

New Tax Law Protects Tax Credits and Eliminates Loss Limits for Katrina Victims; H&R Block is Helping Victims Access Lost Documents, Claim Credits and Deductions

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KANSAS CITY, Mo.--(BUSINESS WIRE)--Sept. 22, 2005-- H&R BLOCK: KATRINA TAX RELIEF ACT PROTECTS TAX CREDITS AND ELIMINATES LOSS LIMITS FOR KATRINA VICTIMS; H&R BLOCK IS HELPING VICTIMS ACCESS LOST DOCUMENTS, CLAIM CREDITS AND DEDUCTIONS; PROPOSAL ALSO BENEFITS CONTRIBUTORS AND VOLUNTEERS

The Katrina Emergency Tax Relief Act of 2005 helps those who need it most -- low- and moderate-income taxpayers who may have otherwise lost important tax benefits as a result of the hurricane, according to H&R Block.

By enabling low- and moderate-income Katrina victims to use their 2004 income to calculate the earned income and child tax credits on their 2005 returns, the approved bill ensures that those who lost income as a result of the disaster will not have these valuable credits reduced or eliminated. H&R Block lobbied Congressional tax leaders to include the provision.

"By protecting the earned income and child tax credits, the law protects low- and moderate-income Katrina victims from losing their most commonly claimed and most valuable tax benefits," said Joan Ruff, head of H&R Block's tax research group.

The provision protecting earned income and child tax credits is one of several in the act that provide tax benefits to Katrina victims. Charitable contributions, housing assistance and certain volunteer activities that support hurricane relief efforts also receive favorable tax treatment.

Other new tax benefits for Katrina victims created by the act include:

- Limits on casualty losses have been eliminated for disaster victims, thereby increasing the amount of loss that can be claimed. For example, a taxpayer with a casualty loss of \$5,000 and income of \$20,000 may claim the full \$5,000 loss instead of the \$2,900 normally allowed.
- The act waives the 10 percent penalty for premature withdrawals from IRAs and other qualified retirement plans, including 401(k) plans, for individuals whose principal residence is in a federally declared disaster area. Also, taxpayers may elect to pay tax on the withdrawal over a three-year period.
- Individuals whose principal residence was damaged or destroyed by the hurricane will receive an extra year to replace the property, giving them a total of five years.
- The act also extends from two years to five years the window for business owners to replace damaged or destroyed property. These provisions enable taxpayers to postpone taxable gain on insurance proceeds.

In addition to benefiting Katrina victims, the act helps those who have volunteered or donated to hurricane relief effort. These provisions include:

- Cash contributions: The level of permitted tax-deductible cash contributions between Aug. 28, 2005, and Jan. 1, 2006, has been increased from 50 percent to 100 percent of income. Those who make cash contributions may deduct those contributions up to 100 percent of their adjusted gross income. Contributions must be to qualified charities, but need not be earmarked for disaster relief.
- Home-sharing: An individual or family who provides rent-free housing for hurricane victims for two months or longer can claim a special exemption of \$500 per individual, with a maximum deduction of \$2,000 per household.
- Mileage expenses: The mileage reimbursement rate associated with charitable activities has been increased from 14 cents per mile to 29 cents per mile for Aug. 29-31, 2005, and to 34 cents per mile for Sept. 1 through Dec. 31, 2005. Also, mileage reimbursements paid to volunteers is not taxable.

"Anyone who has contributed time, money or in-kind donations should maintain detailed records of his or her expenses and mileage to ensure the maximum deduction at tax time," said Ruff. "Likewise, those who've been directly affected by the storm should keep track of all expenses incurred in cleaning up and repairing their properties."

To help hurricane victims receive government benefits as soon as possible, H&R Block is offering Katrina victims free preparation of amended 2004 returns, a fast way of accessing tax refunds by claiming weather- and theft-related losses resulting from the storm. H&R Block is also helping clients access lost tax documents required to claim hurricane-related tax benefits.

"Many people need help right now in identifying and finding the documents required to claim key tax benefits associated with Hurricane Katrina relief," Ruff said. "We're able to help reconstruct key tax documents -- in our offices -- that will help them claim tax refunds."

H&R Block Financial Advisors has waived wire and overnight delivery fees so that clients can gain quick access to their funds. H&R Block has created a list of 10 guidelines for claiming losses due to a hurricane at www.hrblock.com.

About H&R Block

Celebrating its 50th anniversary in 2005, H&R Block is the world's largest tax services provider, having prepared more than 400 million returns since 1955. The sixth largest retailer in the world, H&R Block has more than 12,000 locations serving taxpayers primarily in the United States, Canada and Australia.

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