

**On May 28, 2003, President George W. Bush signed the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) resulting in the third largest tax cut in history.**

Highlights of the Act are as follows:

**1) Capital Gains tax:**

- Reduced from a maximum rate of 20% on long term capital gains to 15% for transactions on or after May 6, 2003. A 5% maximum rate applies to those in the 10% and 15% regular tax brackets.
- Unrecaptured Section 1250 Real Estate gains will still be subject to a 25% rate.
- Rates apply for both regular and alternative minimum tax but can result in an effective alternative tax rate of 21.5% due to phase out of alternative minimum tax exemption.
- 15% rate expires on 12/31/08. 5% rate falls to zero in 2008 then goes back to 10% in 2009.
- 5 year 18% and 8% rates effectively repealed.
- Gain/loss reported by a pass-thru entity must reference date taken into account.
- Lower rates apply to installment sales payments received on or after May 6, 2003.
- Short term capital gains are still taxed as ordinary income with a rate as high as 35%.

**2) Dividends:**

- Maximum rate for most taxpayers is 15% for dividends received from domestic publicly traded or closely held companies as well as qualified foreign corporations. A 5% maximum rate applies to those in the 10% or 15% regular tax brackets.
- Applies to dividends received in tax years beginning after 2002.
- Money market fund dividends as well as most dividends from REITS (real estate investment funds) are *not eligible* for the lower rates.
- Expires on 12/31/08.
- Dividends are *not* treated as investment income unless an election is made to do so thus taxing them at regular marginal rates. This is important when deducting investment interest expense which may only be deducted to the extent of investment income. This is similar to the current long term capital gains rules.

### 3) **Individual Tax rates:**

- Marginal rates reduced retroactively to January 1, 2003.
- Rates effective 1/1/03 are now 10%, 15%, 25% (instead of 27%), 28% (instead of 30%), 33% (instead of 35%) and 35% (instead of 38.6%).
- Rates revert to 15%, 28%, 31%, 36% and 39.6% on January 1, 2011.
- The new tax tables are as follows:

#### **SINGLE TAXPAYERS**

| <b><i>Taxable income:</i></b>              | <b><i>Tax:</i></b>                         |
|--|--|
| Up to \$7,000                              | 10% of taxable income                      |
| Over \$7,000 but not more than \$28,400    | \$700.00 + 15% of excess over \$7,000      |
| Over \$28,400 but not more than \$68,800   | \$3,910.00 + 25% of excess over \$28,400   |
| Over \$68,800 but not more than \$143,500  | \$14,010.00 + 28% of excess over \$68,800  |
| Over \$143,500 but not more than \$311,950 | \$34,926.00 + 33% of excess over \$143,500 |
| Over \$311,950                             | \$90,514.50 + 35% of excess over \$311,950 |

#### **MARRIED FILING JOINTLY**

| <b><i>Taxable income:</i></b>              | <b><i>Tax:</i></b>                         |
|--|--|
| Up to \$14,000                             | 10% of taxable income                      |
| Over \$14,000 but not more than \$56,800   | \$1,400.00 + 15% of excess over \$14,000   |
| Over \$56,800 but not more than \$114,650  | \$7,820.00 + 25% of excess over \$56,800   |
| Over \$114,650 but not more than \$174,700 | \$22,282.50 + 28% of excess over \$114,650 |
| Over \$174,700 but not more than \$311,950 | \$39,096.50 + 33% of excess over \$174,700 |
| Over \$311,950                             | \$84,389.00 + 35% of excess over \$311,950 |

4) **Depreciation:**

- Section 179 deduction jumps to \$100,000 (from \$25,000) for years beginning after 2002 and ending before 2006.
- Section 179 phase out threshold increased from \$200,000 to \$400,000 for years beginning after 2002 and ending before 2006.
- Off the shelf computer software now eligible for expensing in 2003, 2004 and 2005.
- Bonus depreciation (formerly 30%) jumps to 50% for qualified property acquired after May 5, 2003 and before January 1, 2005.
- Luxury auto bonus depreciation raised from \$4,600 to \$7,650 for a total of \$10,710 in the first year.

5) **Corporations:**

- Estimated tax payment due 9/15/03 can be paid by 10/1/03.
- Accumulated earnings tax and personal holding company tax rate reduced to 15%.

6) **Child tax credit:**

- Immediately increases credit from \$600 to \$1,000 for 2003 and 2004.
- In 2005, amount falls to \$700 and increases annually back to \$1,000 by 2010.
- Advanced payment of up to \$400 per eligible child will be sent starting in July, 2003. Will be based upon 2002 information.
- Those receiving an advance payment will take a credit of up to \$600 on the 2003 return. Anyone not receiving an advance payment may claim higher amount on 2003 return of up to \$1,000.
- Phase out remains at \$110,000 for married couples, \$55,000 for m/f/s and \$75,000 for singles.

7) **Marriage Penalty:**

- For 2003 and 2004, standard deduction amount for married couples will be twice the amount as single taxpayers.
- In 2005, standard deductions for married couples will fall to 180% of the single amount then gradually rise to double the amount by 2009.

8) **Individual Alternative Minimum Tax:**

- Exemption raised in 2003 and 2004 only.
- Exemption is \$40,250 (from \$35,750) for singles and \$58,000 (from \$49,000) for married couples.