

HIGHLIGHTS OF THE JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT OF 2003

On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act (referred to as the “2003 Act”), which provides immediate tax benefits to millions of taxpayers. Many provisions provide only temporary tax relief, since they expire after a few years. The Act accelerates reductions in income tax rates first enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 (the “2001 Tax Act”). It also contains important provisions regarding business-related taxes, taxation of dividends, the alternative minimum tax, the child tax credit and the marriage penalty. We hope this article helps you in reviewing your tax situation for 2003 and in planning for 2004.

General Changes Affecting Individuals

Acceleration of Individual Marginal Tax Rate Reductions. The 2003 Act’s most broad-reaching provision is the acceleration of the phased-in reductions in marginal income tax rates enacted in 2001. Previously, income tax rates were to be reduced in 2006-2010. Under the 2003 Act, the reductions begin this year. For 2003, the 38.6-percent rate falls to 35 percent; the 35-percent rate falls to 33 percent; the 30-percent rate falls to 28 percent; the 27-percent rate falls to 25 percent; and the 10-percent and 15-percent rates are unchanged. The 10-percent bracket, however, is expanded for 2003 and 2004 only. Employee tax withholding will be adjusted to reflect the new rates.

Child Tax Credit Increase. The 2003 Act increases the child tax credit from \$600 per child to \$1,000 for 2003 and 2004. In some cases, the \$400 difference will be paid out this summer to qualifying families in the form of a rebate check. This increase is temporary. After 2004, the child tax credit reverts back to the scheduled, gradual increase from the 2001 Act. Thus, the credit will be \$700 for 2005, increasing to \$1,000 in 2010. Beginning in 2011, the increase expires. The child tax credit begins to phase out when adjusted gross income reaches \$110,000 for married couples and \$75,000 for single taxpayers.

Marriage Penalty Relief. When both spouses work, the second income is usually taxed at a higher marginal rate than would apply if each person filed as a single taxpayer. The Act provides some relief from this so-called “marriage penalty” in the form of a higher standard deduction for married couples filing jointly, and an expansion of the 15-percent tax bracket for married couples. Married couples may elect a standard deduction twice that available to single taxpayers, in 2003 and 2004, and may earn twice the income as a single taxpayer while remaining in the 15-percent bracket. This relief ends in 2005.

Changes Affecting Investors

Dividends. Recognizing that dividends are subject to double taxation - that is, they are taxed first at the corporate level and again at the shareholder level - the 2003 Act reduces the personal income tax rate on dividends received by shareholders. Previously, dividends were taxed at the same rate as any other ordinary income. The 2003 Act lowers the income tax rate on dividends to 15 percent for most taxpayers, and to five percent for taxpayers in the 10-percent and 15-percent income tax brackets for both regular tax and alternative minimum tax purposes. The 2003 Act's reduced dividend rates apply retroactively to January 1, 2003, and remain in effect through December 31, 2008. It is hoped that investors will express an increased interest in stocks that pay dividends, now that they will be able to keep a larger percentage of the amount received.

Capital Gains. The 20-percent rate on long-term capital gains recognized on or after May 6, 2003, for non-corporate taxpayers is reduced to 15 percent through 2008, after which it returns to 20 percent. The rate on long-term capital gains paid by non-corporate taxpayers in the 10-percent or 15-percent bracket is also reduced from 10 percent to five percent through 2007. For 2008, the rate for 10-percent or 15-percent bracket taxpayers falls to zero. In 2009, the rate reverts back to 10 percent for taxpayers in this bracket. The reductions apply to assets held for more than one year.

Alternative Minimum Tax

The alternative minimum tax (AMT) was originally designed to ensure that wealthy taxpayers who take advantage of large tax deductions pay at least some tax. However, because the exemption was not indexed for inflation, the AMT has hit more and more middle-income taxpayers in recent years, complicating their tax returns, and raising their tax bills.

The 2003 Act increases the exemption from AMT for this year and next year. The rates remain the same, 26 percent and 28 percent respectively, but the exemption is increased for 2003 and 2004 from \$49,000 to \$58,000 for married joint filers, and from \$35,750 to \$40,250 for single filers. Unfortunately, after 2004 the old exemption amounts return.

Caveat: This article is intended to provide accurate and authoritative information in regard to the subject matter covered. It is provided with the understanding that it does not constitute tax, legal, accounting, or other professional service.