

End-of-Year Tax Planning



On November 8, 2006 MacElree Harvey held a seminar on End-of-Year Tax Planning. This free, 90-minute program held at West Chester University's Graduate School of Business addressed the latest changes to the tax codes. Attorneys Harry J. DiDonato, Joseph A. Bellinghieri and James B. Urie presented the material and fielded questions from the audience.

What follows are the key points discussed at the session, presented in a Q & A format for easy reading. MacElree Harvey holds free seminars open to the public every quarter. Check our website in January for the 2007 schedule.

This year, the federal government passed the Tax Increase Prevention and Reconciliation Act (TIPRA). What is it and how does it affect taxpayers?

TIPRA, which was passed mid-way through the year, has both positive and negative aspects for taxpayers. On the positive side, the Act extends a lot of the sunset provisions that were set to expire before 2009 and 2010. Also, some of them were scheduled to expire at the end of 2006. The "kiddie" tax rule (unearned income for children) has been extended for another four years.

TIPRA extends the AMT exemption amount to \$62,500 for married individuals filing a joint return and to \$42,500 for single taxpayers.

TIPRA extends the preferential rate for capital gains and dividends, cutting it to 15% for most tax brackets, for both dividends and capital gains. This extension expires at the end of 2010. Some taxpayers may be in the 10% bracket already. In 2008, these taxpayers will have their tax go to 0%.

Small businesses and self-employed individuals can take advantage of the accelerated depreciation rules. There are certain limits on the equipment expenditures you can accelerate. In essence, you do not have to follow a straight-line depreciation. For example, if you purchase \$100,000 worth of equipment that you depreciate over 7 years, you can depreciate 1/7 of the \$100,000 each year. Now, you can accelerate the depreciation and in some instances take the entire depreciation in one year.

A Pension Protection Act was also passed this year. What are the highlights of this piece of legislation?

A number of changes are put in motion with this Act. First, a ceiling of \$100,000 adjusted gross income is in place for conversions of traditional IRAs to ROTH IRAs after 2009. This

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represents an extension of the rules and a capping of the amount eligible to convert without a penalty.

Taxpayers will now, under the Pension Protection Act, be able to “roll over” their tax refunds into an IRA. This is intended to encourage people to save more.

The IRS has expanded upon the definitions of what constitutes IRA hardship withdrawals, before age 59 ½.

Certain IRA rollovers can avoid the 10% penalty if the rollover is to a charity. In essence, taxpayers can make a tax-free distribution from their IRA to a charity without penalty. There is no corresponding deduction for the contribution.

What are the current exemption amounts for gifts?

An individual can give up to \$12,000 a year to a child without paying any tax. In the case of a married couple, each parent can give the child \$12,000 or a total of \$24,000 without a tax penalty. Gift tax returns (Form 709) will need to be filed.

If you give away more than \$1 million during your life, not taking into account the \$12,000 per child per year exclusion, you will need to pay federal estate tax.

There are new guidelines within Pennsylvania for 529 plan contributions. Beginning in 2006, any contribution a parent or other individual makes to a 529 plan, the amount of the contribution is deducted from the individual’s total income, thereby reducing their Pennsylvania income tax liability. Eligible contributions need to have been made after 1/1/2006.