

LEIMBERG'S THINK ABOUT IT

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KEY 2006 PENSION AND EMPLOYEE BENEFIT NUMBERS KEY 2006 INCOME TAX RATES AND OTHER ESSENTIAL DATA KEY 2006 ESTATE PLANNING INFLATION ADJUSTMENTS

GOVERNMENTAL PLANS: The annual compensation limitation to be taken into account for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost of living adjustments to the compensation limitation (under Section 401(a)(17)) is increased from \$315,000 to \$325,000.

CONTROL EMPLOYEE: The compensation amounts concerning the definition of "control employee" for 1.61-21(f)(5)(i) fringe benefit valuation purposes remains unchanged at \$85,000.

The compensation amount under Section 1.61-21(f)(5)(iii) is increased from \$170,000 to \$175,000.

CATCH-UP CONTRIBUTIONS: For individuals age 50 or over, the dollar limitation for catch-up contributions to an applicable employer plan **other than** a plan described in Section 401(k)(11) or 408(p) is increased from \$4,000 to \$5,000. Section 414(v)(2)(B)(i).

The dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or 408(p) for individuals 50 and over is increased from \$2,000 to \$2,500.

IMPORTANT COLAS and SCHEDULED INCREASES

	2004	2005	2006
Sec. 415 Limit for Defined Benefit Plans IRC Sec. 415(b)(1)(a) (Maximum yearly benefit allowed is the lesser of 100 percent of the average highest 3 years' compensation or the indicated figure. Reductions apply for plans with pre-65 normal retirement ages and for participants with less than 10 years of service.)	\$165,000	\$170,000	\$175,000
Sec 415 Limit for Defined Contribution Plans IRC Sec. 415 (c) (1)(A) (Defined contribution plans with non calendar limitation years beginning before January 1, 2002, and ending after December 31, 2001, remains unchanged at \$40,000.)	\$41,000/ 100 percent of comp.	\$42,000/ 100 percent of comp.	\$44,000/ 100 Percent of comp.
Sec 416(i)(1)(A)(i) – Definition of Key Employee in Top Heavy Plan	\$130,000	\$135,000	\$140,000
Annual Limit on Includible Compensation IRC Sec. 401(a)(17)), 404(1), 408(k)(3)(c), and 408(k)(6)(D)(ii) (This is the maximum amount of compensation that can be taken into account when determining an individual contribution to or benefit under a qualified retirement plan.)	\$205,000	\$210,000	\$220,000
Highly Compensated Employee IRC Sec. 414(q)(1)(B) (Highly compensated employees are those with compensation above this figure. Dollar limitation under Sec. 416(i)(1)(a)(i) concerning definition of Key Employee in top-heavy plan remains \$135,000.)	\$90,000	\$95,000	\$100,000
Exclusion for Elective Deferrals Described in Sec. 402(g)(1) for a (401(k) Plan or 403(b) Plan or SEP and Thrift Savings Plan (The indicated figure is the maximum salary reduction that a participant can make under Sec. 402(g)(3).)	\$13,000	\$14,000	\$15,000
Maximum Elective Deferrals for a SIMPLE IRC Sec. 408(p)(2)(E)	\$9,000	\$10,000	\$10,000
Maximum 457 Salary Reduction IRC Sec. 457(e)(15) (Maximum deferral to non-qualified plans of state and local government and tax exempt orgs.) Organizations that sponsor 457(b) plans may permit employees to defer \$12,000 under a 401(k) plan, and to defer an additional \$12,000 on a pre-tax basis under a 457(b) program.	\$13,000	\$14,000	\$15,000

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	2004	2005	2006
Part-time Employee Floor for a SEP IRC Sec. 408(k)(2) (c) (Employees who earn over the indicated limits must be included in a SEP if they are otherwise eligible.)	\$450	\$450	\$450
Maximum Amount Under Sec. 409(o)(1)(C) (ii) for Determining Lengthening of 5-Year Distribution Period	\$165,000/ \$830,000	\$170,000/ \$850,000	\$175,000/ \$885,000
Social Security Tax Rate (This is the percentage that the employer and employee are each taxed for social security purposes. 6.2% is for Social Security tax. 1.45% is for Medicare.)	7.65%	7.65%	7.65%
Social Security Tax Rate (Self-Employed) (This is the percentage at which a self-employed individual is taxed for social security purposes. 12.4% is for Social Security while 2.9% is for Medicare.)	15.3%	15.30%	15.30%
Taxable Wage (Contribution and Benefit) Base (a/k/a FICA/SE Maximum Earnings Taxable) (This “earned income ceiling” is the maximum amount of covered earnings on which Social Security OASD taxes is paid.)	\$87,900	\$90,000	\$94,200
Medicare Special Wage Base (This is the maximum amount of covered earnings on which Social Security hospital insurance taxes are paid. Half this tax is deductible in computing AGI.)	No Limit	No Limit	No Limit
Medicare: Part B Monthly Premium: The deductible for 2005 is \$110.	\$66.60	\$78.20	\$88.50
Medicare: Part A: This premium is paid only by individuals who are not otherwise eligible for premium free hospital insurance and have less than 30 quarters of Medicare covered employment. The deductible paid by the beneficiary when admitted as a hospital inpatient in 2006 will be \$952.	\$343	\$375	\$393
Social Security Quarterly Earnings: Minimum amount which must be earned to receive Social Security Benefits: 40 quarters required.	\$900	\$920	\$970

INCOME TAX RATE SCHEDULES

MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES

Taxable Income	Tax
Not over \$15,100	10% of the taxable income
Over \$15,100 but not over \$61,300	\$1,510 plus 15% of the excess over \$15,100
Over \$61,300 but not over \$123,700	\$8,440 plus 25% of the excess over \$61,300
Over \$123,700 but not over \$188,450	\$24,040 plus 28% of the excess over \$123,700
Over \$188,450 but not over \$336,550	\$42,170 plus 33% of the excess over \$188,450
Over \$336,550	\$91,043 plus 35% of the excess over \$336,550

HEADS OF HOUSEHOLDS

Taxable Income	Tax
Not over \$10,750	10% of the taxable income
Over \$10,750 but not over \$41,050	\$1,075 plus 15% of the excess over \$10,750
Over \$41,050 but not over \$106,000	\$5,620 plus 25% of the excess over \$41,050
Over \$106,000 but not over \$171,650	\$21,857.50 plus 28% of the excess over \$106,000
Over \$171,650 but not over \$336,550	\$40,239.50 plus 33% of the excess over \$171,650
Over \$336,550	\$94,656.50 plus 35% of the excess over \$336,550

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UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSE AND HEADS OF HOUSEHOLDS)

Taxable Income	Tax
Not over \$7,550	10% of the taxable income
Over \$7,550 but not over \$30,650	\$755 plus 15% of the excess over \$7,550
Over \$30,650 but not over \$74,200	\$4,220 plus 25% of the excess over \$30,650
Over \$74,200 but not over \$154,800	\$15,107.50 plus 28% of the excess over \$74,200
Over \$154,800 but not over \$336,550	\$37,675.50 plus 33% of the excess over \$154,800
Over \$336,550	\$97,653 plus 35% of the excess over \$336,550

MARRIED INDIVIDUALS FILING SEPARATE RETURNS

Taxable Income	Tax
Not over \$7,550	10% of the taxable income
Over \$7,550 but not over \$30,650	\$755 plus 15% of the excess over \$7,550
Over \$30,650 but not over \$61,850	\$4,220 plus 25% of the excess over \$30,650
Over \$61,850 but not over \$94,225	\$12,020 plus 28% of the excess over \$61,850
Over \$94,225 but not over \$168,275	\$21,085 plus 33% of the excess over \$94,225
Over \$168,275	\$45,521.50 plus 35% of the excess over \$168,275

ESTATES AND TRUSTS

Taxable Income	Tax
Not over \$2,050	15% of the taxable income
Over \$2,050 but not over \$4,850	\$307.50 plus 25% of the excess over \$2,050
Over \$4,850 but not over \$7,400	\$1,007.50 plus 28% of the excess over \$4,850
Over \$7,400 but not over \$10,050	\$1,721.50 plus 33% of the excess over \$7,400
Over \$10,050	\$2,596 plus 35% of the excess over \$10,050

KIDDIE TAX

Net Unearned Income	
Net unearned income subject to the “kiddie tax” equals unearned income minus the greater of this amount	\$1,700
or certain itemized deductions plus this amount	\$850
Eligibility for Parental Election	
For parents to elect to include the child’s income on their return, the child’s gross income from interest and dividends must exceed this amount	\$850
and be less than this amount	\$8,500
Impact of Parental Election	
Parents who elect to include the child’s income on their return must include in their gross income the child’s gross income minus this amount	\$1,700
and must add to their tax the lesser of this amount	\$80
or this percentage	10%
of the excess of the child’s gross income over this amount	\$850
Alternative Minimum Tax Exemption Amount	
The AMT exemption amount for a child subject to the “kiddie tax” is limited to the sum of the child’s earned income plus the following amount	\$6,050

STANDARD DEDUCTION

Basic Standard Deduction:

Married individuals filing joint returns and surviving spouses	\$10,300
Heads of household	\$7,550
Unmarried individuals (other than surviving spouses and heads of households)	\$5,150
Married individuals filing separate returns	\$5,150

Additional standard deduction for the aged and the blind:

Unmarried and not surviving spouses	\$1,250
All others	\$1,000

Dependent (of another taxpayer):

Standard deduction for a person who can be claimed as a dependent by another is limited to greater of earned income plus this amount	\$300
or this amount	\$850

PERSONAL EXEMPTION

Exemption amount	\$3,300
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Exemption Phase-outs:

Married individuals filing joint returns and surviving spouses – threshold amount for beginning phase-out	\$225,750
- Exemption fully phased out	\$348,250
Heads of households – threshold amount for beginning phase-out	\$188,150
- Exemption fully phased out	\$310,650
Unmarried individuals (other than surviving spouses, heads of households) – threshold amount for beginning phase-out	\$150,500
- Exemption fully phased out	\$273,000
Married individuals filing separate returns – threshold amount for beginning phase-out	\$112,875
- Exemption fully phased out	\$174,125

ITEMIZED DEDUCTION

Filing status	
Married individuals filing separate returns	\$75,250
All others	\$150,500

EARNED INCOME CREDIT

	2005	2006
Credit denied if investment income exceeds		\$2,800
Taxpayers with two or more children		
Earned income amount	\$11,000	\$11,340
Maximum credit amount	\$4,000	\$4,536
Threshold phase-out amount: joint returns	\$16,370	\$16,810
Threshold phase-out amount: other returns	\$14,370	\$14,810
Completed phase-out amount: joint returns	\$37,263	\$38,848
Completed phase-out amount: other returns	\$35,263	\$36,348
Taxpayers with one child		
Earned income amount	\$7,830	\$8,080
Maximum credit amount	\$2,662	\$2,747
Threshold phase-out amount: joint returns	\$16,370	\$16,810
Threshold phase-out amount: other returns	\$14,370	\$14,810
Completed phase-out amount: joint returns	\$33,030	\$34,001
Completed phase-out amount: other returns	\$31,030	\$32,001
Taxpayers with no children		
Earned income amount	\$5,220	\$5,380
Maximum credit amount	\$399	\$412
Threshold phase-out amount: joint returns	\$8,530	\$8,740
Threshold phase-out amount: other returns	\$6,530	\$6,740
Completed phase-out amount: joint returns	\$13,750	\$14,120
Completed phase-out amount: other returns	\$11,750	\$12,120

SAVINGS BOND EXCLUSION

Section 135 limitation on exclusion of income from United States savings bonds for taxpayers who pay qualified higher education expenses:	
Married individuals filing joint returns and surviving spouses – threshold amount for beginning phase-out	\$94,700
- Exemption fully phased out	\$124,700
All others – threshold amount for beginning phase-out	\$63,100
- Exemption fully phased out	\$78,100

CHILD CREDIT & ADOPTION

The threshold amount used in computing the refundable portion of the child credit (this amount is subtracted from earned income and if there is an excess, a percentage of it is added to the overall credit limitation for purposes of computing a hypothetical credit which is used to compute the refundable portion of the child credit. See section 24(d)(1)(B)(i)	\$11,300
Adoption Credit – Sec. 23(a)(3)	
Maximum adoption credit for child with special needs	\$10,960
Maximum adoption credit for qualified adoption expenses of other children	\$10,960
Phase-out of adoption credit begins with modified AGI of	\$164,410
Complete phase-out of adoption credit with modified AGI of	\$204,410
Adoption Assistance Programs – Sec. 137(a)(2)	
Maximum exclusion from income in connection with employer-provided assistance in the adoption of child with special needs	\$10,960
Maximum exclusion from income in connection with employer-provided assistance in the adoption of other children	\$10,960
Phase-out of exclusion begins with modified AGI of	\$164,410
Complete phase-out of exclusion with modified AGI of	\$204,410

EDUCATION CREDITS & LOANS

Threshold amounts for expenses qualifying for the Hope Scholarship credit	\$1,100
Phase-out floor for Hope Scholarship and Lifetime learning credits – Joint returns	\$90,000
All other returns	\$45,000
Maximum interest deduction for education loans (Sec. 221)	\$2,500
Married filing jointly:	
Reduction begins when adjusted gross income exceeds	\$105,000
Complete elimination of deduction when AGI exceeds	\$135,000
All other taxpayers:	
Reduction begins when adjusted gross income exceeds	\$50,000
Complete elimination of deduction when AGI exceeds	\$65,000

DEPRECIATION LIMITS

	2005	2006
Limitation on aggregate cost of Sec. 179 property that taxpayer may elect to expense	\$105,000	\$108,000
Reduction for Sec. 179 property in excess of	\$420,000	\$430,000

AUTOMOBILE MILEAGE RATES

	2005	2006
Standard business use rate	40.5¢ (before 9/1) 48.5¢ (after 8/31)	Not yet available
Charitable use rate	14¢	14¢
Medical use rate	15¢ (before 9/1) 22¢ (after 8/31)	Not yet available
Moving expense rate	15¢ (before 9/1) 22¢ (after 8/31)	Not yet available

ESTATE PLANNING AMOUNTS

Annual Gift Tax Exclusion Code Sec. 2503	\$12,000
GST EXEMPTION Code Sec. 2631	\$2,000,000
Dollar Amount Used to Compute "2 Percent" Portion of 6166 Estate Tax Payable in Installments Calculation Code Sec. 6601(j)	\$1,200,000
APPLICABLE ESTATE TAX EXEMPTION	\$2,000,000
APPLICABLE ESTATE TAX CREDIT	\$780,800
APPLICABLE GIFT TAX EXEMPTION	\$1,000,000
GIFT APPLICABLE TAX CREDIT	\$345,800
Section 2032A "Special Use" Qualified Real Property Value Reduction Limit	\$900,000
"Super Exclusion" for Present Interest Gifts from Citizen to Non-Citizen Spouses: Code Sec. 2503 and 2523(i)(2)	\$120,000
Notice of Large Gifts from Foreign Persons: A U.S. person must report each gift received from foreign persons if the total gifts from all such persons in the year is more than:	\$12,760

IMPUTED INTEREST

Sec. 1274A(b) amount (qualified debt instrument)	\$4,630,300
Sec. 1274A(c)(2)(A) amount (cash method debt instrument)	\$3,307,400

FUNERAL TRUSTS

Qualified funeral trusts may not accept contributions by or for the benefit of an individual in excess of:	\$8,500
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IRA CONTRIBUTION LIMITS

	2005	2006
Traditional IRA (IRC Sec. 219)		
Deduction limit is the lesser of the individual's compensation or:	\$4,000	\$4,000
Catch-up contributions for individuals 50 or older:	\$500	\$1,000
Reduction for active participants in qualified plans if adjusted gross income exceeds:		
-For married filing jointly	\$70,000	\$75,000
-For married filing separately	\$0	\$0
-For all others	\$50,000	\$50,000
Roth IRA (IRC Sec. 408A)		
Contribution limit is the lesser of the individual's compensation or:	\$4,000	\$4,000
Catch-up contributions for individuals 50 or older:	\$500	\$1,000
Reduction for active participants in qualified plans if adjusted gross income exceeds:		
-For married filing jointly	\$150,000	\$150,000
-For married filing separately	\$0	\$0
-For all others	\$95,000	\$95,000

SOCIAL SECURITY AND MEDICARE

Social Security Tax Rate (This is the percentage that the employer and employee are each taxed for social security purposes. 6.2% is for Social Security tax. 1.45% is for Medicare.)	7.65%
Social Security Tax Rate (Self-Employed) (This is the percentage at which a self-employed individual is taxed for social security purposes. 12.4% is for Social Security while 2.9% is for Medicare.)	15.3%
Taxable Wage Base (a/k/a FICA/SE Maximum Earnings Taxable) (This "earned income ceiling" is the maximum amount of covered earnings on which Social Security OASD taxes is paid.)	\$94,200
Medicare Special Wage Base (This is the maximum amount of covered earnings on which Social Security hospital insurance taxes are paid. Half this tax is deductible in computing AGI.)	No Limit
Medicare Part B Monthly Premium:	\$88.50
Medicare Part B Deductible:	\$124
Medicare Part A Premium:	\$393
(This premium is paid only by individuals who are not otherwise eligible for premium-free hospital insurance and have less than 30 quarters of Medicare covered employment.)	(\$216 for those with 30-39 quarters of Medicare-covered employment).
Medicare Part A Deductible	\$952
Social Security Quarterly Earnings: (Minimum amount which must be earned to receive Social Security Benefits: 40 quarters required.)	\$970
Maximum Monthly Social Security Benefit at Full Retirement Age	\$2,053 (Age 65 and 8 mos.)
Retirement Earnings Test Exempt Amount (under full retirement age)	\$12,480
Retirement Earnings Test Exempt Amount (full retirement age)	\$33,240

TRANSPORTATION BENEFITS

Qualified Transportation	
Monthly exclusion for the aggregate of commuter highway vehicle transportation and transit pass is limited to	\$105
Monthly exclusion for qualified parking is limited to	\$205
Maximum Values for Employer-Provided Vehicles	
Passenger Automobile (cents-per-mile valuation)	\$14,800
Passenger Automobile (fleet-average valuation)	\$19,600
Truck or Van (cents-per-mile valuation)	\$19,600
Truck or Van (fleet-average valuation)	\$21,300

FOREIGN EARNED INCOME

	2002-2007
Limitation under Code Section 911(b)(2)(D)(i)	\$80,000

INSUBSTANTIAL BENEFITS FOR CHARITABLE CONTRIBUTIONS

Unrelated Trade or Business Exception for low-cost articles	\$8.60
Donor Benefit Reporting Not Required	
Condition One:	
Gift to charity worth at least	\$43.00
and benefit to donor from charity is item bearing charity's name or logo and costing charity no more than	\$8.60
Condition Two: Charity distributes free article not ordered by donor which costs charity no more than	\$8.60
Condition Three: Benefit received by donor is no more than the lesser of 2% of donor's contribution, or this amount	\$86.00

LOBBYING

Annual per person, family, or entity dues limitation to qualify for the reporting exception under Code Section 6033(e)(3) (and section 5.05 of Rev. Proc. 98-19, 1998-1 C.B. 547) for certain exempt organizations with nondeductible lobbying expenses	\$91
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MEDICAL SAVINGS ACCOUNTS

Self-Only Coverage:	
Annual deductible is not less than	\$1,800
Annual deductible is not more than	\$2,700
Annual out-of-pocket expenses (other than premiums) for covered benefits does not exceed	\$3,650
Family Coverage:	
	\$3,650
Annual deductible is not less than	\$3,650
Annual deductible is not more than	\$5,450
Annual out-of-pocket expenses (other than premiums) for covered benefits does not exceed	\$6,650

INSUBSTANTIAL BENEFITS FOR CHARITABLE CONTRIBUTIONS

Self-Only Coverage:	
Monthly contribution limitation is 1/12th of the lesser of the annual deductible or-	\$2,700
High deductible health plan deductible is not less than	\$1,050
High deductible health plan limit on annual out-of-pocket expenses (other than premiums)	\$5,250
Family Coverage:	
Monthly contribution limitation is 1/12th of the lesser of the annual deductible or-	\$5,450
High deductible health plan deductible is not less than	\$2,100
High deductible health plan limit on annual out-of-pocket expenses (other than premiums)	\$10,500

LONG TERM CARE INSURANCE

Per diem limitation for periodic payments received under qualified long-term care insurance contract or life insurance contract periodic payments treated as paid by reason of death of chronically ill individual under Code Section 7702B(d)(4)	\$250
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LONG TERM CARE PREMIUMS

Attained Age Before the Close of the Taxable Year	
40 or less	\$280
More than 40 but not more than 50	\$530
More than 50 but not more than 60	\$1,060
More than 60 but not more than 70	\$2,830
More than 70	\$3,530

CONTINUING CARE LOANS

Loan is excluded from Code Section 7872 imputed interest rules to the extent it does not exceed	\$163,300
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EXPATRIATION

The individual's average annual net income tax for the 5-year period preceding the citizenship loss exceeds...	\$131,000
The individual's net worth on the date of the citizenship loss equals or exceeds...	\$2,000,000

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