

**Tax Bill Extends Tax Saving Provisions
Estimated to Reduce \$70 in Taxes Over 5 Years**
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The **Tax Increase Prevention and Reconciliation Act of 2005** was signed into law on May 17, 2006, promising to reduce an estimated \$70 billion in income taxes over a five year period. The Bill primarily extends tax saving provisions which were due to expire during this and the next few years. And, while it contains many tax breaks, it also contains some tax increases. The Bill blocks the scheduled increases in the alternative minimum tax (AMT) due and offers a range of tax breaks to special interests groups. Probably the centerpiece of the law extends the lower tax rates which were first authorized in 2003 on investments, such as the 15% tax rates on capital gains and dividends, from the end of 2008 through 2010.

Provisions, such as changes in the kiddie tax, become effective this year and may increase taxes. Any unearned income over \$1,700 by a child under age 18 will be taxed at the parents' marginal rate, not the child's. Before this year, the rule applied only to children under 14 years old. This change may require some changes, such as using custodial accounts for college costs.

The following is a summary of some of the key provisions:

- **Alternative Minimum Tax (AMT):** The Act extends and increases the higher AMT exemption amounts to \$62,550 (up from \$58,000) for married individuals filing a joint return and surviving spouses; \$42,500 (up from \$40,250) for unmarried individuals other than surviving spouses; and \$31,275 (up from \$29,000) for married individuals filing a separate return. For 2006, amounts were scheduled to revert to the lower

exemption amounts in effect before 2001. NOTE: The AMT was enacted decades ago to make sure that wealthy Americans don't escape income taxes by taking advantage of deductions. Because the tax wasn't indexed for inflation, a growing number of middle-income Americans would be hit by it if Congress didn't pass the exemptions provided in this act.

- An increase in the age limit to which the kiddie tax applies, as mentioned above.
- Only 50 percent of the wages that are properly allocable to domestic production are allowed for purposes of computing the deductions for domestic production activities.
- The Act extends for two years, beginning in 2008, the \$100,000 expensing amount that a taxpayer may deduct under Code Section 179. For years beginning in 2008, the cost of property eligible for expensing under Section 179 was scheduled to go back to the pre-2003 amount of \$25,000.
- The act eliminates the \$100,000-of-Adjusted Gross Income (AGI) limitations on Roth IRA conversions for years after 2009. NOTE: For conversions in 2010, unless the taxpayer elects otherwise, the amount included in gross income is included in 2011 and 2012.
- Income earned abroad will be taxed more heavily. While the foreign earned income exclusion was increased to \$82,400 for 2006 up from \$80,000, the maximum housing cost exclusion was cut to \$11,536 and may increase taxes due from income earned abroad.
- Certain self-created musical works will be eligible for Capital Gains tax treatment
- Expenses incurred in creating or acquiring music or music copyrights will be allowed to be amortization over a five year period.
- Oil companies will be required to write-off certain costs for oil and gas exploration over five years instead of the current two years.
- The act cracks down on abuse by charitable organizations.

- An offer to settle past due taxes with the Internal Revenue Service (IRS) must include 20 percent of the amount of the offer when submitting a compromise offer to settle taxes due with the IRS.