VANTAGE FINANCIAL PARTNERS LIMITED

How Will the New Tax Laws Affect You?

Samuel D. Swisher, JD

Congress passed two major tax bills this year which will affect your 2006 tax return. As a service to our clients and friends, we would like to alert you to some of the new provisions that may affect individual taxpayers in 2006 and beyond.

AMT Relief for 2006

The new law increases the AMT exemption for 2006 to $62,550 Some of our clients will see a slight reduction in the amount of AMT tax that is due in 2006, but it will jump back up in 2007 and later years unless Congress extends it to 2007 as part of the proposed extender legislation currently being debated in Congress. One way to reduce the 2007 exposure would be to accelerate deductions that trigger AMT into 2006 from 2007 like prepaying your 2007 property tax in 2006, or paying any additional state income tax by year end instead of by April of 2007.

Donating Clothes & Household Items

Effective for donations after Aug. 17, 2006, you can no longer claim deductions for used clothing and 'household goods" that are not in "good" condition or better. Household goods include furniture and furnishing, electronics, appliances, linens, and the like. An exception applies if a single item is in "less than good" condition if it is appraised and valued at more than $500. Exact definitions are due to be made by regulations in the future.

Documenting Cash Donations

Starting for most in 2007, you will not be allowed to deduct cash donations without either a bank record (cancelled check or debit/credit card) or a written statement from the charity that meets the tax law requirements. This means that cash donations such as into a church collection plate or Salvation Army kettle will not be allowed. You should pay by check in the future and not with cash.

Lower Dividend Tax Rates Extended

The current 15% tax rate on dividends and long term capital gains has been extended for two more years through 2010. The 0% long term capital gains rate for those in the 10% or 15% bracket starting in 2008 has also been extended. Parents with large gains might consider gifting strategies to their low bracket adult children. For example, a married couple with taxable income of $50,000 before including capital gains, the gain will not be taxed for the tax years 2008-2012. However, see the "Kiddie Tax" change below.

"Kiddie Tax" Age Increased to 18

Previously investment income over $1,700 for children younger than 14 was taxed at the parent's higher rates. Because this allowed high bracket taxpayers to shift income to kids over 14, the new law has increased the age limit to 18 beginning in 2006. This may impact the decision about selling a child's college portfolio prior to 18. Clients wanting to invest for their children's accounts may want to consider US Savings Bonds that defers income until redemption or index funds which have low turnover and pay little or no dividends.

Phase-out of Itemized Deductions

In previous years itemized deductions have been reduced as your income increases above a minimum level. Starting in 2006, the deduction phase-out is reduced by 1/3. In 2008, it will be reduced by 2/3, and in 2010 the phase out will disappear completely. This phase-out could be affected, however, if there is a change in political parties in the White House for 2008.

Non-Spousal IRA Rollover
Previously only the surviving spouse could rollover a deceased person's retirement plan into the spouse's IRA. Beginning in 2007, other beneficiaries (such as children and other relatives) can also receive a direct transfer into an IRA. This should prevent the acceleration of income that has often happened when children inherit their parent's retirement plan.

Make Donations From Your IRA
In 2006 & 2007 anyone who is 70½ years old or older can contribute amounts from their IRA that would otherwise be taxable directly to qualified charities. If this is done, the taxpayer may not claim an itemized deduction for the charitable contribution. This provision is beneficial for seniors who don't itemize or for those who would be adversely affected by limitations on itemized charitable donations.

Let a Vantage Professional help you take advantage of the new tax laws.

Higher Estate Tax Exemptions
The annual gift tax exclusion increases form $11,000 per donee to $12,000 in 2006. The estate tax exemption increases from $1.5 million to $2.0 million in 2006. However, while the exemption increases to $3.5 million in 2009 and complete elimination of the estate tax in 2010, in 2011 the exemption reverts to its 2002 exemption amount of $1 million unless Congress extends or makes changes to it.

Roth Conversions
Until now, people with adjusted gross incomes above $100,000 could not convert their traditional IRA into a Roth IRA. The new law removes the income ceiling for converting in 2010. This creates an opportunity for high bracket individuals to participate in the tax-advantaged Roth accounts. While contributions to Roth IRAs are not allowed for taxpayers with an AGI over $160,000 (for married filers), high salary earners may consider making nondeductible traditional IRAs contributions immediately, and then converting to a Roth in 2010. But beware that Congress might close this "loophole" by 2010.

Exchange Life for LTC Insurance
Clients who no longer need their whole, variable, or universal life policies, but want long term care policies will be able to exchange their life policies tax free beginning in 2010. This will allow a tax free conversion of their life policy cash values into long term care policies and minimize the cash required to fund it.

If you have any questions, please contact your Vantage Relationship Manager.