

### **FIRST UPDATE**

**Shortly after the publication date of this book, President George W. Bush, on May 17, 2006 and August 17, 2006, respectively, signed the Tax Increase Prevention and Reconciliation Act of 2005 (hereinafter “TIPRA”) and the Pension Protection Act of 2006 (hereinafter “PPA”) into law, necessitating the following updates:**

For taxable years beginning after December 31, 2005, TIPRA amends section 1(g) of the Internal Revenue Code by extending the application of the Kiddie Tax to certain unearned income of children under the age of eighteen (18). TIPRA also adds section 1(g)(4)(c) which sets forth the income tax treatment of distributions from a qualified disability trust for a child beneficiary. Specifically, under the new provision, if a child is a beneficiary of a qualified disability trust (as defined in section 642(b)(2)(C)(ii) of the Internal Revenue Code), any trust distribution that is included in the child’s income for the taxable year is considered the child’s earned income.

Effective August 17, 2006, PPA makes permanent the modifications relating to qualified tuition programs under the Economic Growth and Tax Relief Reconciliation Act of 2001. The modifications had been due to expire on December 31, 2010. PPA also grants regulatory authority to the Treasury to prevent abuse and ensure that qualified tuition plans are used for their intended purpose, namely, as saving vehicles for higher education expenses and not, for example, as investment accounts for retirement. *See* Joint Committee on Taxation, Technical Explanation Of H.R. 4, The Pension Protection Act of 2006, As Passed By The House On July 28, 2006, And As Considered By The Senate On August 3, 2006, JCX-38-06 (August 3, 2006).

**Please also note the following addition and update:**

For purposes of disaster relief, the Internal Revenue Service may extend the filing deadline for specific tax returns, including federal estate and gift tax returns. *See, e.g.*, Notice 2006-20, 2006-10 I.R.B. 560 (Additional Postponement of Deadlines for Certain Taxpayers Affected by Hurricane Katrina). In August of 2006, the IRS released Publication 1460 (07-2006), Highlights of Tax Relief Provided to Taxpayers in Response to Hurricanes Katrina, Rita, and Wilma. It is prudent to check the website, [www.irs.gov](http://www.irs.gov), for the latest information and guidance.

### **SECOND UPDATE**

**On May 25, 2007, President George W. Bush signed the Small Business and Work Opportunity Tax Act of 2007 (hereinafter “SBWOTA”) into law, necessitating the following update:**

For taxable years beginning after May 25, 2007, SBWOTA amends section 1(g) of the Internal Revenue Code by extending the application of the Kiddie Tax to certain unearned income of children of eighteen (18) years of age or full-time students over age eighteen (18) but under age twenty-four (24). The amendment applies only to a child or student whose earned income does not exceed one-half of the amount of his or her support.

Thus, after the effective dates of TIPRA and SBWOTA, section 1(g)(A) makes the Kiddie Tax applicable to three categories of individuals:

- children under the age of eighteen (18) regardless of whether their earned income exceeds one-half of their support
- children of eighteen (18) years of age if their earned income does not exceed one-half of the amount of their support
- students over age eighteen (18) but under age twenty-four (24) if their earned income does not exceed one-half of their support.