BULLETIN

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Taxing Matters

Even its name is a mouthful: "The Tax Increase Prevention and Reconciliation Act" (TIPRA). But what does this massive piece of legislation, approved in May by both houses of Congress, mean to you? Most people will feel the impact in one of a very few areas and, for the most part, will pay less tax than if TIPRA had been passed. Here's our summary.

CAPITAL GAINS

As one might expect, capital gains came in for special treatment under this legislation. In general, the favorable provisions enacted over the past five years have been extended through 2010. These include:

❖ **Lower rates on capital gains.**
If you're a noncorporate taxpayer, your adjusted net capital gain will continue to be taxed at a *maximum* rate of 15%. If your ordinary income would be taxed at 15% or 10%, the maximum capital gains tax rate is 5%. This goes down to 0% for tax years after 2007. All of this is a substantial savings over the 8% - 20% rates previously in effect – and scheduled to be reactivated in 2008.

❖ **Lower rates on qualified dividend income.**
Noncorporate taxpayers will be allowed to treat qualified dividend income as adjusted net capital gain, rather than as ordinary income. The same rates apply as described above.

❖ **Capital gain treatment for self-created musical works.**
If you own a copyright to a musical work you created yourself, the income will now be taxed at the lower rate applied to capital gains. It used to be that income from the sale of copyrights of musical works was treated as ordinary income and taxed at the applicable higher level.

ALTERNATIVE MINIMUM TAX

Earlier in the year, there was a great deal of press on the alternative minimum tax and how it was going to ensnare an increasing number of people beginning with 2006. Essentially, before TIRPA, exemptions would have dropped back to 2000 levels, with no adjustments for inflation. To deal with this, Congress has adopted a one-year patch, boosting the AMT exemption amounts over 2005 levels.

❖ **Married individuals filing jointly and surviving spouses.**
The exemption is $62,550, less 25% of AMTI exceeding $150,000 (0 exemption when AMTI is $400,200)