

## **Accelerated rate cuts and tax benefits for individuals and families under the Jobs and Growth Tax Relief Reconciliation Act of 2003**

As you probably know, Congress recently passed an “economic stimulus” package called the Jobs and Growth Tax Relief Reconciliation Act of 2003. Among the 2003 Jobs and Growth Act provisions that have an immediate significant and beneficial impact in 2003 on the finances of individuals and families, including individuals and families doing business as sole proprietorships or through pass-through entities, are the (1) accelerated increase, retroactive to Jan. 1, 2003, of previously enacted individual tax rate reductions that were scheduled to be phased in over the next several years, (2) accelerated expansion for 2003 of the 10% bracket for joint filers and those filing as single or marrieds filing separately, (3) marriage penalty relief in the form of accelerated expansion for 2003 of the 15% rate bracket and the basic standard deduction amount for joint filers, and (4) accelerated increase in child tax credit to \$1,000 per qualifying child in 2003 and 2004, and immediate benefit in the form of an advance payment of the credit for taxpayers who were eligible for the credit in 2002. These accelerated benefits will result in lower withholding and in considerable tax savings for individuals and families, with the size of the tax savings depending on such factors as an individual's filing status and income level, eligibility to take the child tax credit in 2003 and number of children for which a child tax credit could be taken in 2003. This good news is tempered somewhat by the fact that, absent further Congressional action, all these cuts phase out by the 2011 sunset provided for in the Economic Growth and Tax Relief Reconciliation Act of 2001 (2001 EGTRRA), and some well before then under the terms of the 2003 Jobs and Growth Act.

The purpose of this letter is to provide you with a brief overview of the new accelerated tax-cut and tax-benefit provisions. If you would like to discuss how these new provisions affect your personal or business situation, please do not hesitate to contact my office.

### **Accelerated reduction of tax brackets above 15%.**

The 2003 Jobs and Growth Act provision that by far affects the most individuals is its acceleration, retroactive to Jan. 1, 2003, of the individual marginal rate cuts that were provided for in 2001 EGTRRA but which weren't set to begin under 2001 EGTRRA until 2006. This means that the tax rates for 2003 and until 2011 above 15% are 25%, 28%, 33%, and 35% (under 2001 EGTRRA the rates for 2003 above 15% were 27%, 30%, 35%, and 38.6%). After 2010, rates above 15% will revert to the pre-2001 EGTRRA levels (i.e., 28%, 31%, 36%, and 39.6%).

### **Accelerated expansion of the 10% rate bracket.**

Under the 2003 Jobs and Growth Act, the 10% tax bracket for 2003 ends at \$14,000 (up from \$12,000) of taxable income for joint filers and \$7,000 (up from \$6,000) for single

filers and marrieds filing separately, and for 2004, both these figures will be indexed for inflation. The 10% bracket for a head-of-household is unchanged (it will continue to end at \$12,000 of taxable income). From 2005 through 2007, the end point of the 10% bracket will revert to the \$12,000/\$6,000 levels (and under 2001 EGTRRA, will go up to \$14,000/\$7,000 for 2008 through 2010).

### **Marriage-penalty relief.**

The following marriage-penalty relief provisions will be accelerated to 2003:

- The basic standard deduction amount for joint returns will be double (\$9,500 for 2003) the basic standard deduction amount for single returns. (Under 2001 EGTRRA, this wasn't scheduled to be fully phased in until 2009.) However, for tax years beginning after 2004, a joint return filer's basic standard deduction will revert to pre-2003 Jobs and Growth Act levels (e.g., for 2005, to 174% of a single return filer's basic standard deduction).
- In 2003 and 2004, the end point of the 15% tax bracket for joint returns will be twice the end point of the 15% tax bracket for single returns. (Under 2001 EGTRRA, this wasn't scheduled to happen until 2008.) In other words, for 2003, the 15% tax bracket for joint filers applies to taxable income over \$14,000 (up from \$12,000) but not over \$56,800 (up from \$47,450). However, for tax years beginning after 2004, the end point will, like the basic standard deduction amount, revert to pre-2003 Jobs and Growth Act (e.g., for 2005, 180% of the end point of the 15% tax bracket for single returns).

### *Increased alternative minimum tax (AMT) exemption amounts.*

Many individual taxpayers with preference items may be concerned that these accelerated rate reductions will make it more likely that they will have to pay AMT. At least for 2003 and 2004, the 2003 Jobs and Growth Act provides some welcome relief by increasing the AMT exemption amount to \$58,000 (up from \$49,000) for joint filers and surviving spouses and \$40,250 (up from \$33,750) for unmarried taxpayers. However, the AMT exemption amounts revert to \$45,000 and \$33,750 after 2004.

### **Accelerated increase in child tax credit, partially refundable for 2003.**

The child tax credit will increase to \$1,000 per qualifying child (up from \$600 per qualifying child for 2003-2004 and \$700 for 2005). Under pre-2003 Jobs and Growth Act law, the increase to \$1,000 was not scheduled to go into effect until 2010. After 2005, however, the child tax credit will fall back to pre-2003 Jobs and Growth Act levels (e.g., to \$700 for 2006-2008).

### *Advance payment this summer.*

For 2003, the increased amount of the child tax credit will be paid in advance beginning in mid-July over a period of three weeks. This year, a qualifying family with one child will receive an advance payment check for up to \$400, and a qualifying family with two children will receive a check for up to \$800. The amount of advance payments will be based on the taxpayers' 2002 filing status and income, as well as the number of children claimed on their 2002 tax return who will still be under age 17 in 2003. Note that the same income limits apply under the new law as under pre-2003 Jobs and Growth Act law, which means that the amount of the credit allowable is reduced or eliminated for taxpayers with AGI over certain levels: \$75,000 for singles and \$110,000 for married couples. However, taxpayers who didn't qualify in the past for the child tax credit because of AGI limitations may now qualify for a portion because of the increased credit (even though they won't get an advance payment).

This letter gives you the high points of the tax cut acceleration provisions in the 2003 Act. Please call our offices and we'll set up an appointment to discuss in detail how the changes affect you, your family, and your business.