Amt (Single, Surviving Spouse, or Head of Household)	\$14,370	\$14,370	\$6,530
Completed Phase-out Amt (Single, Surviving Spouse, or Head of Household)	\$31,030	\$35,263	\$11,750
Threshold Phase-out Amt (Married Filing Jointly)	\$16,370	\$16,370	\$8,530
Completed Phase-out Amt (Married Filing Jointly)	\$33,030	\$37,263	\$13,750

Note: The instructions for the Form 1040 series provide tables showing the amount of the earned income credit for each type of taxpayer.

EXCESSIVE INVESTMENT INCOME

The earned income tax credit is denied if the aggregate amount of certain investment income exceeds **\$2,700**.

LOW-INCOME HOUSING CREDIT

The amounts used to calculate the State housing credit ceiling for the low-income housing credit is the greater of (i) \$1.85 multiplied by the State population, or (ii) **\$2,125,000**.

ALTERNATIVE MINIMUM TAX EXEMPTION FOR CHILD SUBJECT TO KIDDIE TAX

For a child to whom the “kiddie tax” applies, the exemption amount for purposes of the alternative minimum tax may not exceed the sum of:

- such child's earned income for the taxable year, plus
- **\$5,850**.

STANDARD DEDUCTION

IN GENERAL: The standard deduction amounts are:

Filing Status	Standard Deduction
Married Filing Joint Returns and Surviving Spouses	\$10,000
Heads of Households	\$7,300
Unmarried (Other Than Surviving Spouses and Heads of Households)	\$5,000
Married Filing Separate Returns	\$5,000

DEPENDENT

The standard deduction amount for an individual who may be claimed as a dependent by another taxpayer may not exceed the greater of (i) **\$800**, or (ii) the sum of **\$250** and the individual's earned income.

AGED AND BLIND

The additional standard deduction amounts for the aged and for the blind are **\$1,000** for each. These amounts are increased to **\$1,250** if the individual is also unmarried and not a surviving spouse.

OVERALL LIMITATIONS ON ITEMIZED DEDUCTIONS

The “applicable amount” of adjusted gross income, above which the amount of otherwise allowable itemized deductions is reduced, is **\$145,950** (or **\$72,975** for a separate return filed by a married individual).

QUALIFIED TRANSPORTATION FRINGE BENEFIT

The monthly limitation regarding the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass is **\$105**.

The monthly limitation regarding the fringe benefit exclusion amount for qualified parking is **\$200**.

INCOME FROM U.S. SAVINGS BONDS FOR TAXPAYERS WHO PAY HIGHER EDUCATION EXPENSES

The exclusion of income from United States savings bonds for taxpayers (who pay qualified higher education expenses) begins to phase out for modified adjusted gross income above **\$91,850** for joint returns, and **\$61,200** for other returns.

This exclusion completely phases out for modified adjusted gross income of **\$121,850** or more for joint returns, and **\$76,200** or more for other returns

ADOPTION ASSISTANCE PROGRAMS

The maximum amount that can be excluded from an employee's gross income in connection with the adoption by the employee of a child with special needs is **\$10,630**.

The maximum amount that can be excluded from an employee's gross income for the amounts paid, or expenses incurred, by the employer for qualified adoption expenses furnished (pursuant to an adoption assistance program in connection with other adoptions) by the employee is **\$10,630**.

The amount excludable from an employee's gross income begins to phase out for taxpayers with modified adjusted gross income in excess of **\$159,450**.

It is completely phased out for taxpayers with modified adjusted gross income of **\$199,450**.

PERSONAL EXEMPTION

The personal exemption amount is **\$3,200**.

Phase-out: The personal exemption amount begins to phase out at, and is completely phased out after, the following adjusted gross income amounts:

Exemption Filing Status Phased Out:	AGI - Beginning of Phase-out	AGI - Fully Phased Out
Married Filing Joint Returns & Surviving Spouses	\$218,950	\$341,450
Heads of Households	\$182,450	\$304,950
Unmarried (Except for Heads of Households & Surviving Spouses)	\$145,950	\$268,450
Married Filing Separate Returns	\$109,475	\$170,725

ELECTION TO EXPENSE CERTAIN DEPRECIABLE ASSETS

The aggregate cost of any depreciable property a taxpayer may elect to treat as an expense shall not exceed **\$105,000**.

The \$105,000 limitation shall be reduced (but not below zero) by the amount by which the cost of that depreciable property placed in service during the 2005 taxable year exceeds **\$420,000**.

ELIGIBLE LONG-TERM CARE PREMIUMS

The limitations regarding eligible long-term care premiums includible in the term “medical care” are:

	Limitation on Premiums
40 or less	\$270
More Than 40 but not more than 50	\$510
More Than 50 but not more than 60	\$1,020
More than 60 but not more than 70	\$2,720
More than 70	\$3,400

MEDICAL SAVINGS ACCOUNTS

Self-Only Coverage: The term “high deductible health plan” means, for self-only coverage, a health plan that has an annual deductible that is not less than \$1,750 and not more than \$2,650, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed \$3,500.

Family Coverage: The term “high deductible health plan” means, for family coverage, a health plan that has an annual deductible that is not less than \$3,500 and not more than \$5,250, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits does not exceed \$6,450.

INTEREST ON EDUCATION LOANS

The \$2,500 maximum deduction for interest paid on qualified education loans is reduced when modified adjusted gross income exceeds \$50,000 (\$105,000 for joint returns). It is completely eliminated when modified adjusted gross income is \$65,000 (\$135,000 for joint returns).

HEALTH SAVINGS ACCOUNTS

Monthly Contribution Limitation: The monthly limitation on deductions for an individual with self-only coverage under a high deductible plan as of the first day of such month is 1/12 of the lesser of (i) the annual deductible, or (ii) \$2,650.

The monthly limitation on deductions for an individual with family coverage under a high deductible plan as of the first day of such month is 1/12 of the lesser of (i) the annual deductible, or (ii) \$5,250.

High Deductible Health Plan: A high deductible health plan is defined as a health plan with an annual deductible that is not less than \$1,000 for self-only coverage or \$2,000 for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed \$5,100 for self-only coverage or \$10,200 for family coverage.

DUES PAID TO AGRICULTURAL OR HORTICULTURAL ORGANIZATIONS

The limitation regarding the exemption of annual dues required to be paid by a member to an agricultural or horticultural organization is \$127.

INSUBSTANTIAL BENEFIT LIMITATIONS FOR CONTRIBUTIONS ASSOCIATED WITH CHARITABLE FUND RAISING-CAMPAIGNS

Low Cost Article: The unrelated business income of certain exempt organizations does not include a “low cost article” of \$8.30 or less.

Other Insubstantial Benefits: The \$5, \$25, and \$50 guidelines for disregarding the value of insubstantial benefits received by a donor in return for a fully deductible charitable contribution are \$8.30, \$41.50, and \$83, respectively.

FUNERAL TRUSTS

The trust may not accept aggregate contributions by or for the benefit of an individual in excess of \$8,200.

EXPATRIATION TO AVOID TAX

An individual with “average annual net income tax” of more than \$127,000 for the 5 taxable years ending before the date of the loss of United States citizenship is subject to tax. The asset threshold for expatriation to avoid tax is fixed at \$2,000,000. (No longer indexed.)

VALUATION OF QUALIFIED REAL PROPERTY IN DECEDENT'S GROSS ESTATE

If the executor elects to use the Section 2032A special use valuation method for qualified real property, the aggregate decrease in the value of qualified real property resulting from electing to use § 2032A that is taken into account for purposes of the estate tax may not exceed \$870,000.

ANNUAL EXCLUSION FOR GIFTS

Annual Exclusion: The first \$11,000 of gifts (other than gifts of future interests in property) to any person is not included in the total amount of taxable gifts made during that year.

The first \$117,000 of gifts (other than gifts of future interests in property) to a spouse who is not a citizen of the United States is not included in the total amount of taxable gifts made during that year.

REPORTING EXCEPTION FOR CERTAIN EXEMPT ORGANIZATIONS WITH NONDEDUCTIBLE LOBBYING EXPENDITURES

The annual per person, family, or entity dues limitation to qualify for the reporting exception regarding certain exempt organizations with nondeductible lobbying expenditures, is \$88 or less.

