

What the New Tax Bill Changes Mean to You?

On May 17th President Bush signed the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) into law with new tax changes. For individual tax payers, these changes primarily extend benefits that were scheduled to lapse this year. Here is a summary of the new rules and how they may affect our executive clients:

AMT relief for one more year

The \$58,000 Alternative Minimum Tax (AMT) exemption was scheduled to revert back to \$45,000 at the end of 2005. The new law increases the exemption for 2006 to \$62,550, and postpones the reversion to 2007 and beyond without another extension. Some of our clients will see a slight reduction in the amount of AMT tax that is due in 2006, but it will jump back up in 2007 and later years unless Congress finds a permanent solution.

Dividend and Long Term Gains Tax Rate extended to 2010

The current 15% tax rate on dividends and long term capital gains has been extended for two more years through 2010. The 0% long term capital gains rate for those in the 10% or 15% bracket starting in 2008 has also been extended; however, see the "Kiddie Tax" change below.

"Kiddie Tax" Age Increased from 14 to 18 Years Old

Currently investment income over \$1,700 for children younger than 14 is taxed at the parent's higher rates. Because this allows high bracket taxpayers to shift income to kids over 14, the new law has increased the age limit to 18. This may impact the decision about selling a child's college portfolio prior to 18.

Roth Conversions Now Possible for High Bracket Taxpayers in 2010

Until now, people with adjusted gross incomes above \$100,000 could not convert their traditional IRA into a Roth IRA. The new law removes the income ceiling for converting in 2010. This creates an opportunity for high bracket individuals to participate in the tax-advantaged Roth accounts. While contributions to Roth IRAs are not allowed for taxpayers with an AGI over \$160,000 (for married filers), high salary earners may consider making nondeductible traditional IRAs contributions immediately, and then converting to a Roth in 2010. But beware that Congress might close this "loophole" by 2010.

You can access a handy chart of the main changes in the bill at http://tax.cchgroup.com/legislation/2006-05_QTF-Legislation.pdf

If you have any questions, please contact your Vantage Relationship Manager.

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