

The 1997 Taxpayer Relief Act

The 1997 Taxpayer Relief Act provides significant tax cuts — and new complexity — for most individual taxpayers. Investors, homeowners and families benefit most from the 1997 Tax Act. The following is a very brief summary of the recently passed Tax Act. You should consult with a Certified Public Accountant before you act.

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Capital Gains

The top capital gains tax rate for individual taxpayers has been lowered to 20 percent for investments held for more than 18 months (12 months if the investment was sold after May 6 but before July 29, 1997).

For taxpayers in the 15 percent tax bracket the net capital gains tax rate is only 10 percent.

These rate cuts are effective retroactively to any sale made after May 6, 1997.

Sale of a Principal Residence

Homeowners may now exclude up to \$500,000 in gain from the sale of a principal residence (effective May 7, 1997).

Roth IRAs

This new IRA doesn't have an up-front deduction, however, qualified distributions are not included in gross income or subject to the additional 10 percent tax on early withdrawals.

Educational Incentives

• *Education IRAs.* This allows taxpayers to

make nondeductible annual contributions of up to \$500 per child that grow tax-free and are withdrawn tax-free for educational expenses.

• *The Hope Credit.* A credit of \$1,500 is allowed for the first two years of college for qualified expenses incurred and paid after 1997.

• *The Lifetime Learning Credit.* This is a 20 percent credit applied to the first \$5,000 of qualified education expenses incurred and paid after June 30, 1998. It applies after the first two years of college, including graduate school and job training.

• *Student Loan Interest.* An adjustment to income is allowed for student loan interest, up to \$1,000 per year (increasing to \$2,500 in 2001), for the first five years of repayment.

Miscellaneous Provisions

• A \$400 tax credit can be taken in 1998 for each child under age 17 (\$500 in 1999 and after).

• The IRS will now accept tax payments by credit card.

• The charitable mileage rate is now 14 cents per mile.

• The estate tax exemption for 1998 is \$625,000; \$1 million by 2006.

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