

New Tax Bill – Relief and Grief

In May 2006, Congress passed and the President signed the Tax Increase Prevention and Reconciliation Act of 2005. The new law contains several significant provisions that affect taxpayers in 2006 and beyond. The bill contains tax reductions of \$90 billion and tax increases of \$20 billion. Here are some of the key provisions that you should be aware of now.

AMT RELIEF – The new tax law extends and increases the exemption for individuals for purposes of calculating the alternative minimum tax (“AMT”). For 2006, the exemption for married couples filing a joint return is \$62,550 and for single individuals is \$42,500. The bill also allows the AMT to be reduced by certain nonrefundable personal credits. These credits include the dependent care credit, the credit for the elderly and disabled, the credit for interest on certain home mortgages and the Hope and Lifetime Learning Credits for college expenses. The new provisions reduce the number of individuals who would otherwise be subject to a higher tax bill as a result of the AMT. However, this relief expires after December 31, 2006, leaving Congress the knotty problem of how to prevent ever increasing numbers of individuals from paying higher taxes under the AMT.

DIVIDEND AND CAPITAL GAINS RATES – The lower tax rates applicable to qualified dividends and long-term capital gains have been extended until December 31, 2010. The tax rate for most individuals on qualified dividends and long-term capital gains is 15%. Taxpayers in the 10% and 15% tax brackets are entitled to a 5% rate, which falls to zero in 2008.

FIXED ASSET EXPENSING – The maximum amount of qualified fixed asset purchases that may be immediately expensed in the year of acquisition is \$100,000, reduced by the cost of property acquisitions in excess of \$400,000. Both amounts are indexed for inflation and for 2006 are \$108,000 and \$430,000, respectively. The new tax law extends these thresholds through December 31, 2009. Without this action, the amounts would have dropped to \$25,000 and \$200,000 after 2007.

ROTH IRA – For tax years beginning after 2009, individuals may convert a traditional IRA to a Roth IRA regardless of their adjusted gross income in the year of conversion. Under current law, a conversion can not be made if the individual’s adjusted gross income exceeds \$100,000. The amount converted is taken into income either in the year of conversion or averaged over the next two years.

KIDDIE TAX – Under current law, investment income of children under the age of 14 in excess of \$1,700 is taxed at their parent’s marginal tax rates. For 2006 and subsequent tax years, the age limit is raised to apply to children under the age of 18.

If you have any questions about these tax law changes, please contact Mike Stein, CPA, Tax Partner, at 312-384-4285 or via e-mail at mstein@legacypas.com.