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## news

### Bush Gets First Permanent Tax Cuts in Pension Measure (Update1)

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Aug. 17 (Bloomberg) -- President George W. Bush, hungry for a domestic victory, will sign into law with much fanfare today a measure revamping the U.S. private pension system that will also make the first of his tax cuts permanent.

The new law is a win for a Bush legislative agenda that has run into stiff resistance. Congress has yet to enact permanent estate-tax repeal, immigration overhaul, health savings accounts or restricting medical malpractice lawsuits, and Bush has deferred efforts to revamp Social Security and the tax code.

Bush has triumphed by gaining without a fight permanent status for more than 50 tax cuts, said Clinton Stretch, director of tax policy at the accounting firm Deloitte & Touche LLP in Washington. He has yet to win that status for lower rates on marginal income, dividends and capital gains.

“Congress has decided that it loves some of its children better than others,” Stretch said. “One of the surprises here is they were able to make some of the things permanent here while holding open some of the larger questions.”

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- Wall Street firms are anticipating an influx of investment capital from the law, which contains \$59 billion in tax breaks while making permanent tax incentives enacted in 2001 that are likely to boost workers' savings and investments.
- “It will increase assets under management for Wall Street firms,” said Scott Talbott, senior vice president for governmental affairs at the Washington-based Financial Services Roundtable, a trade association whose members include Wachovia Corp., UBS Investment Bank and Chubb Corp.

Tax Breaks

The most significant of the breaks include higher annual caps on retirement-account contributions; a guarantee that gains in so-called "529" state-sponsored college tuition accounts will be exempt from federal taxes; a tax credit matching deposits by low-income Americans in retirement accounts; and the Roth 401(k), which provides tax-free income in retirement.

Mark Luscombe, a Chicago-based tax specialist at CCH, a publishing arm of Wolters Kluwer, questioned whether Bush should be given credit for the tax breaks. Luscombe said the incentives fail to accomplish Bush's earlier goals of simplifying the tax code by creating two types of untaxed saving accounts, one for retirement and one for ordinary living expenses.

"This is certainly not the feather in his cap," Luscombe said.

Wall Street is excited about other provisions in the law that will entice companies to automatically enroll new workers in a company's 401(k) plan unless they opt out, and also relaxes rules on offering investment advice to account owners, said Chad Parks, chief executive officer of The Online 401(k), a San Francisco-based company that manages plans for 2,300 small businesses nationwide.

#### Offering Retirement Plans

Parks estimates those changes, along with a \$500 tax credit to small businesses that start retirement plans for employees, will increase the number of those businesses offering retirement plans by as much as 30 percent.

Senate Finance Committee Chairman Charles Grassley, an Iowa Republican, said it's appropriate to use tax incentives to reverse a personal savings rate that has turned negative in the last year, meaning people are borrowing or withdrawing savings to make ends meet.

"Congress is saying it's a wise use of tax breaks to help people create a nest egg," Grassley said.

The permanence of the Roth 401(k) plan may be the biggest development, says Hewitt Associates, a Lincolnshire, Illinois-based human resources consulting firm. Hewitt found in a June survey that only 13 percent of companies intended to offer Roth 401(k) plans this year, the first in which they were allowed. Two-thirds of companies surveyed said they wouldn't, with lack of permanence one reason cited.

#### After-Tax Dollars

Roth plans differ from traditional 401(k)s because workers make contributions with after-tax dollars instead of realizing an immediate tax deduction. Money invested in Roth plans face no future taxes on gains or when funds are withdrawn in retirement; distributions from traditional accounts are fully taxable. As a result, Roth 401(k)s are most attractive to those who expect to be in a higher tax bracket when they retire than when they make the contribution.

Pamela Hess, a workplace retirement plans specialist at Hewitt Associates, estimates as many as 20 percent of the firm's clients will begin offering them to employees by 2007. "People are viewing this as an 'and' option, not an 'or' option," she said, explaining that most companies would offer both plans.

Similarly, Parks said, retirement specialists are cheering the permanent increase in contribution limits for a variety of retirement accounts, including permanent "catch-up" contributions for people older than 50.

### Saving for College

Cementing the tax-free status of 529 plans -- which take their name from that section of the U.S. tax code -- removes concerns associated with the college-savings vehicles that was depressing contributions, said Joe Hurley, founder of the Web site Savingforcollege.com LLC, a company that publishes advice on the accounts and doesn't sell them.

Without congressional action, money withdrawn from the accounts after 2010 would have faced taxes as high as 35 percent. "This is huge," Hurley said.

Finally, experts said a permanent tax credit that effectively amounts to a government match for voluntary deposits in retirement accounts by low-income Americans is being cheered even by critics of the overall pension measure. The credit was claimed by more than 5 million families when first offered in 2002, according to the Internal Revenue Service.

The Washington-based Pension Rights Center, a union-affiliated group that says the new pension law will favor companies at the expense of high-seniority workers, still praised the savers' credit as a "positive provision."

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