

## **Tax Planning for Year 2006**

A new year is a good time to make a fresh start on maximizing your tax benefits. You can maximize your tax benefits by taking advantage of new and existing tax breaks right from the start. The new year presents special opportunities because of recent changes in the tax law. But tax techniques don't become stale just because they have been around for a while. Planning at the beginning of the year makes more sense for retirement distributions, shifts of retirement assets, and private annuity payments. Contributions at the beginning of the tax to an Individual Retirement Account, Health Savings Account or retirement plan grow tax-free for a longer period. Gifts can appreciate with no further tax impact upon the donor. Estate plans may need to be reevaluated as the higher unified estate and gift tax credit is phased in.

Here are some points to consider.

## **New Tax Law For 2005**

The tax law is in constant change these days. In 2004, Congress passed two major tax laws -- the *American Jobs Creation Act of 2004* and the *Working Families Tax Relief Act of 2004*.

Beneficial changes for individuals and businesses include (but are not limited to) the following:

- Reinstatement of the itemized deduction of state and local sales taxes, as an alternative to state and local income taxes. You can add sales taxes for big-ticket items, such as automobiles and boats, to amounts in IRS tables;
- New and less restrictive definitions of a dependent and a qualifying child for the earned income credit and the dependent care credit;
- Treatment of combat pay treated as earned income for the EIC and the child tax credit;
- Extension of marriage penalty relief for the standard deduction;
- Extension of increased AMT relief for individuals;
- Reinstatement of the \$250 above-the-line deduction for teachers;
- Extension of the 100 percent credit for the purchase of qualified electric vehicles and the credit for qualified energy-producing facilities using wind, biomass [organic material] or poultry waste;
- Extension of medical savings accounts through 2005, allowance of rollovers from an MSA to a Health Savings Accounts, and new IRS guidance on HSAs;
- Exemption of incentive stock options and employee stock purchase plan options from employment taxes;
- Tax relief for awards from civil rights violations;
- Liberalization of S Corp requirements and favorable modifications for real estate investment trusts (REITs);
- Capitalization of most acquired intangibles over a 15-year period; new first-year deductions of \$5000 for start-up expenses and organizational expenditures; and faster 15-year depreciation for leasehold and restaurant improvements;

- A new phased-in deduction for domestic "production" activities;
- A reduced tax rate of 5 percent for foreign earnings repatriated to U.S. shareholders; and
- Extended of the research credit and an augmented charitable deduction" for C corporations contributing computer technology and equipment.

New restrictions on individuals and businesses include:

- The repeal of special tax benefits for exports;
- Restrictions on the deduction for vehicles donated to charity;
- New limitations on first-year deductions for SUVs;
- A crackdown on deferred compensation;
- Increased penalties for violations of the tax-shelter reporting rules, coupled with increased IRS enforcement efforts against abusive tax avoidance transactions; and
- The end of 30-percent and 50-percent bonus depreciation for smaller businesses after 2004.

Meanwhile, the IRS and Treasury continue their efforts to issue more guidance more quickly. In the last year, administrative activity includes:

- Tougher standards for tax shelter opinions;
- New rules that crack down on abusive transactions involving an ESOP that owns stock in an S corporation, double reimbursements for employee parking expenses, and charitable split-dollar life insurance;
- New restrictions on deferred compensation and split-dollar life insurance;
- An updated list of abusive tax avoidance ("listed") transactions, and revisions that ease the tax shelter disclosure rules;
- Rules for deducting and capitalizing costs of intangible assets;
- Guidance on health savings accounts;
- Certification of the 2005 Ford Escape and Toyota Prius for the \$2000 clean-burning fuel deduction;
- Updated designations of disaster relief areas entitled to tax relief;
- Major revisions to Form 1120, the corporate tax return, and Form 990, the information return for tax-exempt organizations; and
- The first comprehensive guidance on tax-sheltered annuities provided by schools and tax-exempt organizations, plus guidance on 401(k) plans and incentive stock options.

### **What's Next**

Congress failed to pass energy legislation proposed in 2004 but will consider tax incentives for renewable energy sources and property. President Bush is planning to propose major initiatives to reform the tax code and to provide personal care accounts for Social Security benefits. Congress will consider whether to codify the economic substance doctrine for abusive tax shelters, while the IRS increases its efforts to clamp

down on abuses in the tax-exempt sector. Legislators have already announced plans to restrict donations of historic facades, retroactive to 2004.

**Tried-and-True Tax Planning**

Your unique tax planning can begin at the start of Year 2005 to maximize your after-tax savings. Call to make an appointment to discuss your tax needs for 2005. We would be happy to sit down with you to determine how to customize a variety of tax strategies to maximize their effectiveness for you and your family.