

## Tax Relief and Health Care Act of 2006

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December 20, 2006

The Tax Relief and Health Care Act of 2006, signed into law December 20, 2006, retroactively reinstates and modifies several important tax credit provisions. It also adds new tax relief provisions to the tax code.

Among the credits reinstated and modified are the following:

**Research Credit**--The research credit expired December 31, 2005. The Act retroactively reinstates the credit and extends it for two years, from January 1, 2006 to December 31, 2007. In addition, the credit has been modified by (1) increasing the rates used in calculating the alternative incremental credit and (2) creating a new alternative simplified credit for 2007.

Fiscal year taxpayers whose tax year ended prior to the passage of this Act may change the elections made on their originally filed returns to take advantage of the extended research credit and other provisions that expired December 31, 2005.

**Employment Credits**--Work Opportunity Tax Credits ("WOTC"), tax credits provided to employers who hire members of certain target groups (such as qualified veterans, qualified ex-felons, and high-risk youth), have been retroactively reinstated to January 1, 2006 and have been extended to December 31, 2007. Modifications to these credits include expanded eligibility, the elimination of family income restrictions for ex-felons, and combining the WOTC and welfare-to-work credits for employees who begin working for the employer after December 31, 2006.

The Indian employment credit is also retroactively reinstated and extended, making the credit available for tax years beginning after December 31, 2005 and before January 1, 2008. This credit is available to employers hiring qualified employees (enrolled Indian tribe members or their spouses who meet qualifying requirements).

**Deductions Extended**--The optional itemized deduction for state and local general sales and use tax (rather than state and local income tax) has been extended. The above-the-line deductions for expenses of eligible educators and for eligible individuals' higher education expenses have been extended for two years. Enhanced deductions for a C corporation's computer donation has been extended and broadened. These deductions are available for tax years beginning after 2005 and before 2008.

**Alternative Minimum Tax (AMT) Relief**-- After 2006, a limited relief provision helps individuals who wound up with AMT problems because of their exercise of incentive stock options. The relief provision, which is complex, allows individuals to take advantage of a refundable credit with respect to certain long-term unused alternative minimum tax (AMT) credits existing before January 1, 2013.

**New Deduction for Mortgage Insurance Premiums**--An itemized deduction for mortgage insurance premiums paid or accrued after December 31, 2006 and before January 1, 2008 was created by the Act. This deduction is phased-out by 10% for each \$1,000 by which the taxpayer's adjusted gross income exceeds \$100,000.

**Medical Savings Accounts**--The new law includes many changes for health savings accounts, and allows new contributions to Archer medical savings accounts to be made through 2007.

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Please keep in mind that this alert describes only the highlights of the most important changes in the new law. Please give us a call for details on how you are affected by these changes, and whether you are affected by any of the more highly specialized new law changes not covered in this Client Alert.

If you have further questions about this alert you may contact our Gary R. Glenn at (313) 496-7852.