

Important Tax News

From Sabal Trust Company

After months of negotiation, a new tax bill recently became law—the Tax Increase Prevention and Reconciliation Act of 2005. A few of its key provisions are worth reporting.

Dividend and capital gain rate cuts

In 2003 Congress lowered the maximum “qualified” dividend and long-term capital gains tax rates to 15% through 2008. For taxpayers in the 10% and 15% brackets, the tax rate is 5% through 2007 and zero in 2008. The new law extends the rates effective in 2008 through December 31, 2010.

Short-lived alternative minimum tax relief

The alternative minimum tax (AMT) is another way to figure your income tax liability, and it is paid when the calculation yields a number higher than your regular tax calculation. The new law ups the AMT exemption amount for 2006 (but only for 2006). The exemption for married couples filing jointly is \$62,550 and for single taxpayers, \$42,500.

Claiming certain “nonrefundable personal tax credits” (for example, the dependent care credit, credit for interest on certain mortgages and credits for certain college expenses) may push a taxpayer into the AMT. A provision in the new law extends a current law that allows most nonrefundable personal tax credits to be claimed against the AMT so that the full benefit of the tax credits is retained.

A change in the Roth IRA rules

The new law eliminates a rule that limited conversions from traditional IRAs to Roth IRAs to taxpayers with a maximum of \$100,000 in adjusted gross income. But the rule doesn’t go into effect until the year 2010.

An expanded “kiddie tax”

The kiddie tax rules require a child’s unearned income (dividends and interest, for example) to be taxed at the parents’ usually higher rate. Currently, the kiddie tax applies if the child is under age 14; has net unearned income over \$1,700; and the parent can claim the child as a dependent. Starting this year, the new law raises the age limit to under age 18.

A break for business owners extended

Under the current law small businesses may expense (i.e., deduct in the first year) up to \$100,000 of investments in depreciable assets. The deduction phases out dollar-for-dollar to the extent that the business’ annual investments exceed \$400,000. Without Congressional action the expensing limit would have declined to \$25,000 and the phaseout threshold to \$200,000 after 2007. The extension for the expensing limit and the phaseout limit is now in place through the year 2009. This deduction can only be utilized to the extent of the business’ income and can not be used to create a net operating loss.

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Proposed Estate Tax Relief

In late June, the House approved H.R. 5638, the Permanent Estate Tax Relief Act of 2006. The following is a summary of this important legislation:

- Permanently exempts assets up to \$5 million per individual from estate tax beginning January 1, 2010. The bill also allows married couples to carry over any unused exemption to the surviving spouse allowing full use of this exemption.
- Reunifies the estate, gift and generation skipping transfer taxes, giving individuals greater flexibility to make estate planning decisions.
- Allows estates between \$5 million and \$25 million to be taxed at the same rate as capital gains (which is currently 15%, but will go up to 20% in 2011), and estates over \$25 million would be taxed at double the capital gains rate.
- Guarantees the “stepped-up” basis for assets acquired from a decedent.

Florida Intangible Taxes

A bill that repeals the Florida Intangible Tax effective January 1, 2007 has been passed in both the Florida House and Senate. Governor Jeb Bush is expected to sign this piece of legislation in the near future. Once passed, the last Intangible Tax payment will have been due on June 30, 2006 based on December 31, 2005 asset values. There will be no Intangible Tax due based on December 31, 2006 values and beyond.

