

Katrina Emergency Tax Relief Act of 2005

On September 23, President Bush signed the Katrina Emergency Tax Relief Act of 2005. The law provides immediate assistance to victims of Hurricane Katrina and to those assisting in the recovery work. Here's a quick summary of the main provisions;

- * Those affected by Katrina will be allowed to borrow from qualified plans and to take penalty-free distributions from their retirement plans.
- * Income taxes on these retirement plan distributions can be paid over three years, and if withdrawals are recontributed to the plans within three years, taxes paid can be refunded.
- * Employers who hire displaced workers may qualify for the work opportunity credit of up to \$2,400 per new employee.
- * An employee retention credit of 40% of up to \$6,000 of wages paid before year-end is available to small businesses who continue paying workers even though the storm shut down the business.
- * Certain limits on charitable contributions are temporarily suspended, and deductions for food and educational book contributions are enhanced.
- * The mileage rate for deducting charitable driving is increased through 2006 to 70% of the rate set for business driving.
- * Those providing housing to unrelated individuals qualify for an additional \$500 personal exemption for each person, with a four-person, \$2,000 limit.
- * Tax filing and tax payment deadlines are extended for those affected by the disaster.
- * Victims won't lose such tax benefits as the child tax credit and the earned income credit because of relocation required by the disaster.
- * Victims won't be taxed on certain cancelled debt, casualty loss limits are suspended, and the tax-free replacement period for property is extended to five years.

Tax relief for victims of Hurricane Rita has also been granted by the IRS, with tax filing and tax payment deadlines generally being extended to February 28, 2006.

Congress has indicated its intention to pass additional tax incentives to help in the long-term recovery of these disaster areas.

For more information regarding your personal income tax and how these credits and deductions may benefit you, give AJE Financial Services a call today!