

## **Jobs and Growth Tax Relief Reconciliation Act of 2003**

The "Jobs and Growth Tax Relief Reconciliation Act of 2003" ("JGTRRA'03") was passed by Congress just before Memorial Day, 2003 and gave immediate tax relief to both individuals and small businesses. These tax cuts may save you substantial money for several years to come.

Since many of its benefits are retroactively effective and all are temporary in nature, it important that we get this information to you immediately and begin to plan your strategy for how to make the most of the new tax benefits. The new tax law creates a new environment that deserves your attention, both for enhancing your tax savings on a personal level and for revising your business plans to maximize after-tax business profits.

### **Business tax breaks**

#### **Increased small business expensing**

- JGTRRA'03 quadruples the Section 179 amount of qualified property purchases that a business can annually expense from \$25,000 to \$100,000. The increased limitation applies to property placed in service in fiscal years beginning in 2003, 2004, and 2005.
- The amount of property that can be expensed is reduced if the total amount of qualifying property purchased annually exceeds a ceiling of \$400,000. This is an increase of \$200,000 in the ceiling for phase-out purposes.

#### **Bonus depreciation**

- The 30 percent depreciation bonus enacted under the Job Creation and Worker Assistance Act of 2002 (JCWA) was boosted significantly to 50 percent for new assets acquired on or after May 6, 2003 and before January 1, 2005.
- Property does not qualify for the "extra" bonus depreciation if its acquisition was the subject of a binding written contract entered into before May 6, 2003.
- This "bonus" is in addition to regular first-year depreciation.
- If bonus depreciation will not be advantageous to your business from a tax perspective, the law allows you to "elect out" of the bonus depreciation.
- The depreciation limits on "luxury" automobiles (less than 6,000 pounds unloaded) still apply, as shown below:
- Depreciation deduction for cars placed in service after 1/1/00 and before 1/1/03:
  - Year 1 - \$3,060
  - Year 2 - \$4,900
  - Year 3 - \$2,950
  - Year 4, etc. - \$1,775

#### **Estimated payments**

- The new law enacted an extension of the deadline for filing third quarter 2003 corporate estimated taxes from September 15, 2003 to October 1, 2003. (This must help Congress "balance" some sort of budget!)

## **Individual tax breaks**

### **Lower marginal tax rates**

- The new law changes the marginal rates for 2003, retroactive to January 1, 2003, to 10, 15, 25, 33, and 35 percent.

#### **Single**

\$0 - \$7,000 taxed at 10%

\$7,001 - \$28,400 taxed at 15%

\$28,401 - \$68,800 taxed at 25%

\$68,801 - \$143,500 taxed at 33%

Above \$143,500 taxed at 35%

#### **Married Filing Joint**

\$0 - \$14,000 taxed at 10%

\$14,001 - \$56,800 taxed at 15%

\$56,801 - \$114,650 taxed at 25%

\$114,651 - \$174,700 taxed at 33%

Above \$174,700 taxed at 35%

The payroll tax withholding tables will change as of July 1, 2003 to reflect the changes in the marginal tax rates as of the beginning of the year. One tax-planning alternative is to take the additional money received as a result of the changes to the withholding tables and invest that money in your 401(k) or any other retirement savings plan.

### **Capital gains rates**

- The tax rate on capital gains drops from 20 to 15 percent for all taxpayers except those in the lowest brackets.
- The 15 percent rate applies to transactions occurring for gains able to be recognized on or after May 6, 2003, and remains in effect through December 31, 2008.
- The capital gains tax rate cut is not "across the board". Recapture of depreciation on real property is still subject to a 25 percent maximum rate. The deduction of capital losses against ordinary income is still limited to \$3,000.

### **Stock dividends**

- Stock dividends, which had been taxed at the same rate as ordinary income, will be taxed at 15 percent for most taxpayers. This new rate is in effect

January 1, 2003 through December 31, 2008. However, not all corporate distributions are entitled to tax-reduced dividend treatment.

- The reduced rates apply to the following dividends:
- Dividends received during the tax year from domestic corporations and qualified foreign corporations.  
Corporate stock dividends passed through to investors by mutual funds and partnerships
- Amounts received upon disposition of stock received as a nontaxable stock dividend that would otherwise be subject to ordinary income rules may qualify for the reduced rate.

The corporate tax rates have not been reduced, so small business owners should still take advantage of the S corporation or partnership election to allow pass through of income at lower individual rates.

#### **Increase in the child tax credit**

- The child tax credit will be increased from \$600 to \$1,000 for 2003 and 2004.
- The adjusted gross income phase-out levels are increased to \$75,000 for single taxpayers and \$110,000 for couples filing jointly.
- Beginning around July, the IRS will send rebate checks (\$400 per child) to qualifying individuals based on 2002 tax returns.

#### **Marriage penalty relief**

- JGTRRA'03 immediately raises the standard deduction for married couples filing jointly to twice the standard deduction for single taxpayers for 2003 and 2004. This is an increase from \$7,450 to \$9,500 for married filing joint taxpayers.
- JGTRRA'03 also doubles the income range in the 15 percent tax bracket for couples filing joint returns. The 15 percent bracket tops out at \$56,800 for married filing joint taxpayers.

#### **AMT relief**

- For 2003 and 2004, JGTRRA '03 increases the alternative minimum tax (AMT) exemption for married couples filing jointly and surviving spouses to \$58,000 and for single filers to \$40,250.

This is a very brief description of the tax cuts in the new law. It does not cover all the tax benefits and the planning opportunities that apply to your specific business and personal situation. Please call us so we can discuss tax strategies for your business and personal situation that will help you take full advantage of the tax saving opportunities provided in JGTRRA'03.