To: SEC-Rule Comments Committee--Nancy Morris, Secretary

RE: 12(b)-1 Expenses vs. Management Fees

There are things about 12(b)-1 expenses that seem not to be understood by many in the industry. **If one compares a 12(b)-1 account to a managed account, charging customary and normal fees, it is clear that stronger performance is consistently achieved by the 12(b)-1 account. My clients understand this. Many advisors seem not to.**

Below is an email (with attachments) that I put together to help people understand this better.

12(b)-1 expenses provide the compensation to me for carefully following my client's investments and recommending changes, as appropriate. **On an after-tax basis 12(b)-1 expenses are far more cost effective for clients.**

The key question should be "what is in the client's best interest?" Unfortunately, it appears that the size of the client's account is put ahead of this question by some of the organizations that propose rules. This often results in a conclusion which is not in the client's best interest—namely, that clients should have a managed account with considerably higher after-tax costs than a portfolio of C Share Mutual Funds (that compensate the advisor via their 12(b)-1 expenses).

The public deserves to have choices in the way advisors are compensated. Limiting the use of 12(b)-1 expenses, limits the public's choices. I believe it is time for the SEC and Congress to recognize that the Investment Advisers Act of 1940 needs updated to specifically allow 12(b)-1 expenses to provide compensation for advisors.

Respectfully,

James O. Davis, Founder
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Phone: 415/752-6222
Web Site: **http://moneyjungle.com/**
Securities offered through Centaurus Financial, Inc.
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RE: 12(b)-1 Expenses vs. Management Fees {2006 Tax Returns}

Attached is the sample tax return for 2006 which I promised to send you.

It is based on the following situation:

1. Single Taxpayer;
2. W-2 Income of $500,000;
3. $2,000,000 Investment Portfolio in a Wrap A/C;
4. Realized Capital Gains of $200,000 {10% of Portfolio}
5. Wrap A/C Fees of $20,000 {1% of $2 Million};
6. State and Local Income Taxes of $57,000;
7. Real Estate Taxes of $25,000;
8. Home Mortgage Interest Expense of $85,000;
9. Charitable Contributions of $8500;
10. Tax Preparation Fee of $1000;

Regarding the 2006 Tax Return--Key Points are:

- Schedule A – Lines 22, 23, 24, 25 & 26 [PFD Page 3]
  << Investment Management Fees;
- Schedule A -- Line 28 [PFD Page 3]
  << Reduction of 10,990 (eliminating the deductions without any recovery in future years);
- Form 1040, Page 2 – Lines 40, 43, & 44 [PFD Page 2]
  << Shows: Itemized Deductions, Regular Tax and Alternative Tax;
- Schedule 6251 – Line 5 [PFD Page 6]
  << Eliminates the any benefit from Miscellaneous Itemized Deductions);
- Statement [PFD Page 8]
  << Delineation of assumptions used.

Give a call if you'd like me to run over this with you.

Regards, *Jim*

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Form **1040** Department of the Treasury — Internal Revenue Service
U.S. Individual Income Tax Return 2006
(99) IRS Use Only — Do not write or staple in this space.

For the year Jan 1 - Dec 31, 2006, or other tax year beginning , 2006, ending , 20 — OMB No. 1545-0074

Label (See instructions.)
Use the IRS label. Otherwise, please print or type.

Your first name / MI / Last name: 12B-1 EXP VS. MNGT FEES	Your social security number: 999-99-9999
If a joint return, spouse's first name / MI / Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions. / Apartment no.	You **must** enter your social security number(s) above.
City, town or post office. If you have a foreign address, see instructions. / State / ZIP code: CA	Checking a box below will not change your tax or refund.

Presidential Election Campaign ▶ Check here if you, or your spouse if filing jointly, want $3 to go to this fund? (see instructions) ▶ [X] **You** [ ] **Spouse**

Filing Status
Check only one box.

1 [X] Single
2 [ ] Married filing jointly (even if only one had income)
3 [ ] Married filing separately. Enter spouse's SSN above & full name here ▶
4 [ ] Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here ▶
5 [ ] Qualifying widow(er) with dependent child (see instructions)

Exemptions
6a [X] **Yourself.** If someone can claim you as a dependent, **do not** check box 6a — Boxes checked on 6a and 6b: 1
b [ ] **Spouse**

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see instrs)
			[ ]
			[ ]
			[ ]
			[ ]

No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instrs)
Dependents on 6c not entered above
Add numbers on lines above ▶ 1

If more than four dependents, see instructions.

d Total number of exemptions claimed

Income
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	500,000.
8a	**Taxable** interest. Attach Schedule B if required		8a	
b	**Tax-exempt** interest. **Do not** include on line 8a	8b		
9a	Ordinary dividends. Attach Schedule B if required		9a	
b	Qualified dividends (see instrs)	9b		
10	Taxable refunds, credits, or offsets of state and local income taxes (see instructions)		10	
11	Alimony received		11	
12	Business income or (loss). Attach Schedule C or C-EZ		12	
13	Capital gain or (loss). Att Sch D if reqd. If not reqd, ck here ▶ [ ]		13	200,000.
14	Other gains or (losses). Attach Form 4797		14	
15a	IRA distributions	15a	b Taxable amount (see instrs) 15b	
16a	Pensions and annuities	16a	b Taxable amount (see instrs) 16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
18	Farm income or (loss). Attach Schedule F		18	
19	Unemployment compensation		19	
20a	Social security benefits	20a	b Taxable amount (see instrs) 20b	
21	Other income		21	
22	Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22	700,000.

Demo

Adjusted Gross Income

23	Archer MSA deduction. Attach Form 8853	23			
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24			
25	Health savings account deduction. Attach Form 8889	25			
26	Moving expenses. Attach Form 3903	26			
27	One-half of self-employment tax. Attach Schedule SE	27			
28	Self-employed SEP, SIMPLE, and qualified plans	28			
29	Self-employed health insurance deduction (see instructions)	29			
30	Penalty on early withdrawal of savings	30			
31a	Alimony paid b Recipient's SSN ▶	31a			
32	IRA deduction (see instructions)	32			
33	Student loan interest deduction (see instructions)	33			
34	Jury duty pay you gave to your employer	34			
35	Domestic production activities deduction. Attach Form 8903	35			
36	Add lines 23 - 31a and 32 - 35			36	0.
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶			37	700,000.

Tax and Credits

Standard Deduction for —
- People who checked any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions.
- All others:

Single or Married filing separately, $5,150

Married filing jointly or Qualifying widow(er), $10,300

Head of household, $7,550

38	Amount from line 37 (adjusted gross income)	38	700,000.
39a	Check if: ☐ **You** were born before January 2, 1942, ☐ Blind. ☐ **Spouse** was born before January 2, 1942, ☐ Blind. **Total boxes checked** ▶ 39a ☐		
b	If your spouse itemizes on a separate return, or you were a dual-status alien, see instrs and ck here ▶ 39b ☐		
40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	40	170,510.
41	Subtract line 40 from line 38	41	529,490.
42	If line 38 is over $112,875, or you provided housing to a person displaced by Hurricane Katrina, see instructions. Otherwise, multiply $3,300 by the total number of exemptions claimed on line 6d	42	1,100.
43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	528,390.
44	**Tax** (see instrs). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972	44	124,960.
45	**Alternative minimum tax** (see instructions). Attach Form 6251	45	15,360.
46	Add lines 44 and 45 ▶	46	140,320.
47	Foreign tax credit. Attach Form 1116 if required	47	
48	Credit for child and dependent care expenses. Attach Form 2441	48	
49	Credit for the elderly or the disabled. Attach Schedule R	49	
50	Education credits. Attach Form 8863	50	
51	Retirement savings contributions credit. Attach Form 8880	51	
52	Residential energy credits. Attach Form 5695	52	
53	Child tax credit (see instructions). Attach Form 8901 if required	53	
54	Credits from: **a** ☐ Form 8396 **b** ☐ Form 8839 **c** ☐ Form 8859	54	
55	Other credits. Check applicable box(es): **a** ☐ Form 3800 **b** ☐ Form 8801 **c** ☐ Form	55	
56	Add lines 47 through 55. These are your **total credits**	56	
57	Subtract line 56 from line 46. If line 56 is more than line 46, enter -0- ▶	57	140,320.

Other Taxes

58	Self-employment tax. Attach Schedule SE	58	
59	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	59	
60	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	60	
61	Advance earned income credit payments from Form(s) W-2, box 9	61	
62	Household employment taxes. Attach Schedule H	62	
63	Add lines 57-62. This is your **total tax** ▶	63	140,320.

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	140,000.
65	2006 estimated tax payments and amount applied from 2005 return	65	
66a	**Earned income credit (EIC)** NO	66a	
b	Nontaxable combat pay election ▶ 66b		
67	Excess social security and tier 1 RRTA tax withheld (see instructions)	67	
68	Additional child tax credit. Attach Form 8812	68	
69	Amount paid with request for extension to file (see instructions)	69	
70	Payments from: a ☐ Form 2439 b ☐ Form 4136 c ☐ Form 8885	70	
71	Credit for federal telephone excise tax paid. Attach Form 8913 if required	71	30.
72	Add lines 64, 65, 66a, and 67 through 71. These are your **total payments** ▶	72	140,030.

Demo

Refund

Direct deposit? See instructions and fill in 74b, 74c, and 74d or Form 8888.

73	If line 72 is more than line 63, subtract line 63 from line 72. This is the amount you **overpaid**	73	
74a	Amount of line 73 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	74a	
▶ b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings		
▶ d	Account number		
75	Amount of line 73 you want **applied to your 2007 estimated tax** ▶ 75		

Amount You Owe

76	**Amount you owe.** Subtract line 72 from line 63. For details on how to pay, see instructions ▶	76	290.
77	Estimated tax penalty (see instructions) 77		

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? [X] **Yes.** Complete the following. ☐ **No**

Designee's name ▶ JAMES O. DAVIS Phone no. ▶ 415/752-6222 Personal identification number (PIN) ▶ 29736

Sign Here

Joint return? See instructions. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number
▶		UNHAPPY GUY	
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	
▶			

Paid Preparer's Use Only

Preparer's signature ▶	Date 3/02/07	Check if self-employed [X]	Preparer's SSN or PTIN P00731501
Firm's name (or yours if self-employed), address, and ZIP code ▶	DAVIS TAX SERVICE		
	299 ARGUELLO BLVD., STE. 306	EIN	94-3063852
	SAN FRANCISCO, CA 94118	Phone no.	(415) 752-6222

SCHEDULE A
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Itemized Deductions

► Attach to Form 1040.
► See Instructions for Schedule A (Form 1040).

OMB No. 1545-0074

2006

Attachment Sequence No. **07**

Name(s) shown on Form 1040: 12B-1 EXP VS. MNGT FEES

Your social security number: 999-99-9999

Medical and Dental Expenses		**Caution.** Do not include expenses reimbursed or paid by others.				
	1	Medical and dental expenses (see instructions)	1			
	2	Enter amount from Form 1040, line 38 [2]				
	3	Multiply line 2 by 7.5% (.075)	3			
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	0.
Taxes You Paid (See instructions.)	5	State and local income taxes	5	57,000.		
	6	Real estate taxes (see instructions)	6	25,000.		
	7	Personal property taxes	7			
	8	Other taxes. List type and amount ►	8			
	9	Add lines 5 through 8			9	82,000.
Interest You Paid (See instructions.)	10	Home mtg interest and points reported to you on Form 1098 SEE ST 2	10	85,000.		
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying number, and address ►	11			
Note. Personal interest is not deductible.	12	Points not reported to you on Form 1098. See instrs for spcl rules	12			
	13	Investment interest. Attach Form 4952 if required. (See instrs.)	13			
	14	Add lines 10 through 13			14	85,000.
Gifts to Charity	15	Gifts by cash or check. If you made any gift of $250 or more, see instrs SEE STATEMENT 3	15	8,000.		
If you made a gift and got a benefit for it, see instructions.	16	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500 SEE STATEMENT 4	16	500.		
	17	Carryover from prior year	17			
	18	Add lines 15 through 17			18	8,500.
Casualty and Theft Losses	19	Casualty or theft loss(es). Attach Form 4684. (See instructions.)			19	0.
Job Expenses and Certain Miscellaneous Deductions	20	Unreimbursed employee expenses — job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ►	20			
	21	Tax preparation fees	21			
(See instructions.)	22	Other expenses — investment, safe deposit box, etc. List type and amount ► WRAP A/C FEES [1% OF $2M] 20,000.	22	20,000.		
	23	Add lines 20 through 22	23	20,000.		
	24	Enter amount from Form 1040, line 38 [24] 700,000.				
	25	Multiply line 24 by 2% (.02)	25	14,000.		
	26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-			26	6,000.
Other Miscellaneous Deductions	27	Other — from list in the instructions. List type and amount ►			27	0.
Total Itemized Deductions	28	Is Form 1040, line 38, over $150,500 (over $75,250 if married filing separately)? REDUCTION -10,990. ☐ **No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter this amount on Form 1040, line 40. ☒ **Yes.** Your deduction may be limited. See instructions for the amount to enter.			28	170,510.
	29	If you elect to itemize deductions even though they are less than your standard deduction, check here ► ☐				

SCHEDULE D
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Capital Gains and Losses

► **Attach to Form 1040 or Form 1040NR.** ► **See Instructions for Schedule D (Form 1040).**
► **Use Schedule D-1 to list additional transactions for lines 1 and 8.**

OMB No. 1545-0074

2006

Attachment Sequence No. **12**

Name(s) shown on Form 1040: 12B-1 EXP VS. MNGT FEES

Your social security number: 999-99-9999

Part I Short-Term Capital Gains and Losses — Assets Held One Year or Less

	(a) Description of property (Example: 100 shares XYZ Co)	**(b)** Date acquired (Mo, day, yr)	**(c)** Date sold (Mo, day, yr)	**(d)** Sales price (see instructions)	**(e)** Cost or other basis (see instructions)	**(f) Gain or (loss)** Subtract (e) from (d)
1						

2	Enter your short-term totals, if any, from Schedule D-1, line 2	2	
3	**Total short-term sales price amounts.** Add lines 1 and 2 in column (d)	3	
4	Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824	4	
5	Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	5	
6	Short-term capital loss carryover. Enter the amount, if any, from line 10 of your **Capital Loss Carryover Worksheet** in the instructions	6	
7	**Net short-term capital gain or (loss).** Combine lines 1 through 6 in column (f)	7	

Part II Long-Term Capital Gains and Losses — Assets Held More Than One Year

	(a) Description of property (Example: 100 shares XYZ Co)	**(b)** Date acquired (Mo, day, yr)	**(c)** Date sold (Mo, day, yr)	**(d)** Sales price (see instructions)	**(e)** Cost or other basis (see instructions)	**(f) Gain or (loss)** Subtract (e) from (d)
8	GOOD INVESTMENT	VARIOUS	12/30/06	300,000.	100,000.	200,000.

9	Enter your long-term totals, if any, from Schedule D-1, line 9	9	
10	**Total long-term sales price amounts.** Add lines 8 and 9 in column (d)	10	300,000.
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11	
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12	
13	Capital gain distributions. See instrs	13	
14	Long-term capital loss carryover. Enter the amount, if any, from line 15 of your **Capital Loss Carryover Worksheet** in the instructions	14	
15	**Net long-term capital gain or (loss).** Combine lines 8 through 14 in column (f). Then go to Part III on page 2	15	200,000.

BAA For Paperwork Reduction Act Notice, see Form 1040 or Form 1040NR instructions.

Part III Summary

16	Combine lines 7 and 15 and enter the result. If line 16 is a loss, skip lines 17 through 20, and go to line 21. If a gain, enter the gain on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below	**16**	200,000.
17	Are lines 15 and 16 **both** gains? [X] **Yes.** Go to line 18. [ ] **No.** Skip lines 18 through 21, and go to line 22.		
18	Enter the amount, if any, from line 7 of the **28% Rate Gain Worksheet** in the instructions ►	**18**	0.
19	Enter the amount, if any, from line 18 of the **Unrecaptured Section 1250 Gain Worksheet** in the instructions ►	**19**	
20	Are lines 18 and 19 **both** zero or blank? [X] **Yes.** Complete Form 1040 through line 43, or Form 1040NR through line 40. Then complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the Instructions for Form 1040 (or in the Instructions for Form 1040NR). **Do not** complete lines 21 and 22 below. [ ] **No.** Complete Form 1040 through line 43, or Form 1040NR through line 40. Then complete the **Schedule D Tax Worksheet** in the instructions. **Do not** complete lines 21 and 22 below.		
21	If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the **smaller** of: • The loss on line 16 or • ($3,000), or if married filing separately, ($1,500) **Note.** When figuring which amount is smaller, treat both amounts as positive numbers.	**21**	
22	Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b? [ ] **Yes.** Complete Form 1040 through line 43, or Form 1040NR through line 40. Then complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the Instructions for Form 1040 (or in the Instructions for Form 1040NR). [ ] **No.** Complete the rest of Form 1040 or Form 1040NR.		

Form **6251**

Department of the Treasury
Internal Revenue Service (99)

Alternative Minimum Tax — Individuals

► See separate instructions.
► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074

2006

Attachment Sequence No. **32**

Name(s) shown on Form 1040 or Form 1040NR: 12B-1 EXP VS. MNGT FEES

Your social security number: 999-99-9999

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41 (minus any amount on Form 8914, line 6), and go to line 2. Otherwise, enter the amount from Form 1040, line 38 (minus any amount on Form 8914, line 6), and go to line 7. (If less than zero, enter as a negative amount.)	1	529,490.
2	Medical and dental. Enter the **smaller** of Schedule A (Form 1040), line 4 **or** 2-1/2% of Form 1040, line 38	2	
3	Taxes from Schedule A (Form 1040), line 9	3	82,000.
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet in the instructions	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 26	5	6,000.
6	If Form 1040, line 38, is over $150,500 (over $75,250 if married filing separately), enter the amount from line 11 of the **Itemized Deductions Worksheet** in the Instructions for Schedule A (Form 1040)	6	-10,990.
7	Tax refund from Form 1040, line 10 or line 21	7	
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10	
11	Interest from specified private activity bonds exempt from the regular tax	11	
12	Qualified small business stock (7% of gain excluded under section 1202)	12	
13	Exercise of incentive stock options (excess of AMT income over regular tax income)	13	
14	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	14	
15	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	15	
16	Disposition of property (difference between AMT and regular tax gain or loss)	16	
17	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	17	
18	Passive activities (difference between AMT and regular tax income or loss)	18	
19	Loss limitations (difference between AMT and regular tax income or loss)	19	
20	Circulation costs (difference between regular tax and AMT)	20	
21	Long-term contracts (difference between AMT and regular tax income)	21	
22	Mining costs (difference between regular tax and AMT)	22	
23	Research and experimental costs (difference between regular tax and AMT)	23	
24	Income from certain installment sales before January 1, 1987	24	
25	Intangible drilling costs preference	25	
26	Other adjustments, including income-based related adjustments	26	
27	Alternative tax net operating loss deduction	27	
28	**Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $200,100, see instructions.)	28	606,500.

Part II Alternative Minimum Tax

29 Exemption. (If this form is for a child under age 18, see instructions.)

IF your filing status is . . .	AND line 28 is not over . . .	THEN enter on line 29 . . .
Single or head of household	$112,500	$42,500
Married filing jointly or qualifying widow(er)	150,000	62,550
Married filing separately	75,000	31,275

If line 28 is **over** the amount shown above for your filing status, see instructions. — 29

30	Subtract line 29 from line 28. If more than zero **or** you are filing Form 2555 or 2555-EZ, go to line 31. If zero or less and you are not filing Form 2555 or 2555-EZ, enter -0- on lines 33 and 35 and skip the rest of Part II	30	606,500.
31	• If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on page 2 and enter the amount from line 55 here. • **All others:** If line 30 is $175,000 or less ($87,500 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result.	31	140,320.
32	Alternative minimum tax foreign tax credit (see instructions)	32	
33	Tentative minimum tax. Subtract line 32 from line 31	33	140,320.
34	Tax from Form 1040, line 44 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 47). If you used Schedule J to figure your tax, the amount for line 44 of Form 1040 must be refigured without using Schedule J (see instructions)	34	124,960.
35	**Alternative minimum tax.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	15,360.

Part III Tax Computation Using Maximum Capital Gains Rates

36	Enter the amount from Form 6251, line 30			36	606,500.
37	Enter the amount from line 6 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44, or the amount from line 13 of the Schedule D Tax Worksheet in the instructions for Schedule D (Form 1040), whichever applies (as refigured for the AMT, if necessary) (see instructions)	37	200,000.		
38	Enter the amount from Schedule D (Form 1040), line 19 (as refigured for the AMT, if necessary) (see instructions)	38	0.		
39	If you did not complete a Schedule D Tax Worksheet for the regular tax or the AMT, enter the amount from line 37. Otherwise, add lines 37 and 38, and enter the **smaller** of that result or the amount from line 10 of the Schedule D Tax Worksheet (as refigured for the AMT, if necessary)	39	200,000.		
40	Enter the **smaller** of line 36 or line 39			40	200,000.
41	Subtract line 40 from line 36			41	406,500.
42	If line 41 is $175,000 or less ($87,500 or less if married filing separately), multiply line 41 by 26% (.26). Otherwise, multiply line 41 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result ►			42	110,320.
43	Enter: • $61,300 if married filing jointly or qualifying widow(er), • $30,650 if single or married filing separately, or • $41,050 if head of household.	43	30,650.		
44	Enter the amount from line 7 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44, or the amount from line 14 of the Schedule D Tax Worksheet in the instructions for Schedule D (Form 1040), whichever applies (as figured for the regular tax). If you did not complete either worksheet for the regular tax, enter -0-	44	328,390.		
45	Subtract line 44 from line 43. If zero or less, enter -0-	45	0.		
46	Enter the **smaller** of line 36 or line 37	46	200,000.		
47	Enter the **smaller** of line 45 or line 46	47			
48	Multiply line 47 by 5% (.05) ►			48	
49	Subtract line 47 from line 46	49	200,000.		
50	Multiply line 49 by 15% (.15) ►			50	30,000.
	If line 38 is zero or blank, skip lines 51 and 52 and go to line 53. Otherwise, go to line 51.				
51	Subtract line 46 from line 40	51			
52	Multiply line 51 by 25% (.25) ►			52	
53	Add lines 42, 48, 50, and 52			53	140,320.
54	If line 36 is $175,000 or less ($87,500 or less if married filing separately), multiply line 36 by 26% (.26). Otherwise, multiply line 36 by 28% (.28) and subtract $3,500 ($1,750 if married filing separately) from the result			54	166,320.
55	Enter the **smaller** of line 53 or line 54 here and on line 31			55	140,320.

STATEMENT 1
FORM 1040
WAGE SCHEDULE

TAXPAYER - EMPLOYER	WAGES	FEDERAL W/H	FICA	MEDI-CARE	STATE W/H	SDI
GOOD JOB	500,000.	140,000.	5,840.	7,250.	55,000.	2,000.
GRAND TOTAL	500,000.	140,000.	5,840.	7,250.	55,000.	2,000.

STATEMENT 2
SCHEDULE A, LINE 10
HOME MORTGAGE INTEREST REPORTED ON FORM 1098

....	$ 85,000.
TOTAL	$ 85,000.

STATEMENT 3
SCHEDULE A, LINE 15
CONTRIBUTIONS BY CASH OR CHECK

....	$ 8,000.
TOTAL	$ 8,000.

STATEMENT 4
SCHEDULE A, LINE 16
CONTRIBUTIONS OTHER THAN CASH

....	$ 500.
TOTAL	$ 500.

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	2006	2005	DIFF
INCOME			
WAGES, SALARIES, TIPS, ETC	500,000	0	500,000
CAPITAL GAIN OR LOSS	200,000	0	200,000
TOTAL INCOME	700,000	0	700,000
ADJUSTMENTS TO INCOME			
TOTAL ADJUSTMENTS	0	0	0
ADJUSTED GROSS INCOME	700,000	0	700,000
ITEMIZED DEDUCTIONS			
TAXES	82,000	195	81,805
INTEREST	85,000	0	85,000
CONTRIBUTIONS	8,500	0	8,500
MISCELLANEOUS (SUBJECT TO 2% OF AGI)	6,000	0	6,000
OVERALL ITEMIZED DEDUCTIONS LIMITATION	-10,990	0	-10,990
TOTAL ITEMIZED DEDUCTIONS	170,510	195	170,315
TAX COMPUTATION			
STANDARD DEDUCTION	5,150	5,000	150
LARGER OF ITEMIZED OR STANDARD DEDUCTION	170,510	5,000	165,510
INCOME PRIOR TO EXEMPTION DEDUCTION	529,490	-5,000	534,490
EXEMPTION DEDUCTION	1,100	3,200	-2,100
TAXABLE INCOME	528,390	-8,200	536,590
TAX BEFORE AMT	124,960	0	124,960
ALTERNATIVE MINIMUM TAX	15,360	0	15,360
TAX BEFORE CREDITS	140,320	0	140,320
CREDITS			
TOTAL CREDITS	0	0	0
TAX AFTER CREDITS	140,320	0	140,320
OTHER TAXES			
TOTAL TAX	140,320	0	140,320
PAYMENTS			
FEDERAL INCOME TAX WITHHELD	140,000	0	140,000
CREDIT FOR FEDERAL TELEPHONE EXCISE TAX	30	0	30
TOTAL PAYMENTS	140,030	0	140,030
REFUND OR AMOUNT DUE			
AMOUNT YOU OWE	290	0	290
TAX RATES			
MARGINAL TAX RATE	35.0%	0.0%	35.0%
EFFECTIVE TAX RATE	26.6%	0.0%	26.6%

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	2006	2005	DIFF
FEDERAL ADJUSTED GROSS INCOME			
FEDERAL ADJUSTED GROSS INCOME	700,000	0	700,000
ADJUSTED GROSS INCOME			
ADJUSTED GROSS INCOME	700,000	0	700,000
ITEMIZED DEDUCTIONS			
FEDERAL ITEMIZED DEDUCTIONS	181,500	195	181,305
LESS STATE, LOCAL AND FOREIGN TAXES	57,000	195	56,805
ITEMIZED DEDUCTION LIMITATION	-32,955	0	-32,955
CALIFORNIA ITEMIZED DEDUCTIONS	91,545	0	91,545
CALIFORNIA STANDARD DEDUCTION	3,410	3,254	156
TAX COMPUTATION			
TOTAL TAXABLE INCOME	608,455	0	608,455
TAX	54,458	0	54,458
EXEMPTION CREDITS	0	87	-87
NET TAX	54,458	0	54,458
PAYMENTS			
CALIFORNIA INCOME TAX WITHHELD	55,000	0	55,000
TOTAL PAYMENTS	55,000	0	55,000
REFUND OR AMOUNT DUE			
AMOUNT OVERPAID	542	0	542
AMOUNT YOU OWE	0	0	0
AMOUNT REFUNDED TO YOU	542	0	542
TAX RATES			
MARGINAL TAX RATE	9.3%	0.0%	9.3%
EFFECTIVE TAX RATE	9.0%	0.0%	9.0%