



2006 Tax changes

IRA Contribution

For 2006, the catch-up contribution for traditional IRAs increases by \$1,000. Therefore, taxpayers age 50 or older can contribute up to \$5,000, whereas those under age 50 can contribute up to \$4,000.

Elective Deferrals

The maximum 401(k) and 403(b) employee contribution increases to \$15,000 (from \$14,000). Taxpayers who are at least age 50 before the end of 2006 can increase their contribution limits by the following amounts for the following plans:

- An additional \$5,000 (from \$4,000) for 401(k), 403(b), salary reduction SEP plans, and 457 plans
- An additional \$2,500 (from \$2,000) for SIMPLE plans

Elective Deferrals Treated as Roth IRA-Type Contributions

Beginning in 2006, a taxpayer can treat all or part of elective deferrals as after-tax Roth contributions. The contributions that a taxpayer makes under this program will be treated as elective deferrals but will not be excludable from gross income.

The taxpayer is not allowed a deduction on the contributions to a 401(k) or 403(b) plan that are treated as Roth contributions. These contributions are treated as regular income on their Form W-2. The distributions from these accounts would be tax-free under the same provisions as a Roth IRA.

Clean-Fuel Deduction and Qualified Electric Vehicle Credit

Taxpayers may claim 25% of the otherwise allowable clean-fuel vehicle deduction or qualified electric vehicle credit for vehicles purchased in 2006. No credit or deduction will be allowed for vehicles purchased after December 31, 2006.

DOT 'Hours of Service' Limits

The Department of Transportation (DOT) *hours of service* limits for meal expenses increases to 75 percent for 2006 and 2007. The meals must take place during or incident to any Department of Transportation hours of service limits.

This limit increases to 80 percent by the year 2008.

Section 179 Expense Deduction

The maximum amount of the section 179 deduction decreases to \$25,000 (from \$105,000). The section 179 phaseout threshold decreases to \$200,000 (from \$420,000). The ability to file an amended return to make or revoke an election without IRS consent is no longer available. Additionally, off-the-shelf computer software is no longer eligible for the section 179 deduction.

Itemized Deduction Limits

Starting in 2006, the itemized deduction phaseout will be reduced by one third. In 2008, it will be reduced by two thirds, and in 2010, the phaseout will disappear entirely.

Alternative Minimum Tax

For tax years after 2005, the AMT exemption amount will revert to \$45,000 for married filing jointly or qualifying widow(er), \$33,750 for single or head of household, and \$22,500 for married filing separately.

Child Tax Credit

The maximum credit amount for each qualifying child will remain at \$1,000 for tax-years 2006 through 2010.

Estate and Gift Tax

For tax-year 2006, the exemption amount for estate tax purposes increases to \$2,000,000. The estate (and gift) maximum marginal tax rates drop to 46 percent (from 47 percent).

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