

## Jobs and Growth Tax Relief Reconciliation Act of 2003

### Special Report Relative to Highlights of New Tax Act

The Act, which represents an effort to jumpstart the economy, provides most of its benefits to individuals; however, there are some business provisions. The total tax reduction package, the third largest in US history, provides tax relief to virtually everyone who pays federal income tax. Here is an overview of key provisions.

#### Ordinary Income Tax Rates Reduced

Effective January 1, 2003

- ✓ Top bracket for individuals reduced from 38.6% to 35%
- ✓ 10% bracket expanded
- ✓ 15% bracket for joint filers expanded to twice that of single taxpayers
- ✓ Other bracket reductions - old rates were 27%, 30%, and 35%; now 25%, 28% and 33%

#### Dividends Tax Rates Reduced

Effective January 1, 2003

- ✓ New maximum rate is 15%
- ✓ Applies to dividend income received by individuals from domestic or qualified foreign corporations
- ✓ Dividend payer may be publicly traded or closely held

Certain dividends do not qualify for this rate:

Money market dividends  
Most dividends from REITS

With some restrictions, dividends received from regulated investment companies, (i.e., mutual funds) are eligible for the new tax rates. However, what currently comes out as dividends normally is made up of as many as three types of income: interest, short-term capital gains, and dividends (received from various stock investments). **Only the actual dividends included in the distributions** will be eligible for the new lower tax rates. The interest income and short-term capital gain will, presumably be shown on Form 1099 as dividends ineligible for the new rates.

Use the new law to  
your advantage

#### Capital Gains Tax Rates Reduced

Applies to gains generated on or after May 6, 2003

- New 15% maximum rate for net long-term capital gains
- Rate of 10%, which applied to lower income taxpayers, reduced to 5%
- Lower capital gain rate applies for both regular and alternative minimum tax
- Special 18% rate for property held more than 5 years eliminated until 2009
- Unchanged is the law that allows \$3,000 of capital losses to offset ordinary income
- Short-term capital gains taxed as ordinary income
- Gains on collectibles still subject to maximum 28% rate
- Depreciation recapture still potentially taxed at 25% rate

#### Corporate Tax Rates Remain the Same

#### Child Tax Credit

Tax credit for children under age 17 as of the close of the tax year for which return is being filed, was increased from \$600 to \$1,000 per child

Effective July 25 increase of \$400 "prepaid" to **eligible** taxpayers

## JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT OF 2003

More taxpayers will qualify to take credit in 2003 and 2004 as adjusted gross income phase-out widens - each \$1,000 credit reduced by \$50 for each \$1,000 increment over \$110,000 (joint filing) - over \$75,000 (single filing)

### Miscellaneous Individual Relief Provisions

Alternative minimum tax repeal failed, but some small relief obtained as exemption increased to \$58,000 for joint filers, \$40,250 for single taxpayer

Standard deduction for joint filers increased to twice the amount for singles in an attempt to lessen the marriage penalty

### Business Provisions

Depreciable assets which may be immediately expensed each year (Section 179) increases from \$24,000 to \$100,000.

Company may purchase up to \$400,000 of depreciable assets and still fully qualify for expense treatment (pre Act amount was \$200,000).

Certain depreciable assets acquired after September 11, 2001, qualify for special first year 50% bonus write-off; increased from 30%.

Cost of computer software “off the shelf” now qualifies for immediate write-off and 50% bonus depreciation.

New 50% rate applies to the cost of new assets bought and placed in service after May 5, 2003 and before January 1, 2005.

More of the cost of business autos and light trucks may be expensed; initial year maximum to \$10,170 (\$3,060 regular, \$7,650 bonus).

Cost of business vehicles, including SUVs, with loaded gross vehicle ratings of over 6,000 pounds qualify for immediate write-off

Corporate estimated tax payment due September 15, 2003 may be deferred until October 15, 2003

**ACTION MAY BE NEEDED**  
*Read Sunset Provisions below.*

### Sunset Provisions

That is the good news! Unfortunately, the act contains sunset provisions that if not acted upon by Congress, will result in the changes implemented by the Act to revert to pre act law. These sunset provisions differ between the various Acts provisions. Here is a table to guide you through the maize.

	<b>PROVISIONS ARE EFFECTIVE</b>							
<b>Selected Act Provisions</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Increased Child Tax Credit	X	X						
Increased 15% Bracket	X	X						
Increased Standard Deductions	X	X						
Increased 10% Bracket	X	X						
Drop in Regular Tax Rates	X	X	X	X	X	X	X	X
Increased AMT Exemption	X	X						
Reduced Capital Gains Rate	X	X	X	X	X	X		
Dividend Tax Relief	X	X	X	X	X	X		
50% Bonus Depreciation	X	X						
Increase Section 179 Expense	X	X	X					

Use the new law to your advantage. Future newsletters will provide you with additional basic ideas.

*To tailor specific recommendations to fit your needs, give us a call. We are at (203) 929-3535.*