# Memo

To: Mr. Client

From: Greg Barford

Date: June 23, 2003

Subject: $350 Billion Tax-Cut Package

The new tax bill just recently passed in May and formally known as "Jobs and Growth Tax Relief Reconciliation Act of 2003", will increase most taxpayers cash flow immediately. The goal of the tax act is to put additional cash in taxpayers' hands quickly which will encourage them to spend the money and thus boost the economy. Highlights of the major provisions follow:

## Tax Rate Reduction for Individuals

The reduction in income tax rates scheduled to occur in 2006 has been accelerated to the year beginning 2003. The rates are effective 1/1/03:

### Married Taxpayers

| Taxable Income | New Rate | Old Rate | Notes |
|---|---|---|---|
| 0 - 14,000 | 10% | 10% | Increases from 12,000 |
| 14,001 - 47,449 | 15% | 15% | |
| 47,450 - 114,650 | 25% | 27% | |
| 114,651 – 174,700 | 28% | 30% | |
| 174,701 – 311,950 | 33% | 35% | |
| Over 311,950 | 35% | 38.6% | |

### Single Taxpayers

| Taxable Income | New Rate | Old Rate | Notes |
|---|---|---|---|
| 0 – 7,000 | 10% | 10% | Increases from 6,000 |
| 7,001 – 28,400 | 15% | 15% | |
| 28,401 – 68,800 | 25% | 27% | |
| 68,801 – 143,500 | 28% | 30% | |
| 143,501 – 311,950 | 33% | 35% | |
| Over 311,950 | 35% | 38.6% | |

These new rates are retroactive to 1/1/03, and taxpayers will be able to reduce their withholding immediately to reflect the new change. Stay tuned for further details as to how this will be implemented.

## Child Tax Credit

The child tax credit that gives taxpayers a $600 credit for each dependent child under 17 increases to $1,000 for 2003 and 2004 . Most taxpayers will receive advance payments in July 2003 of $400 per child based on filing a tax return and meeting certain income and tax liability for 2002.

## Dividends and Capital Gains Rate Reduction

### Capital Gains

The capital gains tax rate drops **to 15%** from 20% effective for sales and exchanges after 5/6/03. Taxpayers in the 10% and the 15% bracket will see their capital gains rate drop **to 5%** from 10%. Moreover, the 5% rate drops to 0% for the year 2008 only. Beginning in 2009 these rates increase to the old rates of 20% and 10%.

*Planning Point -- Taxpayers should evaluate whether to accelerate sales of appreciated property (real estate, stocks, business assets, etc.) that they are planning to sell after 2009 before this year to minimize taxes. However, this is a delicate balancing act because accelerating a sale may very well decrease the selling price at the expense of lower income taxes, and the net effect of trying to do this may decrease cash flow.*

### Dividends

The tax on dividends drops **to 15%** from rates as high as 38.6% for individual taxpayers (see the tax tables on page 1 to get an idea of where your dividends were taxed at -- marginal tax rate). Likewise, this tax drops **to 5% for taxpayers in the 10% and 15% bracket** . These lower rates expire in 2008, and the old marginal rates will apply. The new lower tax rate applies to dividends from domestic and qualified foreign corporations. However, what qualifies as dividends will be subject to various additional regulations that will be forth coming. Nevertheless, it is fair to say that most dividends from public companies and closely held businesses will qualify for this reduced rate.

*Planning Point -- C corporations that have accumulated earnings may desire to pay out these earnings as a dividend which could reduce taxes. S corporations -- should they switch to C corporations now? This is a very complicated question and requires additional thought about each individual business's circumstances and further clarification from the IRS and congress. Therefore, S corporations should do nothing at this point.*

## Small Business Depreciation

Businesses could expense up to $25,000 of personal property (furniture, equipment, certain vehicles, computers, etc.) also known as section 179 expense. Thus, an asset purchased that has to be depreciated over 5 or 7 years could be written off entirely in one year. The new tax laws expand this amount to **$100,000** for tax years 2003, 2004, and 2005. The prior tax law eliminated this expense election for total asset purchases in excess of $200,000 and as a result most larger businesses could not take this deduction. The law now changes the cap **to $400,000** from the $200,000.

The amount of the additional depreciation called "Bonus Depreciation" has increased **to 50%** from 30% for assets placed into service after 5/5/03 and acquired before 1/1/05. Thus, an asset purchased for $50,000 that has to be depreciated over 5 years or $10,000 a year, would now get a $25,000 deduction plus $5,000 for a total of $30,000 in the first year.

## Summary

I will keep you updated with additional details and strategies as further clarification is obtained.