

Tax Relief and Health Care Act of 2006

On December 20, 2006, President Bush signed into law the Tax Relief and Health Care Act of 2006.

Here are some of the highlights of the act:

1. State and local general sales tax deduction in lieu of state and local income taxes on Schedule A is extended from 2005 – 2007.
2. The higher education deduction is extended from 2005 – 2007. This deduction sometimes provides a greater benefit than the Hope or Lifetime Learning Credits.
3. Teacher's out of pocket classroom related expenses of \$250, deductible above the line, is extended from 2005 – 2007.
4. A new deduction is allowed for premiums paid or accrued during 2007 for qualified mortgage insurance (PMI) in connection with acquisition indebtedness of a qualified residence. This amount is deducted as qualified residence interest on Schedule A. There is an adjusted gross income (AGI) phase out, starting at \$100,000.
5. Residential energy efficient property credit is extended for one year. Also extended for one year is the deduction for energy efficient commercial building property of \$1.80 per square foot. The energy efficient home credit for eligible contractors is extended through 2008.
6. The exclusion for sales of principal residence is modified for sales or exchanges by employees of the intelligence community (CIA, FBI, etc). The change extends the 2 of 5-year rule to 2 of 10 years for these employees. This is similar to the rules that continue to apply to the military.
7. HSA's (Health Savings Account) continue to get much better in 2007. A one-time tax-free rollover of IRA distributions into an HSA is allowed, up to the maximum funding level for the HSA. Also new are one-time rollovers from health Flexible Spending Accounts and Health Reimbursement Accounts into HSA's. There are two other changes: You can fully fund the maximum into the HSA regardless of the deductible (as long as you meet the definition of a high deductible plan), and there is no need for prorating the contribution, as long as the HSA remains open for at least 12 months.

8. A 15 year MACRS life depreciation deduction is available for 2006 and 2007 for qualified restaurant property.
9. Changes were made in the alternative minimum tax calculation of the refundable credit amount. This is effective in 2007. In some cases, it could reduce tax by as much as \$5,000.

If you have any questions regarding these changes please give us a call.

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