

ALERT

PRESIDENT BUSH SIGNS NEW TAX LEGISLATION

On December 20, 2006, President George W. Bush signed tax legislation that affects several areas of tax savings and deductions, some of which are highlighted below. For further information on these, or any other tax issues, please contact your LBA professional at 904.396.4015.

Above-the-Line Deduction for Higher Education Expenses

The provision allows taxpayers to deduct up to \$4,000 (depending on their income) of higher education expenses in lieu of claiming the Hope or Lifetime Learning tax credits. The deduction may be claimed by all individual taxpayers regardless of whether they itemize their deductions. The provision is extended for two years through 2007.

State and Local Sales Tax Deduction

The provision creates parity among States by allowing all taxpayers the option to deduct their State and local sales taxes in lieu of their State and local income taxes. The provision is extended for two years through 2007.

Above-the-Line Deduction for Teacher Classroom Expenses

The provision allows teachers who teach at least 900 hours per year to deduct up to \$250 of out-of-pocket costs incurred to purchase books, supplies and other classroom equipment. The deduction is available to all individual taxpayers regardless of whether they itemize their deductions. The provision is extended for two years through 2007.

Fifteen-Year Depreciation for Leasehold Improvements

The cost of leasehold improvements is generally depreciated over 39 years. The provision reduces the depreciation period for qualified leasehold improvements from 39 years to 15 years. The provision is extended for two years through 2007.

Incentive Stock Option Alternative Minimum Tax (AMT) Provisions

The provision allows individuals to take advantage of a refundable credit with respect to certain long-term unused AMT credits existing prior to January 1, 2013. The annual credit amount, subject to a phase-out, is the greater of (i) the lesser of \$5,000 or the amount of the long-term unused AMT credit, or (ii) 20 percent of the amount of the long-term unused AMT credit.

Premiums for Mortgage Insurance

The provision establishes an itemized deduction for the cost of premiums for mortgage insurance on a qualified personal residence. The deduction is phased-out ratably by 10 percent for each \$1,000 by which the taxpayer's adjusted gross income exceeds \$100,000 for married couples or \$50,000 for singles. The provision is effective for one year and only applies to policies issued after 2006. Current home owners are not eligible.



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HEALTH SAVINGS ACCOUNT PROVISIONS

The *Tax Relief and Health Care Act of 2006* also contains a package of provisions designed to improve Health Savings Accounts (HSAs).

1. Flexible Spending Accounts (FSAs) and Health Reimbursement Accounts (HRAs) terminations to fund HSAs.
 - a. Allow rollovers from health FSAs and HRAs into HSAs
 - b. Certain FSA coverage treated as disregarded coverage
2. Repeal of annual plan deductible limitation on HSA contributions
3. Modification of cost-of-living adjustment
4. Expanded contribution limitation for part-year coverage
5. Modification of employer comparable contribution requirements for contributions made to non-highly compensated employees
6. One-time rollovers from IRAs into HSAs after 2006

In accordance with U.S. Treasury Circular 230, we are required to inform you that any tax advice contained in this communication (including attachments) was not intended or written to be used for and cannot be used for the purpose of avoiding tax penalties or in connection with promoting, marketing, or recommending any transaction or tax-related matter.