

PRATT & ASSOCIATES FALL NEWSLETTER

I. Capital Gain Distribution Reporting

In 1999 taxpayers had to report the capital gain distributions, received from mutual funds on form 1040; however, in 2000 those same capital gain distributions can be reported on (the short) form 1040 A, without filing Schedule D.

II. Tax Planning For The Upcoming Cuts On Personal Taxpayer's 5 Yr Capital Gains

In 2001, there are new tax rates (8 & 18%) to be aware of when deciding to keep or sell property. These new rates will produce automatic tax savings for some taxpayers, will require others to pre-pay taxes, and will require some tax planning for others to benefit.

8 % Maximum Tax on Capital Gains (15% Taxpayer)

For tax years beginning after Dec 31, 2000, gain from the sale of property held more than 5 years will be taxed at 8%, not 10%. This new tax rate applies to all property held over 5 years & sold regardless of the purchase date. Below is a table showing some examples of the new tax rates and their holding periods.

<u>Holding Period</u>	<u>Purchase Date</u>	<u>Selling Date</u>	<u>Tax Rate</u>
Less than 1 yr	2/1/00	1/2/01	15%
More than 1yr, but less than 5 yrs	1/1/00	1/2/01	10%
More than 5 yrs	1/1/96(or before)	1/2/01	8%

18% Maximum Tax on Capital Gains (All Other Taxpayers)

Gain from the sale of property held for more than 5 years and taxed at 18% differs from the 8% maximum tax rate, in that the purchase date must be after Dec 31, 2000 to be taxed at 18%. Therefore, the 18% rate will not be available for gains realized before 2006, because the holding period must begin after 2000 for that rate to apply. Below is a table showing some examples of the new tax rates and their holding periods.

<u>Holding Period</u>	<u>Purchase Date</u>	<u>Selling Date</u>	<u>Tax Rate</u>
Less than 1 yr	2/1/00	1/2/01	28,31,36or 39.6%
More than 1yr, but less than 5 yrs	1/1/00	1/2/01	20%
More than 5 yrs	1/1/01	1/2/06	18%

Above is just an overview of the new upcoming tax rate cuts on personal taxpayers' capital gains on property held five years. It does not provide specific details to all the changes with the new rates; therefore, if there are any specific questions to this section of the newsletter as it relates to your specific tax situation please contact your tax practitioner for more details.

III. New York News

Marriage Penalty Reduction

The Marriage Penalty Reduction is going to take affect in 2001. The standard deduction for married couples filing a joint tax return increases from \$13,000 to \$13,400 in 2001, \$14,200 in 2002, and to \$14,600 thereafter.

College Tuition Tax Credit/Deduction

A new refundable credit or itemized deduction applies up to \$10,000 of qualified undergraduate college tuition expenses. The credit/itemized deduction phases in over four years, beginning with a maximum allowable tuition expense of \$2500 in tax year 2001. (More detail on this college tuition tax credit/deduction will follow when more information becomes available.)

REMEMBER, THE TOPICS COVERED IN THIS NEWSLETTER ARE AN ABRIDGED VERSION TO THE ACTUAL TAX LAWS AND CODES COVERED BY THE IRS AND NEW YORK STATE. THEREFORE SOME INFORMATION MAY BE SUBJECT TO CHANGE ON A CASE-BY-CASE BASIS. IF YOU HAVE ANY QUESTIONS REGARDING THE ABOVE INFORMATION PLEASE EMAIL US AT KSPNBRG@NYCAP.RR.COM.