THE TAXPAYER RELIEF ACT:

How Will it Affect You?

Taxes, we are often told, are one of life's two certainties. Congress passed a law this year designed to take some of the uncertainty out of life's taxing moments. This news legislation is called the Taxpayer Relief Act. Some of the law's provisions are outlined below:

A Child Tax Credit

This tax credit includes a $400 per child tax credit for children under age 17, **starting in 1998,** increasing to $500 in 1999 and thereafter. Single taxpayers are eligible for the full credit if they have an adjusted gross annual income of less than $75,000. The credit would phase out for couples with incomes of more than $110,000. Families eligible for the earned income tax credit—generally those families with incomes of $30,000 a year or less—can take the child tax credit before they figure out their earned income tax credit.

Capital Gains Tax Rate Reduction

The recently enacted tax law establishes a new rate structure for capital gains taxes that gives progressively lower rates for gains on assets held for longer periods of time. Under current law, the top individual tax rate on profits from the sale of stocks or other investments is 28 percent. For taxpayers in the 15 percent income tax bracket, the rate is 15 percent.

This new law makes a variety of changes that are retroactive to **May 7, 1997.** The gain on assets held for less than 12 months would be taxed at ordinary income tax rates with a top rate of 39.6 percent, just as under current law. The gain on assets held for at least 12 months, but not more than 18 months, would be taxed at the current top rate of 15 percent for individuals in the 15 percent income tax bracket and 28 percent for all other taxpayers. Collectibles such as art and antiques would continue to be taxed at this rate. The gains on assets held for more than 18 months would be taxed at 10 percent for individuals in the 15 percent tax bracket and 20 percent for all other taxpayers. Gains on assets bought after 2000 and held for at least five years would be taxed at a top rate of 8 percent for taxpayers in the 15 percent bracket and 18 percent for all other taxpayers.

Taxpayers with assets bought before 2000 would have to pay a "tollgate tax" at the 20 percent rate on the gain on their assets up until 2000 and then could take advantage of the 18 percent rate. Taxpayers in the 15 percent tax bracket would pay a "tollgate tax" at the 10 percent rate on the gain on their assets up until 2000 and then could take advantage of the 8 percent rate.

The amount of real estate profits subject to recapture would be taxed at a 25 percent rate.

Expansion of Individual Retirement Accounts (IRAs)

The new tax law increases the income limits of those eligible to make tax deductible contributions to IRAs. Currently tax deductions for IRA contributions are gradually phased out as income increases beyond $40,000 for married taxpayers filing jointly and $25,000 for single taxpayers. Under the new law, those income levels will increase gradually to $80,000 for married taxpayers filing jointly by the year 2007 and $50,000 for single taxpayers by the year 2005.

A new type of "backloaded" IRA is created called the Roth IRA. Contributions of up to $2,000 to this type of IRA are not tax deductible; however, the principal and interest can be withdrawn tax-free (1) as long as the money has remained in the account for at least five years and the individual has reached the age 59-1/2 (2) as long as the money has remained in the account for at least five years and the withdrawal is used to finance the purchase of a first home, or (3) as long as the money has remained in the account for at least five years and the individual becomes disabled. Limits on contributions would take effect for individuals making $95,000 and for married couples who earn $150,000. **Effective January 1, 1998.**

Exclusion on the Sale of a Principal Residence

The new tax bill increases the tax exemption for the gain realized on the sale or exchange of a principle residence to $250,000 for individuals and $500,000 for couples. This exclusion would be allowed each time a taxpayer sells a principal residence, but not more frequently than once every two years. To be eligible for the exclusion, a taxpayer must have owned the residence and occupied it as a principal residence for at least two of the five years prior to the sale. There are no age restrictions placed on this exemption. **Effective May 7, 1997.**

Estate Tax Relief

The unified gift and estate tax credit is gradually increased from the current $600,000 to $1 million in 2006.

ESTATE TAX RELIEF SCHEDULE

1998	$625,000
1999	$650,000
2000	$675,000
2001	$675,000
2002	$700,000
2003	$700,000
2004	$850,000
2005	$950,000
2006	$1,000,000

The new tax law provides an increase to $1.3 million in the unified estate tax exemption threshold for family farms and businesses. **Applicable to the estates of decedents dying after December 31, 1997.**

EDUCATION ASSISTANCE

Student Loan Interest Deduction

The new tax law phases in an income tax deduction of $2,500 a year for interest paid on student loans for the first sixty months on which interest payments are required. This deduction is phased out for individual taxpayers with an adjusted gross income between $40,000 and $50,000, and for married taxpayers filing jointly with adjusted gross income between $60,000 and $70,000. **Effective January 1, 1998 and phased in through 2001** when total deduction will reach $2,500.

The Hope Tax Credit

In the first two years of college, students can receive a tax credit for 100 percent of the first $1,000 spent on tuition, fees, and books, and a tax credit for 50 percent of the second $1,000 spent on tuition and fees. In the third and fourth years of college, graduate school, or life-long learning, students can receive a tax credit of 20 percent of the expenses of tuition and fees, up to a maximum tax credit of $1,000.

These tax credits are fully available to individual taxpayers with adjusted gross incomes of up to $40,000 a year. The credit is phased out for individuals with adjusted gross incomes between $40,000 and $50,000, and eliminated when adjusted gross income exceeds $50,000. For couples, the credit is phased out when adjusted gross income is between $80,000 and $100,000, and eliminated when adjusted gross income exceeds $100,000. **Effective for academic period expenses paid after June 30, 1998.**

New Education IRAs

The tax bill creates a new Individual Retirement Account (IRA) specifically for education expenses. Families can contribute up to $500 per child into the account. Contributions are not tax deductible: however, interest on this money is not taxed until it is withdrawn for educational expenses and then it is taxed at the rate of the student. **Effective January 1, 1998.**

Education Withdrawals from IRAs

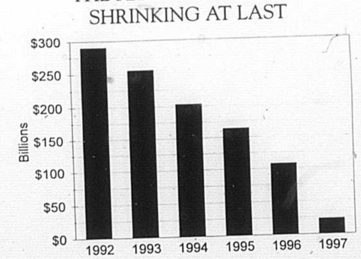
The new law provides that the 10% early withdrawal tax does not apply to distributions from traditional IRAs if the taxpayers use the amounts to pay qualified higher education expenses of the taxpayer, the taxpayer's spouse, or any child or grandchild. This includes graduate level qualified education expenses. **Applicable to disbursements beginning January 1, 1998.**

Employer-Provided Education Expenses

The $5,250 exclusion for employer-provided non-graduate level educational assistance is extended through May 31, 2000. **Effective January 1, 1997.**

Toward a Balanced Budget:

THE FEDERAL DEFICIT IS SHRINKING AT LAST



Prepaid Tuition Plans

The new law expands the ability of individuals to use after-tax dollars contributed to state-run tuition plans to pay for some room and board expenses. In addition, the list of eligible educational institutions has been expanded as well as the definition of "family member." As before, contributions to these accounts are not tax deductible; however, when the money is withdrawn for qualified education expenses, the interest earned is taxed at the rate of the student. A 10 percent penalty is imposed for amounts not used for tuition, books, and qualified room and board expenses. **Effective January 1, 1998.**

NOTE: This material is intended to be a broad overview and is subject to revision. The Internal Revenue Service has not issued implementing regulations and you will need to review your specific tax situation.