

New Tax Law Changes for 2006

As a service to our clients and friends, we would like to alert you to some of the changes that may affect individual and small business taxpayers for 2006.

Increased 401(k) and 403(b) Contribution Limits

The maximum contribution amount for 401(k) and 403(b) plans has increased from \$14,000 in 2005 to \$15,000 in 2006. Taxpayers who are age 50 before the end of 2006 can increase their contribution limits by an additional \$5,000.

New Credit for Non-Business Energy Property

A new credit equal to 10% of expenditures for qualifying energy savings improvements to his residence has been introduced for 2006. A taxpayer may claim a lifetime \$500 credit (\$200 for windows) for a 3 year period 2006-2008. Qualifying expenditures include exterior windows and doors, electric heat pumps, central air conditioning, and certain energy efficient insulation materials.

New Credit for Residential Energy Efficient Property

From 2006-2008, a taxpayer may claim a \$2,000 credit for installation of solar water heating equipment, photovoltaic or fuel cell equipment in his residence. The credit is 30% of the cost of the equipment. No credit is allowed for heating a swimming pool or hot tub.

New Credit for Purchase of New Energy Efficient Vehicles

Starting in 2006 there is a credit for the purchase of new alternative fuel vehicles. New hybrid vehicle are eligible for a tax credit of up to \$3,400 depending on the fuel efficiency of the vehicle. The credit is limited, however to the first \$60,000 vehicles sold in 2006 per auto manufacturer.

Phase-out of Itemized Deductions is Reduced

In previous years itemized deductions have been reduced as your income increases. Starting in 2006, the deduction phase-out will be reduced by one-third. In 2008, it will be reduced by two-thirds, and in 2010 the phase-out will disappear completely.

Alternative Minimum Tax (AMT) Exemptions Reduced

Beginning in 2006, the AMT exemptions revert to the 2002 levels. The exemption amount for couples filing jointly is reduced from \$58,000 to \$45,000 in 2006. This means that many more taxpayers will be caught by the AMT tax. Congress may retroactively restore the higher amount if they pass pending legislation.

Certain Deductions Eliminated

Three deductions allowed in prior years have expired. Starting in 2006 a taxpayer can no longer deduct tuition and fees, the educator's deduction, or the sales tax deduction.

Gift Tax Exclusion Increased

In 2006 the annual gift tax exclusion increases from \$11,000 to \$12,000.

Estate Tax Exemption Increased

The estate tax exemption increased from \$1.5 million to \$2.0 million, however, while the exemption continues to increase to a complete elimination of the estate tax in 2010, in 2011 the tax reverts back to the 2002 law having only a \$1 million exemption unless Congress makes changes that are now being considered.

We realize that tax laws are constantly changing. We strive to monitor these changes and make adjustments to our financial strategies where necessary. If you would like any additional information please contact your relationship manager.

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