



Tax Act 2003 Summary

Jobs and Growth Tax Relief Reconciliation Act of 2003

The "Jobs and Growth Tax Relief Reconciliation Act of 2003" passed by Congress just before Memorial Day gives immediate tax relief to both individuals and small businesses. Since many of its benefits are retroactive and all are temporary in nature, it is important to have information to plan your strategy for making the most of the new tax benefits. The tax law enhances your tax savings on a personal level and maximizes after-tax business profits. Following are some of the major provisions of the new law.

Individuals

Lower tax rates. Prior to the new law, the income tax rates were 10, 15, 27, 30, 35, and 38.6 percent. These were the tax rates for 2003 that were put into effect when Congress passed sweeping tax cuts in 2001. This new law changes the rates for 2003, retroactive to January 1, 2003, to 10, 15, 25, 28, 33, and 35 percent.

Capital gains rates. The tax rate on long-term capital gains drops from 20 to 15 percent for all taxpayers except those in the lowest brackets. Taxpayers in the 10 and 15 percent brackets will pay five percent (down from 10 percent) on any long-term capital gains recognized. This rate reduction applies to transactions occurring on or after May 6, 2003, and remains in effect only through December 31, 2008. In 2008, taxpayers in the 10 and 15 percent brackets will be taxed on their long-term capital gains at zero percent. In 2009, the long-term capital gains rates are scheduled to return to 20 and 10 percent levels. The reduced rates and the temporary nature of the reductions call for immediate revisions in many taxpayers' investment strategies.

Stock dividends. Stock dividends, which had been taxed at the same rate as ordinary income, will be taxed at 15 percent for most taxpayers effective January 1, 2003. This rate remains in effect until December 31, 2008. Lower income taxpayers will pay taxes on dividends at five percent effective January 1, 2003 through December 31, 2007. In 2008, lower income taxpayers will pay a zero percent tax on dividends. However, not all corporate distributions are entitled to tax-reduced dividend treatment, creating a new web of complex rules for both shareholders and corporations alike.

Increase in the child tax credit. Before the new tax law was enacted, the child tax credit for 2003 and 2004 was scheduled to be \$600. The new law increases the credit to \$1,000. Beginning around July, the IRS will send rebate checks (\$400 per child) to qualifying individuals based on their 2002 tax returns. After 2004, the child tax credit will revert to the previously scheduled amount per the 2001 tax law.

Marriage penalty relief. The new tax law immediately raises the standard deduction for married couples filing jointly to twice the standard deduction for single taxpayers for 2003 and 2004. This change is only temporary – the marriage penalty returns in 2005 and will not be eliminated again until 2009. Also included in marriage penalty relief is a doubling of the income range in the 15 percent tax bracket for couples filing joint returns.

Businesses

Increased small business expensing. This recently passed legislation quadruples the amount of qualified property that a business can annually expense from \$25,000 to \$100,000 for 2003 through 2005. The law also changes the definition of qualifying property to include off-the-shelf computer software.

Bonus depreciation. Last year's tax cut passed by Congress gave businesses a 30 percent depreciation bonus for assets acquired between September 11, 2001 and September 10, 2004. This new law boosts the bonus to 50 percent for assets acquired on or after May 6, 2003, and before January 1, 2005. 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." A special rule applies the bonus depreciation to the purchase of a "luxury" automobile.

What's Next?

This is a very brief description of the tax cuts in the new law. It does not cover all the tax benefits and planning opportunities that apply to your specific business and personal situation. Careful planning will be necessary to make the most of the tax relief in this new tax legislation. This is especially true because of the retroactive effective dates and the temporary duration of many of the provisions. You need to look at transactions that are planned for this year to see how the new law affects them -- and how they might be quickly revised. In addition, there may be new personal and/or business projects or investments that the new law will enable you to undertake, which were not possible before its passage. Call your local Yeo & Yeo, P.C. office today so we can map your tax strategy to take best advantage of the new provisions.

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