

May, 2006

From: R. J. Thornton, CPA

Exporter Tax Savings NewsLetter

2006 Tax Planning TIPRA

Signed May 17, 2006.

IC-DISC: The only remaining Tax Benefit Program for Profitable, Private Exporters.

A) **Areas affecting Exporters: Directly**

The bill repeals the binding contract exception with respect to the FSC and ETI regimes, effective for tax years beginning June 1, 2006.

B) **Areas affecting Exporters: Indirectly**

- 1) **Lower Tax Rates (15%) on Qualified Dividend Income received by Non Corporate Shareholders extended two years to 12/31/2010. (Benefit applies to IC-DISC Shareholders.)**
- 2) **Adjusted Gross Income (AGI) ceiling, of \$100,000, on IRA to Roth IRA conversions eliminated for Tax Years beginning after 2009. The major reason most Exporters did not qualify for Roth IRAs.**

C) **Commentary:**

- 1) **While the Rate Extension continues to be the major benefit for IC-DISC Shareholders consideration should be given to Tax Planning for "after" the extension ends. The next logical step after 2009 for Exporters would be to set up a new IC-DISC to be owned by a Roth IRA. However, at this juncture we feel the 15% Rate Extension is more beneficial than a Roth IRA.**
- 2) **The likelihood of the no Income limitations for Roth Formations surviving as a Law by 2010 does not appear to be viable or sustainable. Hence, the suggestion the pre 2010 period be used for tax planning to reduce AGI to less than \$100,000, for at least one of the four years, and convert a modest amount of IRA funds to a Roth IRA, under existing rules. The tax benefits of a Conversion to a Roth IRA will not be based on the amount converted but only on the fact that an account is opened. The real benefit will be the Roth IRA receiving Dividends from an IC-DISC after 2009, because there never was a limit on "Return on Investments".**

D) **Please send a copy of this Newsletter to your tax Advisors.**

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