

TAX LAW CHANGES FOR 2006 AND BEYOND

Prepared by: Steven Wintersteen, CPA, Tax Manager

Tax legislation passed in 2005 and 2006 has created a long list of changes that taxpayers must consider when completing their tax planning strategies for 2006 and beyond. Some of the laws enacted made permanent a number of provisions that were due to expire. The following is a summary of some of the changes to include in current tax planning.

Kiddy tax – Beginning in 2006, children under 18 years old will be taxed at their parents' income tax rate on investment income in excess of \$1,700. Previously, only children under 14 years old were subject to this rule.

Rate extension – The favorable 15% income tax rate on long-term capital gains and qualifying dividends scheduled to expire at the end of 2008 is now extended through 2010.

Telephone tax refund – Individuals will receive a credit on their 2006 income tax return equal to the telephone excise tax paid over the last three years or a safe-harbor of \$30 plus \$10 per household member up to a maximum of \$60 per year.

Retirement plan changes

Roth IRA conversion – For 2010 and 2011, a regular IRA can be converted to a Roth IRA with no income limitation. This may require additional planning for IRA contributions for 2006 through 2009. Beginning in 2008, a direct transfer may be made from a 401(k) into a Roth IRA and will be treated as a Roth conversion.

Increased IRA contribution limits – \$4,000 for 2006 and 2007, \$5,000 for 2008. The over-50-year-of-age “catch-up” (additional) contributions will be \$1,000 for IRAs and \$5,000 for 401(k) s.

Made permanent –

Roth 401(k) and Roth 403(b) Plans scheduled to expire by 2010.

Increased profit sharing contribution to 25%.

Catch up retirement plan contributions for individuals over 50 years old.

\$500 tax credit for new retirement plans of small employers.

Numerous other changes – Many other retirement plan changes have been enacted including allowing automatic 401(k) enrollment, rules encouraging more rapid funding of company retirement plan obligations and making permanent faster vesting of employer matching contributions.

Charitable contribution changes

Additional support required – Previously, cash contributions in excess of \$250 require a receipt from the donee organization. Now, all contributions require a receipt, a cancelled check or donee statement in order to support a charitable contribution deduction.

Clothing and household items – Donations after August 17, 2006 are required to be in good or better condition. You will be required to prove both the value of and the condition of the donated goods.

Business provisions

Small business asset write-off – The Sec. 179 expensing deduction of \$100,000 for tangible personal property that is available to small businesses has been extended from the end of 2007 through 2009.

Employer-owned life insurance – Previously, proceeds of a life insurance policy owned by a corporation on the life of an employee were excluded from taxable income. For policies issued after August 17, 2006, the amount of proceeds that may be excluded cannot exceed the premiums paid.

The many new rules enacted by Congress in the last two years will affect tax planning for years to come. A review of these new rules with your tax advisor will help ensure proper year-end planning.