FPA
FINANCIAL PLANNING ASSOCIATION
The Heart of Financial Planning™

CAPITOL UPDATE

June, 2006
Volume 6, Issue 6

FEDERAL ACTIVITIES

- ### Securities Issues

President Nominates Casey to SEC. The White House announced that President Bush will nominate Kathleen L. Casey to replace SEC Commissioner Cynthia Glassman, who has chosen to step down from the Commission upon expiration of her term on June 5th. Casey is majority staff director and counsel to the Senate Banking Committee and was previously chief of staff and legislative director for the committee's chairman, Sen. Richard Shelby (R-Ala). The 40-year old Casey has a bachelor's degree from Pennsylvania State University and a law degree from George Mason University. Senate confirmation of her appointment is expected to proceed smoothly.

WEB LINK
Click to FPA and SEC briefs filed in the BD lawsuit
(http://www.fpanet.org/member/govt_relation/lawsuit-against-sec-broker-dealer-rule.cfm)

FPA Files Briefs in SEC Broker-Dealer Rule Lawsuit. FPA and the SEC are currently awaiting a scheduling order from the U.S. Court of Appeals for the D.C. Circuit specifying when the court will hear oral arguments in FPA's Broker-Dealer Rule lawsuit.

SEC Finding Subadviser Oversight Failures. According to a recent story in *Compliance Reporter*, SEC examiners are citing investment advisers for failing to address the supervision of subadvisers in their compliance policies. John Walsh, chief counsel to the SEC's Office of Compliance Inspections and Examinations (OCIE), is reported to have said that IAs are also failing to properly identify the risks associated with subadvisers.

- ### Tax Issues

FPA Publishes Summary of Tax Act of 2005. President Bush signed the Tax Increase Prevention and Reconciliation Act of 2005 on May 17th. The Act extends the capital gains and dividends rates through 2010, removes the income caps on IRA to Roth IRA conversions, and provides a one-year AMT patch exemption amount.

WEB LINK
Click to FPA's summary of the 2005 Tax Act
(http://www.fpanet.org/member/govt_relation/federal/taxes/index.cfm)

• Federal Tax Issues

Pension Bill Remains in Conference. The conference on the pension bill continues to reconcile provisions in House and Senate versions of H.R. 2830. Legislators had hoped to complete this legislation by Memorial Day, but it is now expected that it will be later this month before legislators are able to vote on the conference report. Conferees are considering moving several tax policy provisions that did not fit in the recent tax reconciliation act into the pension bill. The tax extender package is expected to include the deductions for state and local sales taxes, college expenses, and possibly a package of charitable organization incentives. The EGTRRA provisions are likely to be extended for a five year period.

WEB LINK
Click and enter HR 2830 in the search field to review the bill
(http://thomas.loc.gov/)

401Kids Accounts Introduced in House. Representative Clay Shaw (R-FL) introduced HR 5314, entitled 401Kids Family Savings Act of 2006, which allows parents to establish a savings account for a child at birth and contribute up to $2,000 after-tax dollars per year with interest accumulating tax free. The withdrawals would also be tax free if used for qualifying expenses including higher education expenses, first-time home purchase, or rolled into a Roth IRA. HR 5314 also extends the expiration date for Section 529 provisions from 2010 to 2015.

WEB LINK
Click and enter HR 5314 in the search field to review the bill
(http://thomas.loc.gov/)

Estate Tax Vote on Senate Agenda for June. The Senate is expected to take up estate tax repeal as the third order of business when it reconvenes following its Memorial Day recess. Since it is unlikely that repeal will receive the 60 votes required for Senate action, Sen. Jon Kyl (R-AZ) is expected to bring compromise legislation to the Senate floor. His estate tax proposal includes a $5 million per spouse exemption amount and an estate tax rate of 15%. It also retains a step-up in basis. In April 2005, the House approved H.R. 8 that permanently repeals the estate tax beginning in 2010.

WEB LINK
Click and enter S7, S420 or HR 8 in the search field to review the bill
(http://thomas.loc.gov/)

IRS Now Offers CEs for CFPs at Tax Forums. The IRS recently announced that they will be offering CE credits to CFP® practioners for the first time at their nationwide tax forums.

WEB LINK
Click to the IRS news release announcement
(http://www.irs.gov/newsroom/article/0,,id=156866,00.html)

WEB LINK
Click to a list of seminars for CFPs to get CE credit
(www.taxforuminfo.com)

STATE ACTIVITIES

• Insurance and Trust Issues

Insurance and Securities Regulators Study Annuity Sales Oversight. The NASD recently held a roundtable discussion on annuity sales regulation and oversight. The discussion focused on how to improve coordination among the various regulators with oversight over sales of these complex products. Participants agreed that improvements need to be made in five key areas: training, supervision, suitability, disclosure, and marketing/advertising. More discussions are expected, and FPA will continue to be involved in this important issue to help enhance protections for all investors.

WEB LINK

Click to the NASD roundtable on annuity sales and oversight
(http://www.nasd.com/web/idcplg?IdcService=SS_GET_PAGE&ssDocName=NASDW_016465)

- SOUTH DAKOTA-

South Dakota Insurance Division Warns Agents About Use of Fees. The South Dakota Division of Insurance is warning agents against offering most customers a cut of their commissions or charging customers extra fees. South Dakota prohibits agent commission rebates in the sale of insurance products subject to state regulation, such as health insurance policies designed for individuals or employers with fewer than 50 employees. South Dakota also treats any fees charged by producers as premiums. Merle Scheiber, director of the South Dakota insurance division, recently warned that "An agent may not be both a consultant charging fees for insurance advice or service and an agent collecting a commission."

• Securities Issues

NASAA and SEC Join Together Against Senior Scams. NASAA and the SEC have launched a joint initiative designed to protect seniors from scams that include abusive sales tactics. This initiative will include targeted examinations to detect abusive sales tactics aimed at seniors, aggressive enforcement of the securities laws in cases of fraud against seniors, and investor education and outreach. The SEC will be working with state regulatory agencies to facilitate information exchange to help identify and bring administrative, civil and criminal actions to shut down scams targeting senior investors.

Uniform Securities Act Adopted in Hawaii and Minnesota. Senate Bill 2319 -- the Uniform Securities Act 2002 -- was signed into law in Minnesota by Governor Pawlenty on May 11, 2006. The Act goes into effect on August 1, 2007. In Hawaii, the Uniform Securities Act has been approved by the House and Senate as Senate Bill 743 and is awaiting Governor Lingle's signature. The Uniform Securities Act coordinates federal and state securities regulation, avoids duplication of regulatory effort, and creates a more efficient system for investor protection.

WEB LINK

Click to the Uniform Securities Act of 2002 and links to state legislation.
(http://www.nccusl.org/Update/ActSearchResults.aspx)

• State Tax Issues

- ALABAMA-

Alabama Increases Personal Income Tax Deductions and Exemptions. Gov. Bob Riley (R) signed legislation (H.B. 292) raising the optional standard deduction and increasing the dependent exemptions for personal income taxes. The legislation raises the state income tax threshold from $4,600 to $12,500, while also increasing the tax dependent tax deduction to $500 for families with AGI between $20,000 and $100,000. The standard deduction was also increased to $4,000 for MFJ taxpayers earning more than $30,000.

WEB LINK
Click to Alabama H.B. 292
(http://alisdb.legislature.state.al.us/acas/searchableinstruments/2006rs/bills/hb292.htm)

- ARIZONA -

Arizona Repeals State Estate Tax. Arizona Gov. Janet Napolitano signed S.B. 1170 permanently repealing the state estate tax, which was phased out in 2005. The Arizona estate tax was based on the EGTRRA federal credit for state death taxes that phased out the state death tax between 2002 and 2005. The new law applies retroactively to taxable years beginning from Dec. 31, 2005 on.

WEB LINK
Click to Arizona S.B. 1170
(http://www.azleg.state.az.us/DocumentsForBill.asp?Bill_Number=1170&image.x=9&image.y=2)

- CONNECTICUT -

Connecticut Allows for State Income Tax Deduction for 529 Plans. Governor Rell signed into law a new state income tax deduction for contributions into Connecticut's 529 plan. This deduction is available for the 2006 tax year and allows for a deduction up to $5,000 per year for an individual and $10,000 per year for married filing jointly. Contributions over the annual cap can be carried over for up to five years, and rollovers into the state's plan from out-of-state plans are eligible for the deduction.

WEB LINK
Click to more information on 529 plans
http://www.savingforcollege.com

- IOWA-

Iowa Approves Reduction of Income Tax on Social Security Benefits. Gov. Thomas J. Vilsack (D) signed legislation (S.F. 2408) that would gradually phase out the state's income tax on Social Security benefits into law. The new law also exempts retirement income from the tax for certain Iowans 65 years and older. Under S.F. 2408, the state's tax on Social Security benefits would be phased out over eight years, beginning in fiscal year 2007 with Social Security benefits being state tax free in 2014.

WEB LINK
Click to Iowa S.F. 2408
http://www.governor.state.ia.us/news/2006/may/may2206_1.html

• State Tax Issues

- KANSAS-

Kansas Legislature Approves Estate Tax Repeal in 2010. The Kansas Legislature passed S.B. 365 that would decouple the Kansas estate tax from the federal estate tax and eliminate the Kansas estate tax beginning in 2010. The bill has been sent to Gov. Kathleen Sebelius, but it is unclear whether she intends to sign it. The legislation creates a set of tax brackets designed to generate the same amount of revenue as the current estate tax. The new tax would apply to the estates of decedents dying after Jan. 1, 2007, and estates below $1 million in value would be exempt. The tax is gradually phased out from 2007 to 2010 when it is completely eliminated.

WEB LINK
Click and enter S.B. 365 in the search field for the bill
http://www.kslegislature.org

Kansas Approves 529 Deduction for Out-of-State Plans. Governor Sebelius signed SB 432 to allow Kansas taxpayers to take an income tax deduction for 529 contributions even when contributing to an out-of-state 529 plan. Kansas is only the second state to allow for '529 state tax parity' and the deduction will be available for the 2007 tax year.

WEB LINK
Click to information about 529 plans
http://www.savingforcollege.com/

- LOUISIANA-

Katrina Victims Do Not Owe State Tax on Early Distributions from Retirement Plans. The Louisiana Department of Revenue issued a Revenue Ruling (No. 06-005) that exempts public employees who withdrew money from their Deferred Retirement Option Plans to help cover losses due to Hurricane Katrina from paying state income tax on those early distributions. The qualified retirement plan distributions remain includable in federal AGI.

WEB LINK
Click to Louisiana Revenue Ruling No. 06-005
http://www.revenue.louisiana.gov/forms/lawspolicies/RR06005.pdf

- MARYLAND -

Maryland Governor Approves New Estate Tax Calculation. Gov. Robert L. Ehrlich Jr. (R) enacted S.B. 2 that modifies procedures for calculating the Maryland estate tax. S.B. 2 limits the amount of the federal credit used to calculate the Maryland estate tax to 16 percent of the amount by which the decedent's taxable estate exceeds $1 million, unless the federal credit is in effect. The new law applies to persons deceased after Dec. 31, 2005, and it also addresses certain administrative issues related to the state's previous "decoupling" from federal estate tax laws. Legislation enacted in 2002 decoupled Maryland from the phase-out of the federal credit for state death taxes. In 2004, lawmakers froze the unified credit at the amount that corresponds to an applicable exclusion amount of $1 million for purposes of determining the Maryland estate tax.

WEB LINK
Click to additional information on the Maryland estate tax
http://mlis.state.md.us/index.html

- **State Tax Issues**

- PENNSYLVANIA -

Pennsylvania Postpones Property Tax Relief Vote. The Pennsylvania House has indefinitely postponed a floor vote on a property tax relief bill (H.B. 39, Special Session No. 1 of 2005), which was passed by the Senate. The measure, supported by Gov. Edward G. Rendell (D), was crafted by a bipartisan conference committee based on legislative proposals debated during the past seven months in a special session on property tax reform called by the governor in September 2005. As a result of lobbying by FPA and others, a provision that would have extended the sales tax to services including financial planning was dropped from the proposal.

WEB LINK
Click to Pennsylvania H.B. 39
http://www2.legis.state.pa.us/WU01/LI/BI/BT/2005/1/HB0039P0093.pdf

- RHODE ISLAND -

Rhode Island Approves Legislation that Reduces Tax Rates. The Rhode Island House approved legislation (2006 - H 7720 Sub A.) that provides for an alternative flat tax rate. The legislation reduces the state's highest marginal tax rate in an effort to make Rhode Island more competitive in attracting high income taxpayers. The use of the new alternative flat tax that would be reduced incrementally, replacing the current 9.9 percent rate, minus deductions, that top earners now pay. It would be reduced to 8 percent for tax year 2006 and drop by 0.5 percent each year until it reaches 5.5 percent in 2011. The bill now moves to the Rhode Island Senate.

WEB LINK
Click to Rhode Island H 772
http://www.rilin.state.ri.us/Billtext/BillText06/HouseText06/H7720A.pdf

- TEXAS -

Texas Governor Signs Property Tax Relief Legislation. Texas Gov. Rick Perry (R) has signed two of the five pieces of legislation for the new property tax relief initiative. The governor signed H.B. 3, known as the new business tax act, which will affect many financial planners. Any entity that has over $300k of gross revenue will be subject to a 1% franchise tax that is payable on gross revenue less employee compensation. Sole proprietors and general partnerships are exempt from this tax. H.B. 2 requires that new money generated by the state's new gross receipts tax go directly toward sustaining property tax relief. There are three pending bills (H.B. 1, H.B. 4, and H.B. 5) waiting for signature.

WEB LINK
Click to additional information on H.B. 1, H.B. 2, H.B. 4 or H.B. 5
http://ttrc.state.tx.us/

PROFESSIONAL ISSUES

FPA® Government Relations Advocacy Web Site

The GR web site contains recent FPA comment letters, links to important CFP® professional issues, securities, insurance, tax and compliance information. For the latest information on advocacy issues, click on this box and then bookmark the page.

http://www.fpanet.org/member/govt_relation/index.cfm.

FPA Opens *Pro Bono* Office in Louisiana to Aid Hurricane Victims. FPA's *pro bono* office will open for business in Baton Rouge, Louisiana, in June. The *pro bono* office will allow FPA volunteers to provide *pro bono* advice to hurricane victims. FPA is also submitting formal comment letters to each state securities division to inform regulators about the FPA *pro bono* program and to outline compliance issues relating to providing pro bono advice in a state where a volunteer is not licensed to do business.

FPA to Release Survey Results. FPA is compiling the results of the 2006 FPA professional issues survey that was recently sent to all members. The survey measured member concerns related to recent SEC guidance on financial planning and the use of the CFP marks by registered representatives. The survey also measured member understanding of the disclosure and ethics standards in the CFP Code of Ethics. The survey results showed support for mandating a fiduciary standard in the Code for planners in a financial planning engagement. In addition, there is strong support for holding all planners to the same ethical standards whether they are providing comprehensive or "modular" financial planning services .

WEB LINK

Click to the Coalition for Investor Education brochure
http://www.fpanet.org/public/index.cfm

Coalition for Investor Education Develops Consumer Brochure. As a member of The Coalition for Investor Education – a coalition of regulators, consumer groups and financial services providers – FPA helped create a free brochure to aid investors choosing an investment services provider. The brochure, "Cutting Through the Confusion" explains the differences between brokers, investment advisers, and financial planners and identifies important questions investors should ask.

FINANCIAL EDUCATION

Iowa Senate Adopts Financial Education Resolution. The Iowa Senate adopted a resolution (S.J. 948) urging the Iowa department of education to integrate the principles of basic personal finance into the public school curricula in Iowa.

WEB LINK

Click to Iowa S.J. 948
http://www.jumpstart.org/legislation.cfm

FPA-PAC

FPA-PAC is the only federal political action committee representing the financial planning profession. It helps ensure that financial planners have a seat at the table on all of the important issues affecting our profession – a level playing field for financial planners, helping clients make sense out of a bewildering tax code, and saving more for retirement and education needs. Please use the form at the end of this newsletter to make a contribution.

FPA POLITICAL ACTION COMMITTEE

FPA-PAC Receives Matching Contributions from Retreat Participants. FPA-PAC sent its first ever PAC match challenge to all Retreat 2006 participants. Ray Ferrara and Steve Johnson each agreed to match contributions dollar-for-dollar up to $5,000. In response, thirty-five retreat attendees donated more than $7,000 resulting in a total of $17,000 in contributions to FPA-PAC. We want to especially thank Ray Ferrara and Steve Johnson for their generosity and support of FPA-PAC.

PAC Fundraisers and Chapter Initiatives. The San Diego chapter held an opportunity drawing and raised over $1,300. The Greater Kansas City Chapter has joined forces in fundraising as well and sent several contributions in together as a chapter. Our thanks to everyone who has contributed to FPA-PAC, and a special thanks to Elisabeth Cullington and Jim Reardon for their efforts in advancing the PAC in their chapters.

FPA-PAC WISHES TO THANK RECENT CONTRIBUTORS

Platinum Level
($1,000 or more)

V. Raymond Ferrara ▪ Kenneth Gott ▪ Steve Johnson

Gold Level
($500 - $999)

Donna Gebhart ▪ Elizabeth Jetton ▪ Ross Richardson ▪ Dale Van Scoyk

Silver Level
($200 - $499)

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Bronze Level
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Financial Planning Association

FPA PAC

Political Action Committee

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Complete this form, print it, enclose your check (payable to FPA-PAC) and mail to:

Treasurer FPA-PAC
1600 K Street, Suite 201
Washington, DC 20006

ONLINE PAYMENT

Click on this box to use your credit card to pay online. You will be directed to the Web page containing the FPA-PAC contribution form.

http://www.fpanet.org/member/govt_relation/fpa_pac.cfm

PAYMENT BY PERSONAL CREDIT CARD

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* FPA-PAC is funded solely through the voluntary contributions of FPA members, who may contribute any amount up to $5,000 per year. Contributions to FPA-PAC are not deductible for federal income tax purposes. Contributions made by corporations cannot be accepted; however, sole proprietorship monies are acceptable. Only U.S. citizens and persons admitted to the U.S. for permanent residence may contribute to FPA-PAC. Federal law requires political action committees to report the name, mailing address, occupation, and name of employer for each individual whose contributions aggregate in excess of $200 in a calendar year.