Tax Relief

New tax code contains over 800 changes

The Taxpayer Relief Act of 1997, signed into law on August 5, 1997, provides the most significant tax cuts in 16 years. Since the bill contains over 800 changes to the Internal Revenue Code, the scope of this article will deal only with the more popular applications. Because of the complex nature of the new provisions, I strongly recommend that you consult with a CPA, Certified Financial Planner, or other tax professional. I will attempt to summarize some of the changes that have gotten the most press and are mainstream in their application.

LONG-TERM CAPITAL GAINS

Gains on sales of investment assets held for more than 18 months are now taxed at 20%, with a lesser rate of IO% applied for taxpayers whose taxable income would otherwise be at the 15% rate. Sound confusing? Wait until taxpayers try to deal with the interim rules that apply to sales prior to 5/7/97, sales through 7/28/97, sales after 7/28/97, and purchases after 12/31/00!

SALE OF PERSONAL RESIDENCE

The most surprising tax cut came in the area that affects almost every taxpayer, regardless of income level, gains on the sale of personal residence. Under the new law, married taxpayers are entitled to exclude up to $500,000 of gain on the sale of a residence that has been the primary dwelling of the taxpayers for at least two of the last five years prior to the sale. The old law provided a once-ina-lifetime exclusion of $125,000 of gain for taxpayers over the age of 55. What is even better under the new law is that this $500,00 exclusion of gain is available every two years!

RETIREMENT PLANS

Numerous press articles have attempted to clarify the new IRA rules, although it is difficult to apply specific tax planning strategies in a generic manner. Many higher income taxpayers will be dismayed to learn that some of the new products are not available due to income ceilings. The Roth IRA appears to be the most popular new product since it allows tax-free accumulations and qualified distributions (in the account for at least five years) of payouts made after the taxpayer attains age 59 1/2, upon death or disability, or if the money is withdrawn by first-time home buyers to purchase a primary residence (limited to $ 1 0,000). Taxpayers are able to rollover non-deductible and taxdeferred IRAs into the Roth IRA, however tax on the previously untaxed portion is due over a four year period, even if no distribution takes place. Roth IRAs are available to married taxpayers with adjusted gross income (AGI) less than $160,000 and single AGI less than $1 10,000. The rules relative to deductible IRAs and non-working spousal IRAs have also changed to the taxpayers benefit.

CHILD TAX CREDIT

Many parents are overjoyed to learn that, beginning in 1998, a credit of $400 ($500 in 1999) will be given for each qualifying child under the age of 17 at the end of the calendar year. This credit will begin phasing out on married joint taxpayers with AGI over $1 1 0,000 and single over $75,000.

EDUCATION TAX INCENTIVES

There have been numerous changes in this area, most notably with the creation of the Education IRA, HOPE Scholarship, Lifelong Learning Credit, and Education Loan interest deductibility. Most taxpayers will not be included in these new products unless income level maximums and school eligibility requirements are met. Please consult your CPA to determine if any of these apply to your home situation.

ESTATE TAXES

The exclusion of estate exemption has been increased from $600,000 to $ 1,000,000 over a graduated seven year phase-in. Family-owned businesses will have a special exclusion in addition to the normal exemption. The gift tax exclusion of $ 1 0,000 per individual will be indexed starting in 1999.

BUSINESS TAX PROVISIONS

Small business owners will gladly accept the new laws relative to expanded home office deductions, the repeal of the corporate altemative minimum tax, self-employed health insurance deduction increase, and relaxed electronic tax deposit rules, to name a few.

MISCELLANEOUS ITEMS

Other general changes include the charitable mileage rate increase from 12 cents to 14 cents per mile (31 1/2 cents per mile for 1997 business travel), relaxation of underpayment penalties on estimated payments and final balance due, and the continuation of appreciated, stock donations to charity and allowable deductible long-term health care insurance. As you can see the new tax law has farreaching effects andjust as many ambiguities! As always I welcome your questions, comments and critique.