

Inflation (and other) adjustments for 2006 may impact your taxes and planning

A number of cost-of-living adjustments are built into the Tax Code. Other important amounts and thresholds change as a result of schedules introduced in tax legislation.

Here is a brief summary of some of the key number changes that may have an impact on your income tax, retirement and estate planning in 2006.

Changes affecting income taxes

- After adjustment for inflation, the 2006 standard deduction amounts will be as follows (2005 amounts included for comparison):

	2006	2005
Single	\$5,150	\$5,000
Married filing jointly and surviving spouse	\$10,300	\$10,000

- The 2006 personal exemption amount rises to \$3,300 (up from \$3,200 in 2005).
- Since 1991 a taxpayer's personal exemptions are phased out as his or her adjusted gross income (AGI) exceeds a certain threshold amount. In 2006 the phase-out ranges are as follows:

	2006		2005	
	Phase-out begins when AGI exceeds	Phase-out completed when AGI exceeds	Phase-out began when AGI exceeded	Phase-out completed when AGI exceeded
Single	\$150,500	\$273,000	\$145,950	\$268,450
Married filing jointly and surviving spouse	\$225,750	\$348,250	\$218,950	\$341,450

- Total itemized deductions are reduced by 3% of your AGI in excess of specified threshold amounts. The threshold amount for 2006 is \$150,500 (up from \$145,950). For marrieds filing separately only: \$75,250, up from \$72,975.

- The tax rate schedules for singles and marrieds filing jointly in 2006 are as follows:

Single

If taxable income is:	The tax is:
Not over \$7,550	10% of 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 filing jointly

If taxable income is:	The tax is:
Not over \$15,100	10% of 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

Changes affecting estate planning

- The estate tax exemption amount in 2006 rises from \$1.5 million to \$2 million. (The maximum lifetime gift exemption amount remains \$1 million.) Similarly, the generation-skipping transfer tax exemption rises from \$1.5 million to \$2 million in 2006.
- The top gift and estate tax rate drops from 47% to 46%.
- The annual gift tax exclusion rises from \$11,000 in 2005 to \$12,000 in 2006.

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Any developments occurring after January 31, 2006, are not reflected in this article.