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

This is a quick overview of the conference report on the $ 350 billion tax bill which was approved by the US Senate, May 23rd 2003.

May 22, 2003, the conference report was approved by the U.S. House of Representatives.

The bill will now be sent to the President who has indicated he will sign it into law.

Highlights of Jobs & Growth Tax Relief Reconciliation Act of 2003

TITLE 1 - ACCELERATION OF PREVIOUS TAX REDUCTIONS

1 - Child Tax Credit – increases to $1,000 for calendar years 2003 and 2004. This reverts back to the old law provisions after calendar year 2004, which means the $700 amount will apply in 2005-2008, $800 in 2009, and $1,000 in 2010 & thereafter.

An advance payment will be sent to each taxpayer who claimed the credit on their 2002 tax return for a child who will not reach age 17 by December 31, 2003. This advance payment is to be sent to taxpayers before October 1, 2003, or as soon as possible, with no payments to be made after December 31, 2003. Similar to the last advance payment in 2000 (for 2001), taxpayer's who receive the advance payment will take a lower child tax credit on their 2003 income tax return. This advance payment does have limitations. It is equal to the amount of extra money a taxpayer would have received if the child tax credit would have been $1,000 in 2002 instead of the $600. Therefore the normal limits of tax, additional child tax credit, etc. will apply.

2 – Marriage Penalty Relief - The 15% tax bracket for married filing jointly individuals is 200% of the 15% tax bracket for single individuals, effective for tax years beginning in 2003 & 2004. The 180% for 2005, 187% for 2006, and 193% for 2007 are still effective, which means a decrease in the 15% tax bracket for these years when compared to 2003 & 2004 (ignoring indexing).

The standard deduction for married filing jointly individuals is 200% of the standard deduction for single individuals, effective for tax years beginning in 2003 & 2004. The 174% for 2005, 184% for 2006, 1987 for 2007, and 190% for 2008 are still effective, which means a decrease in the standard deduction for these years when compared to 2003 & 2004 (ignoring indexing).

3 – 10% Tax Bracket – This bracket will increase to $14,000 for married filing jointly

individuals, stay at $10,000 for head of household taxpayers, and increase to $7,000 for other taxpayers, effective for 2003 & 2004. This will revert back to the $12,000, $10,000, and $6,000 levels in 2005 and continue as under old law.

4 – Reduction of Tax Rates – The tax rates scheduled for 2006 apply for 2003 and thereafter (no reverting later). This means the tax rates for the individuals in the higher income levels are 25%, 28%, 33%, and 35% effective for tax years beginning after December 31, 2002.

5 – Minimum Tax Relief – The AMT exemption amount for 2003 increases to $58,000 for married filing jointly individuals and $40,250 for single individuals. These are effective for tax years beginning in 2003 and 2004.

6 – Sunset Provision Number 1. Unless an earlier date is given above, each of these items will sunset at the same time they would under the Economic Growth Act, which means they all are gone after 2010.

TITLE II - GROWTH INCENTIVES

1 – Bonus Depreciation – The 30% bonus depreciation increases to 50% for property:
- a – Acquired by the taxpayer after May 5, 2003 and before January 1, 2005, and the there was not a written binding contract in effect before May 6, 2003,
- b – The original use is with the taxpayer,
- c – The property is placed in service by the taxpayer before January 1, 2005, (property found in
§168(k)(2(B) has a January 1, 2006 date), and
- d – The taxpayer makes an election to use this 50% instead of the 30%.

The 30% bonus depreciation still exists for those taxpayers that prefer to use it instead of the 50%.

Automobiles have a first year depreciation/§179 limitation of $7,650 plus the normal limitation if the taxpayer elects the 50% bonus depreciation. (This limitation remains at $4,600 plus the normal limitation if the taxpayer uses the 30% bonus depreciation and at the normal limitation if the taxpayer elects out of the bonus depreciation entirely.)

The 30% bonus depreciation rules are changed by replacing the September 11, 2004 deadline with January 1, 2005.

This provision is effective for tax years ending after May 5, 2003.

2 – Increased §179 Expensing – The expensing limit is increased to $100,000 for tax years beginning after 2002 and before 2006. The maximum purchases before the phase-out increases to $400,000 for these same years. These amounts are indexed for inflation in $1,000 increments.

Off-the-shelf computer software is now eligible for the §179 expensing election starting with tax years beginning after December 31, 2002.

The §179 election can now be irrevocably revoked for any tax year beginning after 2002 and before 2006. In other words an election to use §179 can be revoked to not use it, but the taxpayer can not elect back in after making the election and revoking it. Once you are using §179, you can undo it but can't redo it.

3 – Sunset Provision Number 2 – Surprise! No sunset provision for this portion.

TITLE III – REDUCTION IN TAXES ON DIVIDENDS AND CAPITAL GAINS

1 – Capital Gains Tax Rate Decreases for Individuals – The 10% rate decreases to 5% (0% in tax years beginning after 2007). The 20% rate decreases to 15%. The tax computation for years that include May 6, 2003 will be similar to the 1997 computation. Gains prior to May 6, 2003 will normally be taxed at the then existing rates and only new gains will be taxed at the new lower rates.

The Alternative Minimum Tax adjustment for the §1202 exclusion decreases from 42% to 7%, effective with dispositions after May 5, 2003.

These rules are effective for taxable years ending after May 5, 2003.

2 – Dividends Tax Rate Decreased – Dividends will be combined with the taxpayer's net capital gain and will be taxed at the rates described above for capital gains. Qualified dividends include those received during the current year from domestic corporations and certain qualified foreign corporations.

There are special provisions and exceptions.
Dividends that are not eligible include:
- a – Dividends paid from a corporation that was exemption under §§501 or 521 for the payment year or the preceding year,
- b – Dividends described in §404(k),
- c – Dividends allowed as a deduction under §591 (dividends paid by mutual savings banks), and
- d - §246(C) with some modifications.

There are other restrictions that apply to REITs and RICs. Dividends will not be considered investment income for investment interest expense deductions unless the taxpayer elects to treat them as such (similar to the old capital gains provision).

3 – Sunset Provision Number 3 - These provisions sunset for tax years beginning after December 31, 2008.

TITLE V – CORPORATE ESTIMATED TAX PAYMENTS FOR 2003

Twenty-five percent (25%) of any corporate estimated tax payment due in September 2003, is not due until October 1, 2003.

TITLE IV – TEMPORARY STATE FISCAL RELIEF & TITLE V TEMPORARY STATE FISCAL RELIEF

These do not appear to contain provision involving federal income tax.

Please note: – The proposals for NOL relief, uniform definition of “child” for EIC, HH status, and dependency, and “exclusion” of dividends, changes in expatriation, denial of deduction for punitive damages, and other provisions previously discussed in the news are not part of this package.