

## 2006 saw huge changes to the tax landscape 2007 is bringing even more

*In 2006, three major tax bills were passed, affecting a wide variety of tax planning areas, such as investing, retirement planning, charitable giving, college funding, business tax relief, health care saving funding, and the alternative minimum tax (AMT). In May of this year, the Small Business and Work Opportunity Tax Act (SBWOTA) was passed, giving breaks to small businesses to help offset the minimum hourly wage increase but also increasing taxes in certain situations. Here's a summary of some important changes signed into law since early 2006.*

### **Business breaks and “kiddie” tax**

SBWOTA includes several tax breaks for businesses and their owners. It extends the initial year expensing election under Section 179 through 2010 and increases the expensing limit to \$125,000. It also extends the Work Opportunity credit to Sept. 20, 2011, and expands it to include more types of disadvantaged workers. In addition, it waives the individual and corporate AMT limits on the use of certain credits, and it extends several tax incentives designated for the Gulf Opportunity Zone (GO Zone).

But the act will increase taxes for some taxpayers by further changing the kiddie tax rules. Before 2006, only children under age 14 were taxed on unearned income at their parents' tax rate. For 2006 and 2007, the age



threshold was increased to include the unearned income of children under the age of 18. Under SBWOTA, however, for 2008, the age limit is increased again to include those under 19, or under 24 if the child is a student and doesn't have earned income that exceeds one half of the amount needed for support.

### **Extenders, health care and AMT**

The Tax Relief and Health Care Act of 2006 (TRHCA) extends a number of temporary provisions, generally through 2007, such as the state and local sales tax deduction (as an alternative to the state and local income tax deduction), the research and development (R&D) credit, the tuition and fees deduction, and 15-year depreciation for certain leasehold and restaurant improvements. TRHCA also extends several energy-related tax breaks through 2008.

In addition, TRHCA expands opportunities for funding Health Savings Accounts (HSAs). It also provides relief to those who have exercised incentive stock options and paid the AMT in the form of a new refundable credit.

### **Retirement plans and charitable giving**

The Pension Protection Act of 2006 (PPA) takes measures to ensure full funding of pension plans. It also makes permanent the increases in the annual benefit limit that had been set to expire after 2010.

In addition, PPA enhances retirement savings held in IRAs and defined contribution plans, such as 401(k)s, 403(b)s, 457s and SIMPLEs. For example, PPA makes permanent many provisions from the 2001 tax act that were to expire after 2010, such as higher contribution limits, “catch-up” contributions for those 50 and older, and Roth 401(k)s and 403(b)s.

Finally, PPA brings changes related to charitable contributions, such as requiring substantiation of all cash donations, and makes permanent Section 529 plan provisions that were set to expire after 2010.

### **Capital gains and dividends**

The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), passed in 2006, extends through 2010 the lower (15%) maximum rate on most long-term capital gains and qualified dividends. ◆