

2005/2006 Tax Law Update

2005 Federal Individual Income Tax Rates

Tax Rate	Single	Joint	Head of Household	Married Filing Separately
10%	\$0–7,300	\$0–14,600	\$0–10,450	\$0–7,300
15%	\$7,301–29,700	\$14,601–59,400	\$10,451–39,800	\$7,301–29,700
25%	\$29,701–71,950	\$59,401–119,950	\$39,801–102,800	\$29,701–59,975
28%	\$71,951–150,150	\$119,951–182,800	\$102,801–166,450	\$59,976–91,400
33%	\$150,151–326,450	\$182,801–326,450	\$166,451–326,450	\$91,401–163,225
35%	\$326,451 and up	\$326,451 and up	\$326,451 and up	\$163,226 and up
Standard Deduction	\$5,000	\$10,000	\$7,300	\$5,000

Tax Relief for Married Taxpayers

- The 15% tax bracket and standard deduction for joint filers (*and married filing separate status*) continue to eliminate the “marriage penalty” through 2010.

Child Tax Credit

- The maximum child tax credit for each dependent child under age 17 remains at \$1,000 through 2010. It is subject to Adjusted Gross Income (“AGI”) limits.

2005 Investment Income Tax Rates

	Taxpayers <i>10% or 15% tax bracket</i>	Taxpayers <i>All other tax brackets</i>
Ordinary dividends	Regular tax rate	Regular tax rate
Qualified dividends	5%	15%
Short-term capital gains	Regular tax rate	Regular tax rate
Long-term capital gains	5%	15%

Dividends issued on stock held for a period of time are considered “qualified dividends” and should be reported as such on the 2005 Form 1099 received.

IRS Mileage Rates (cents/mile)

Purpose	1/1/05-8/31/05	9/1/05-12/31/05	2006
Business	40.5	48.5	44.5
Medical or moving	15	22	18
Charitable	14	14	14

Katrina related charitable miles driven have unique mileage rates.

Itemized Deductions

- Unreimbursed **medical expenses** may be deductible for New Jersey, even if not deductible for federal tax purposes. *Be sure to calculate miles driven for medical purposes as well.*
- If you incurred significant sales tax during 2005, you may be eligible to deduct this on your 2005 tax return instead of state and local income tax.
- Do not forget **noncash charitable contributions**, as well as *charitable mileage*.
- Deductible **childcare expenses** for a dependent under age 13 may include after school programs and day camp.

Alternative Minimum Tax (“AMT”) Relief

- AMT exemption \$58,000 for joint filers, \$40,250 for single filers, \$29,000 for separate filers through 2005.

Education Deductions/Credits

Maximum benefit (<i>AGI limits apply</i>)	2005	2006
Student loan interest deduction	\$2,500	
Tuition deduction	\$4,000	
Hope scholarship credit	\$1,500/student	
Lifetime learning credit	\$2,000	

2006 Retirement Contribution Limits

Maximum Contribution	IRA	401(k)	SIMPLE	SEP
Under age 50	\$4,000	\$15,000	\$10,000	\$44,000
Age 50 or older	\$5,000	\$20,000	\$12,500	\$44,000

2006 Energy Efficiency Credits

- Primary residence improvements including insulation, exterior windows and doors, solar or fuel cell power plant.
- Purchase or lease of a hybrid vehicle.

2006 Gift Tax Annual Exclusion

- Up to \$12,000 may be gifted to an individual without incurring gift tax. Limitations apply.

The tax law summary provided above is intended for general information.

Please consult a CPA for tax planning advice regarding your specific circumstances.