JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT OF 2003

Stuart S. Sacks
Smigel, Anderson & Sacks[1]

I. INTRODUCTION

A. The Act.

President Bush signed new tax legislation on May 28, 2003 known as the Jobs and Growth Tax Relief Reconciliation Act (P.L. 108-27, cited as "JGTRRA"). It is intended to provide $350 billion of tax relief, one of the largest tax cuts in history. The Act provides tax cuts across the board in personal and business taxes and accelerates some of the tax cuts under the Economic Growth Tax and Revenue Reconciliation Act of 2001 (P.L. 107-16, cited as "EGTRRA"). It also overlaps with the Jobs Creation and Workers Assistance Act of 2002 ("JCWWA"), containing a new web of sunset provisions and overlapping applications that require careful planning.

B. Committee Reports.

The Joint House and Senate Committee Report captures the essence of the income tax reduction rationale and the President's philosophy. It notes that high marginal tax rates have reduced incentives to work, save and invest. This produces a negative long term effect on the economy. Lower marginal rates provide greater incentives to taxpayers to be entrepreneurial risk takers. The tax cut will therefore lead to increased investment, promote long term growth, stability and reward businessmen and women who provide a foundation for the success of our economy and our country. The lower marginal rates will also help to remove the barriers facing lower income taxpayers and families moving into the middle class and provide incentives to work.

II. OVERVIEW OF THE ACT

A. Personal Tax Rate Changes

1. Brackets Enlarged and Tax Rate Reductions Accelerated. In 2001, EGTRRA included rate reductions that were scheduled to take effect in 2006. Sensing the reductions were needed more quickly, JGTRRA accelerates these rate reductions to 2003. The changes affect all brackets, from the lowest to the highest. For example, the 10% bracket is increased from $6,000 to $7,000 for single taxpayers and from $12,000 to $14,000 for joint filers. In 2004 these levels will be indexed for inflation and in 2005, the old thresholds ($6,000/$12,000) will reappear. The 15% bracket is widened to eliminate the marriage penalty tax discussed below. The following chart highlights the changes to the marginal tax brackets above 15%:

[1] With acknowledgment for special assistance of Steven C. Skoff, Esq., J.D., LL.M.

EGTRRA

Tax year beginning during calendar year:	*28% rate is reduced to:*	*31% rate is reduced to:*	*36% rate is reduced to:*	*39.6% rate is reduced to:*
2001 (blended rates)	*27.5%*	*30.5%*	*35.5%*	*39.1%*
2002 and 2003	*27%*	*30%*	*35%*	*38.6%*
2004 and 2005	*26%*	*29%*	*34%*	*37.6%*
2006-2010	*25%*	*28%*	*33%*	*35%*
2011 and after	*28%*	*31%*	*36%*	*39.6%*

(IRC §1(i)(2), as amended by P.L. 107-16)

JGTRRA

Tax year beginning during calendar year:	*28% rate is reduced to:*	*31% rate is reduced to:*	*36% rate is reduced to:*	*39.6% rate is reduced to:*
2002	*27%*	*30%*	*35%*	*38.6%*
2003-2010	*25%*	*28%*	*33%*	*35%*
2011 and after	*28%*	*31%*	*36%*	*39.6%*

(IRC §1(i)(2), as amended by 108-27)

2. Marriage Penalty Relief.

a. Overview. Married couples have long been penalized by the tax laws because the total tax liability of a married couple filing jointly has been higher than the total tax liability of two unmarried individuals with the same total income. This inequity was addressed by EGTRRA and has been accelerated by JGTRRA.

b. Temporary Elimination. The standard deduction for joint filers increases to twice the amount of a single filer's standard deduction for 2003 and 2004 in the 15% tax bracket. IRC §63(c)(7). The 15% bracket will be twice that of individuals increasing from $47,450 to $56,800 for married couples filing jointly and from $23,725 to $28,400 for married persons filing separately. After 2004, the standard deduction for married taxpayers falls back to the EGTRRA levels and for 2005 and beyond is equivalent to the following percentage of a single taxpayer:

For tax years beginning in calendar year -	*The applicable percentage is –*
2005	*174*
2006	*184*
2007	*187*
2008	*190*
2009 and 2010	*200*
2011	*Pre-EGTRRA rules return*

IRC §1(i)(1)(B)(i), (ii), (iii)

3. Capital Gains Tax Reduction. For investors, the tax on capital gains have encouraged the growth of capital by taxing the gain on certain assets at rates below regular income tax rates. Generally, the maximum tax on capital gains, prior to the recent tax acts, was 20%. On certain property held more than five years the gain was reduced from 10% to 8%. JGTRRA reduces the rates even more from 20% to 15% and from 10% to 5%. A more detailed summary is set forth in Article III below.

4. Child Tax Credit. The child care tax credit has been accelerated by JGTRRA. For tax years beginning in 2003 and 2004, the child care tax credit is increased to $1,000 for each child under the age of 17 at the close of the calendar year. This is higher than the provisions of EGTRRA which phased in credits beginning at $600 increasing to $1,000 per child in the year 2010. The credit will fall back to EGTRRA levels, beginning in 2005, so the credit will be $700 in 2005-2008, $800 in 2009 and $1,000 in 2010. By accelerating the deduction into 2003, the credit is being paid in advance beginning July 2003 and to the extent practicable before October 1, 2003, to taxpayers who claimed the amount in 2002.

5. Adjustments in Withholding. With the new tax brackets and the raising of the lowest brackets, the IRS is expected to publish revised withholding tables. Workers should expect to see more money in their paychecks and employers should implement the withholding revisions as soon as possible.

6. AMT Exemptions. The alternative minimum tax is the excess, if any, of the tentative minimum tax over the regular tax for the tax year. It is subject to a tax rate of 26% to 28%. The new law accelerates the increase in the income level before the AMT is applied for the tax years 2003 and 2004 to $40,250 for single taxpayers and $58,000 for those married filing jointly. In 2005, the levels revert to pre-EGTRRA levels.

7. Sunset Provisions. The marriage penalty relief, the child care tax credit, the AMT reduction, the increase in the standard deduction all expire

December 31, 2010. The reduction in the capital gains and dividend income rates expires December 31, 2008.

B. Business and Economic Stimulation Highlights.

1. Increased expense electives. Section 179 allows taxpayers to take as an expense a fixed amount per year of the cost of qualifying property. In 2002, the maximum allowable amount was $25,000. JGTRRA increases the maximum annual expense amount to $100,000 for property placed in service in 2003, 2004 and 2005. This will allow businesses to claim a full deduction for the cost of many capital needs. The increased deduction is available for most trucks and sport utility vehicles of 6,000 pounds or more for business purposes. Vehicles less than 6,000 pounds are subject to a depreciation cap. Property eligible for the deduction, record keeping and various phase out rules still apply.

2. Bonus first year depreciation allowances. Qualified property is eligible for a 30% bonus first year depreciation under Code Section 168(k). JGTRRA accelerates the bonus depreciation, for property placed in service after May 5, 2003 to 50%. A larger first year depreciation allowance is also permitted for qualifying passenger autos rising approximately $7,600 (in anticipation of schedules to be released by the IRS) in 2003.

3. Accumulated earnings tax rate reduced. Under current law, corporations are generally required to pay a penalty tax on accumulated earnings equal to the highest individual tax rate. In 2002, the rate was 38.6%. This tax is in addition to regular corporate tax. JGTRRA reduces the accumulated earnings tax to 15%. This reduction expires December 31, 2008.

III. CAPITAL GAINS TAX REDUCTIONS

A. Capital Assets.

1. Definition. One of the requirements for capital gain or loss treatment is that the asset which is sold or exchanged must meet the definition of a capital asset. IRC Section 1221. The benefit of the lower tax is only available to non-corporate taxpayers such as individuals, estates and trusts. Excluded from the definition of a capital asset are such interests as stock in trade as inventory, depreciated property under Section 167, the property rights of a person creating a copyright or other artistic expression, accounts and notes receivable, hedging transactions, etc.

2. New Rates. The amount of the tax is measured on the net capital gain defined as the excess of net long-term capital gain for the tax year over net short-term capital losses for the tax year. This adjusted net capital gain for assets held for more than one year and sold or exchanged on or after May 6, 2003 will drop from 20% to 15% for taxpayers in the higher income tax brackets, and for those in the 10% and 15% brackets, the tax will drop from 10% to 5%. In 2008 the 5%

for the lower brackets will fall to 0%, but only for 2008 and on January 1, 2009, the higher 20% and 10% rates are reinstated.

3. Some rates unchanged. Some assets, such as collectibles (e.g., works of art, rugs, antiques, gems, stamps, coins, alcoholic beverages), are taxed at a 28% rate for capital gains when the asset is sold. This rate remains unchanged. Similarly, the long term capital gain on the sale of Section 1250 property (long term gain attributable to real property) has been taxed at a 25% rate and the sale of such property will continue to be taxed at 25%.

4. Net Losses. If there are any losses, they are applied within the category in which the loss was generated. Short term capital losses, including carry overs, are applied first to reduce short term capital gains. If there is a net loss, it reduces net long-term gain from the 28% group, then the 25% group, then the 15/5% group. Long term losses are similarly applied against losses from the 28% group, then the 25% group and then the 15/5% group.

5. Other considerations.

a. Under EGTRRA, the capital gains tax rate for qualified property held for more than five years was lowered to 18% (8% for lower taxpayers) starting in 2001 for taxpayers in the 10/15% tax brackets, and after 2005 for those in the higher brackets. Effective May 6, 2003, the 18/8% rates are repealed.

b. The lower rates apply to AMT calculations.

c. The lower rates do not apply to C corporations.

B. Dividend Tax Relief.

1. New Rates. Top federal tax rate for dividends received by an individual is reduced to 15% (5% for those whose incomes fall in the 10% or 15% tax brackets). IRC §1(h)(11). These are the same rates applicable to capital gains and are applied retroactively to eligible dividends from a domestic or qualified foreign corporation received after January 1, 2003 through December 31, 2008. IRC Section 306(a). The 0% rate applicable to taxpayers in the 10% or 15% brackets exists for 2008. The new rates only apply to stock dividends.

2. Other considerations. There is no dividend reduction benefit provided for regular IRAs, 401(k)s, deferred annuities, credit unions, mutual insurance companies, farmers cooperatives certain short sales, and dividends from tax-exempt corporations even if the funds represent dividends paid on stocks held in the account. Interest earned on savings accounts, CDs and government bonds is still taxed at ordinary income rates. Dividends will not qualify unless the taxpayer owns the stock with respect to which the dividend is paid for more than 60 days during the 120-day period which begins 60 days before the x-dividend date.

IV. NEW DEVELOPMENTS

A. Low interest rates can boost income tax free portion of gift annuity payments.

B. There is pending legislation, including the repeal of EGTRRA of 2001 sunset of estate taxes.

C. Proposed KIDDIE tax changes