ST. LOUIS POST-DISPATCH

Business Sunday

| FEBRUARY 5, 2006 | SECTION E |

INSIDE

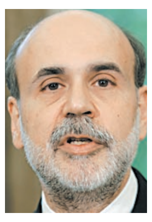
E-MAIL FAILS
Columnist Repps Hudson highlights some of the biggest e-mail offenses on the job and the number of problems that can arise when people try to avoid face-to-face communication. E2

MORE THAN WORK
Columnist Tim McGuire talks to consultant Cliff Hakim, whose consulting firm helps people find work that matters to them. E2

HOUSE WARMING
With all the talk of a housing bubble, house builder stocks have taken a hit. But a number of factors point to the possibility that now may be a good time to buy up shares in those companies. E4

HOME SCHOOL
Jack Naudi has heard plenty of responses to his column on why not to pay off your mortgage quickly. This week he explains why a home can be a financial threat. E5

EVOLUTION
Even with the loss of the Hazelwood Ford plant, it's important to think of manufacturing in the St. Louis area as evolving, rather than on its way out. E7

BIG BEN

The Federal Reserve, under newly sworn-in Chairman Ben Bernanke, will be a very different institution. Bernanke differs from Alan Greenspan in three key areas. E7

ONLINE

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MOST READ STORIES
Here are this week's most read business headlines on STLtoday.com:

1. Feb. 3 will be a bad day for some people
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3. Boeing says it might reduce support staff
4. A-B says "Cheers to beers"
5. Midcoast Aviation sold to Swiss company
6. What will drive automakers' future?
7. New Busch Stadium is a homer for minority firms
8. Boeing talks of another 'Dreamliner' model
9. Need for nurses spawns building
10. Greenspan era is coming to a close

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LAST WEEK'S MARKETS

DOW JONES INDUSTRIALS
–113.58 | 10,793.62

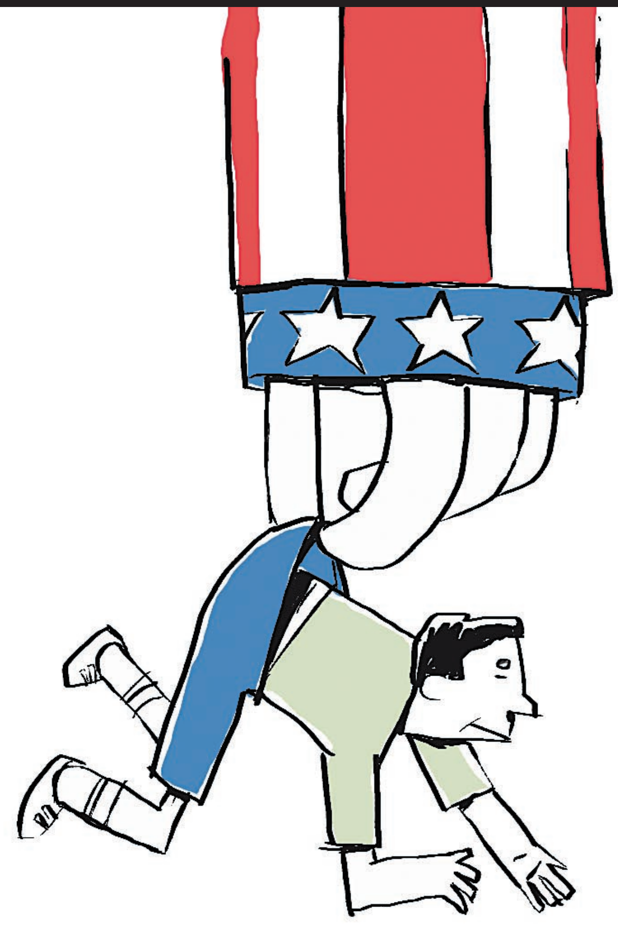
NASDAQ COMPOSITE
–41.65 | 2,262.58

STANDARD & POOR'S 500
–19.69 | 1,264.03

BLOOMBERG ST. LOUIS
–0.47 | 578.66

2006 Tax Guide

Tax returns are due April 17



Dropped in with the rich people

Next year, 19 million taxpayers will be caught by the Alternative Minimum Tax, a 36-year-old rule originally designed to catch the wealthiest Americans.

By Jack Naudi
ST. LOUIS POST-DISPATCH

As a certified public accountant, Pat Stark was in a perfect position to see it coming, the dreaded alternative minimum tax.

But knowing he would fall into the complex, surreal tax world of the AMT in 2005 didn't make things any better for the partner at UHY Advisors in Maplewood.

And, despite his knowledge of the tax system, Stark knew there was very little he could do to stop it. Rising local property taxes had given him deductions on the standard tax that reduced his tax to below the AMT level.

"I knew it ahead of time," he said, adding that he shares an emotional bond with a growing group of clients also falling under the AMT.

"They're shocked," he said. "They don't think it's fair. I agree with them."

When it first took effect in 1970, the AMT was designed to force a relatively tiny group of ultra rich people to pay taxes. Most of the less than 20,000 AMT filers that year paid little or no federal income tax the previous year.

That first year, the AMT generated about $100 million in federal income taxes. Today, it's a lot different. About 3.8 million taxpayers are subject to the AMT today and, absent a change in federal tax law, the number will grow to more than 30 million in 2010.

What exactly is the AMT? In the shortest definition, it's a parallel U.S. tax code.

The regular tax code is graduated, which means tax rates rise along with income. So while the first $7,300 of income is taxed at 10 percent for individual filers, the next $22,400 is taxed at 15 percent, and so on.

PLEASE SEE **AMT** | **E6**

You might have to worry about the alternative minimum tax if you:

Exercise a ton of stock options. Merely exercising options – which doesn't mean you've acquired the underlying stock – triggers a taxable event under the AMT.

Are married and filing jointly. Absent any change in federal law, about 30 percent of taxpayers in that category would be subject to the alternative minimum tax, according to the Tax Policy Center.

Live in a high tax state or municipality, or have a large property estate tax bill.

Make between $100,000 and $200,000 a year. If existing tax law doesn't change, the U.S. Treasury estimates 76 percent of taxpayers in this category will be subject to the AMT immediately. Millionaire earners don't have to worry too much. Only 25 percent of taxpayers making more than $1 million will be subject to the AMT.

Have a large family. The AMT doesn't allow for personal exemptions.

Taxpayers can get a break for helping Katrina victims

Deductions now exist for housing, vehicle use and cash donations.

By Gail Appleson
ST. LOUIS POST-DISPATCH

For all of those generous St. Louis area taxpayers who took in Hurricane Katrina victims last year, Uncle Sam has a small gift.

Take a look at line 42 of Form 1040 and there's an exemption for housing those displaced by the deadly storm.

"St. Louis was big in bringing people in," said Michael McDowell, an IRS customer service representative in St. Louis. "Katrina is the big story in how it's affecting taxes."

In September, President George W. Bush signed the Katrina Emergency Tax Relief Act of 2005. The key provisions of the act make hurricane victims eligible for various new or liberalized tax deductions.

However, the act also contains some limited tax breaks for those who helped victims. For example, a taxpayer can get a $500 exemption for each displaced victim he or she housed. There is a four-person limit. The exemption has generated a new form, 8914.

Bob Jordan, a partner at Clayton accounting and consulting firm RubinBrown LLP, said each

PLEASE SEE **KATRINA** | **E8**

Highlights of 2005 tax changes See E8

DAVID NICKLAUS

Bush health-savings plan mostly helps wealthy

There's a curious twist to President George W. Bush's latest health-care proposal: It can help wealthy investors even if they don't use the money for health care.

In his State of the Union address, Bush proposed expanding the tax breaks for health savings accounts, or HSAs. He would nearly double the contribution limit, to $10,500 per family, and reward contributions with a tax credit in addition to a deduction. He would also give individuals a credit and a deduction for buying a high-deductible insurance policy.

The president's goal is to change the way Americans pay for health care. Instead of having most workers depend on an employer's plan, Bush wants people to pay routine medical expenses out of their own pockets. Only when expenses pile up to at least $2,100, under current law, can you tap the "catastrophic" policy that accompanies an HSA.

If you're paying out of pocket, free-market theorists believe, you'll become more discerning about the cost of an extra diagnostic test, and more likely to choose a cheap generic over the latest miracle drug.

The HSA is a tax-advantaged way for you to pay those out-of-pocket expenses. It gives individuals the same tax break as companies get for paying medical costs.

But Bush's proposed changes also would create a supercharged retirement savings account. Consider this arithmetic for a family in the 25 percent tax bracket:

A $10,500 HSA will grow to $25,486 in 30 years, assuming a 3 percent real rate of return. If you spend the entire amount on health care, you pay no taxes. The HSA has subsidized your medical expenses, as it was designed to do.

Suppose you want to spend the money on a trip to Tahiti instead. You'd pay taxes and have $19,115 left. A 401(k) account, under the same assumptions, would contain just $16,190. The difference: Contributions to both accounts were tax-deductible, but the HSA also gave you a tax credit.

PLEASE SEE **NICKLAUS** | **E6**

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