# Tax Increase Prevention and Reconciliation Act of 2005


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## Summary of the Tax Increase Prevention and Reconciliation Act of 2005

The Tax Increase Prevention and Reconciliation Act of 2005 was signed into law on May 17, 2006. The most publicized provisions of the law are the extension of the lower capital gain and dividend tax rates and the extension of Alternative Minimum Tax relief. Below is a discussion of the principal provisions.

## A. Business Provisions

**1. Section 179 Expensing -**

The increased allowances for Section 179 expensing and the ability to revoke elections was scheduled to sunset at the end of 2007. Under the 2006 law, these provisions are extended through 2009. The maximum dollar amount may be deducted is $108,000 for property placed in service in taxable years beginning before Jan. 1, 2010. The extension includes computer software placed in services in taxable years beginning before 2010 as qualifying property.

**2. Musical composition -**

In any expense is paid or incurred by the taxpayer in creating or acquiring any musical composition or any copyright with respect to a musical composition that is required to be capitalized, the expenses are amortized over five-year period.

**3. Manufactures' deduction** -The Section 199 deduction as it relates to the W-2 wage limitation beginning for taxable years beginning after May 17, 2006 and later.
Cost allocations must be made to determine the amount of W-2 wages attributable to domestic production gross receipts.

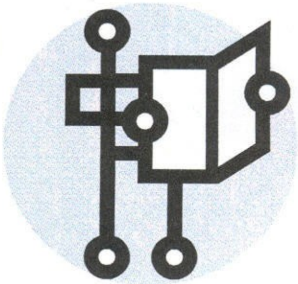
## B. Individual Provisions

1. **Kiddie tax -**

Retroactive to the beginning of the year, the kiddie tax has been modified to set the age limitation at minors under the age of 18.

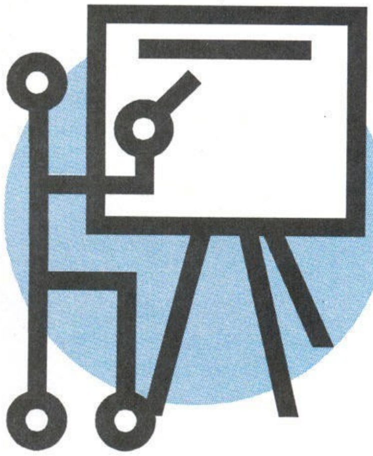
**2. Extension on capital gains and dividends tax maximum rates -**

The capital gains and dividends tax relief for individual taxpayers through reduced tax rates are extended for two years, through tax years beginning before January 1, 2011.



**3. Musical compositions –**

Capital gains treatment is extended to the musical compositions or copyrights in musical works sold or exchanged before January 1, 2011and aftermay17, 2006.



**4. AMT -**
The Act extends and increases the AMT exemption amount for individuals for one year. In 2006, taxpayers who are married filing jointly will be allowed an AMT exemption of $62,550 (it was $58,000) and single filers will be allowed an exemption amount of $42,500 (it was $40,250).

**5. Nonrefundable personal credits -**

The new legislation extended for two years the present-law provision (before December 31, 2007) allowing nonrefundable personal credits to the full extent of the individual's regular tax and AMT.

**6. Foreign exclusions -**
Allowed an exclusion from gross income for non-US source earned income attributable to personal services performed by that individual during the period of foreign residence or presence. The maximum exclusion amount for 2006 is $82,400.

**7. Roth IRA conversions -**
Starting with taxable year beginning in 2010 and thereafter, the income limitation on converting traditional IRAs to Roth IRAs is eliminated.

# Pension Protection Act of 2006

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## Summary of the Pension Protection Act of 2006

The Pension Protection Act of 2006 was signed into law by the President Bush on August 17, 2006. The law includes a number of significant tax incentives to enhance retirement savings for millions of Americans. The following is a brief summary of some of the retirement related provisions included in the law :

**1.Permanent Retirement and Savings Incentives -**

The *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA) substantially increased pension and individual retirement account (IRA) contribution limits through 2010. The IRA limit was increased as follows:

| Year | Limit |
|---|---|
| 2005 -2007 | $4,000 |
| 2008 | $5,000 |

The IRA catch-up contribution for participants age 50 and above was set at $1,000 for 2006 and after.

The SIMPLE IRA limit was increased as follows:

| Year | Limit |
|---|---|
| 2005 and 2006 | $10,000 |
| 2007 | $10,500 |

Participants age 50 and above can make SIMPLE IRA catch-up contributions. The additional amounts are as follows:

| Year | Limit |
|---|---|
| 2005 | $2,000 |
| 2006 and 2007 | $2,500 |

**2 Minimum Funding Standards –**

Significant changes in defined benefit funding rules, for both single and multiemployer plans.

**3. Saver's Credit Made Permanent -**

The Saver's Credit is up to $2,000. Without this extension, the credit would not have been available after 2006.

## Summer 2006 Retirement News for Employers

**4. Requirement to Allow Employees to Divest Plan Assets -**

Requires employers to allow participants in defined contribution plans that are invested in employer securities to elect to direct the plan to divest employer securities into other investment options.

**5. Combined Defined Benefit and Defined Contribution Plan -**

The new type of plan for small employers (with not more than 500 employees) consisting of a combination defined benefit plan and defined contribution plan.

**6. Automatic Enrollment -**

Creates a safe harbor to encourage employers to offer automatic enrollment in employer-sponsored defined contribution pension plans.

**7. Long Term Care/ Annuity Products -**

Authorizes a new insurance product which allows annuities to carry a long-term care rider, so that annuity earnings can also be used to provide coverage against long-term care needs.

**8. Rollover Rules -**

New rollover requirements for after-tax rollovers in annuity contracts, direct rollovers from retirement plans to Roth IRAs, and rollovers by nonspouse beneficiaries of certain retirement plan distributions.

**9. Transfers of Excess Defined Benefit Fund Assets for Retiree Health -**

Assets in excess of 120 percent of current liability to be used to fund retiree health benefits.

**10. Lump Sum Interest Rate -**

Phases out the use of the 30-year Treasury rate in computing lump sum distributions, and replaces it

**11. In-Service Distributions at age 62 -**

Pension plans to provide for distributions to employees who have attained age 62 and who have not separated from employment at the time of the distributions.

If you have any questions, please don't hesitate to call. We are at your service