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Client Information Bulletin

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Overview of Key New Law Provisions *Roundup of tax breaks in new "extender" law*

At long last, Congress passed the **Tax Relief and Health Care Act of 2006** in the waning days of December. As expected, the new legislation retroactively extends numerous tax law provisions that had officially expired at the end of 2005. In general, the extensions are retroactive to the beginning of 2006 and will now expire at the end of 2007 (unless further legislation is enacted).

The following is a brief summary of several key provisions included in the new tax law.

- ◆ Individual taxpayers may claim an above-the-line deduction for qualified higher education expenses in lieu of one of the education tax credits. The maximum deduction is \$4,000.
- ◆ A taxpayer may elect to deduct state sales tax in lieu of deducting state and local income taxes. The deduction amount is based on a state-by-state table (plus the sales tax on certain high-cost items may be added to the amount).
- ◆ The tax credit for qualified research and development (R&D) costs is extended. It also increases the value of the alternative incremental credit and adds a new simplified credit.
- ◆ The Work Opportunity Tax Credit (WOTC) and the Welfare-to-Work (WTW) Tax Credit are both

extended without modification through 2006. For 2007, the WTW credit is combined with a modified WOTC.

- ◆ The above-the-line deduction for teacher classroom expenses is reinstated. The maximum deduction remains at \$250.
- ◆ Generally, the write-off period for depreciable real estate is 39 years. The new law extends the use of a special 15-year depreciation period for leasehold and restaurant improvements.
- ◆ The availability of Archer Medical Savings Accounts (MSAs) is extended. Individuals may make tax-deductible donations to an Archer MSA to pay for health care expenses. The distributions are tax-free to the extent they are used to pay for qualified health care expenses.

- ◆ A business may be able to claim an expanded deduction for scientific property and computer equipment donated to educational institutions or other qualified charitable organizations. The deduction is equal to the donated property's basis plus half the difference between basis and fair-market value.

- ◆ Numerous tax incentives for energy-saving purchases that were originally scheduled to expire at the end of 2007 are extended through 2008.

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