

TAX TINKERING CONTINUES: THE 2003 ACT REVEALED

President George W. Bush celebrated the Memorial Day holiday by signing the second major piece of tax legislation of his administration. This new law – the Jobs and Growth Tax Relief Reconciliation Act of 2003 – accelerates certain portions of the 2001 Act, and adds tax reductions, business growth incentives, and temporary state fiscal relief.

This is not the sweeping change that the President had initially endorsed, but rather another series of “Sunset Provisions” designed to make temporary changes. “Sunset Provisions” are changes in the law that are not permanent, but rather expire at a set time. Most, if not all, of President Bush’s new tax law changes will expire before 2006. Previous changes, including the repeal of the estate tax will expire in 2011.

Among the changes which will affect taxpayers in 2003 and 2004 are:

- **Increase of the standard deduction for married couples to eliminate the “marriage penalty”.** This accelerates the 2001 Act, and is retroactive to the beginning of 2002, and will “sunset” before January 1, 2005.
- **Increase of the Child Tax Credit from \$600 to \$1,000.** This is also retroactive to the beginning of 2002, and will “sunset” before January 1, 2005. Taxpayers will receive an advance payment of the 2003 increase on the following schedule, based upon 2002 filing status. If the last two digits of your social security number end in the following digits, you can expect your check when indicated below:
 - 00-33 –to be mailed July 25
 - 34-66 – to be mailed August 1
 - 67-99 – to be mailed August 8
- **An increase in the lowest tax bracket of ten (10%) percent from \$6,000 to \$7,000.** This will lower individual taxpayer bills by approximately \$50 per person. The new law also lowered the tax rates above 15 (15%) percent to 25, 28, 33 and 35 percent. This is a drop of two percentage points for each bracket except the top bracket, which went down 3.6 points. Revised withholding tables are being issued immediately.
- **A Reduction of the tax rates on Capital Gains and Dividends.** Investors will now find that their net capital gains will be taxed at fifteen (15%) percent rather than twenty (20%) percent. This is effective for sales made after May 5, 2003. Dividends will be taxed at the same rates as capital gains effective January 1, 2003. Eventually, both will become tax free, before the “Sunset”. It should be noted that certain dividends from regulated investment companies (such as mutual funds), real estate investment trusts, and certain foreign corporations do not qualify for this reduced rate. This provision will expire on December 31, 2008.

There will be no deduction by corporations for dividends they pay as originally proposed.

- **A fifty (50%) increase in the depreciation allowance for qualified property placed in service after May 5, 2003 and an increase to \$100,000 in the maximum single year \$179 “expensing” deduction on assets placed in service in 2003.** This provision will expire in 2006.
- **States will be able to tap into \$10 billion emergency funds for essential government services and Medicaid.** This is effective immediately and is a one-time provision.

A number of opportunities have arisen due to these temporary changes. Most significantly, taxpayers who have the ability to increase dividends and capital gains while decreasing ordinary income (such as salary) may realize tax savings. Businesses that have delayed making major capital purchases also can obtain a greater tax deduction by making purchases and expensing the cost this year than had previously been expected.

Please contact the Cooley Shrair Tax and Business Department to discuss these changes and how they apply to your personal and business situations.