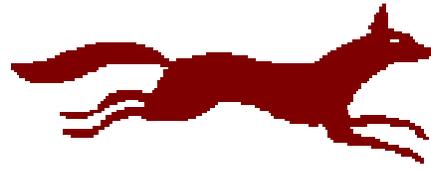


TAX UPDATE LETTER TO EDUCATORS



Fall/Winter 2004

I want to bring to your attention some exciting news concerning one special tax law change available to educators.

In March 2002, Congress and the President agreed to *The Job Creation and Worker Assistance Act of 2002*. The *Act* created a NEW deduction for certain teachers, principals, counselors or aides. The 2002 *Act* created the deduction for a period of two years (2002 & 2003).

The good news is that the *Working Families Tax Relief Act of 2004* extends this special tax benefit for a period of two more years (2004 & 2005). The *2004 Act* makes the deduction retroactive to January 1, 2004.

To qualify for the above-the-line tax deduction, you must be working in either an elementary or secondary school for a minimum of 900 hours a year.

The deduction is available for your out-of-pocket expenses such as the cost of books, supplies, equipment, software, etc. While the deduction is unfortunately limited to \$250, it is a deduction that will be available to all eligible taxpayers since it is taken on the front page of the 1040 tax return and not one of those limited itemized deductions. When both a husband and wife qualify and file a joint tax return – the deduction can be as high as \$500.

Qualifying expenses above the \$250 limit can be taken on Schedule A as an unreimbursed employee business expense. Unfortunately, Schedule A requires that the additional

deductible expenses be greater than 2% of Adjusted Gross Income (AGI).

The IRS has recently issued a reminder to educators that they should keep records of qualifying expenses in a folder or envelope with a label such as “Education Expenses Deduction.” In other words, save your receipts and write down the purpose of each expense.

Please feel free to call me if you have any questions regarding this or any other tax matter. Thank you for the opportunity to serve as your tax professional.

Regards,

Fox Tax

