

## **Jobs and Growth Reconciliation Tax Act of 2003**

// July - August 2003 //

See also our [FAQ Section](#)

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Recently signed into law, the "Jobs and Growth Reconciliation Tax Act of 2003" has made significant changes to U.S. tax law. The following summarizes the major provisions that may benefit your tax situation and is intended for general explanatory purposes.

### **Reduction of Tax Rates on Dividends**

Effective for dividends received in tax years after 2002 and before 2009, dividends received by a shareholder from domestic corporations are treated as net capital gain. Accordingly, dividends are taxed at rates of 5% (zero, in 2008) and 15% for both regular tax and AMT. Special rules and exclusions apply for certain shareholders. For example, if a shareholder does not hold a share of stock for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date, dividends are not eligible for capital gain rates.

### **Reduction of Tax Rates on Capital Gains**

Effective for sales and exchanges made after May 5, 2003, and before January 1, 2009, the 10% and 20% rates on adjusted net capital gain are reduced to 5% (zero, in 2008) and 15% respectively, for both regular tax and AMT.

### **Accelerated Reduction of Tax Brackets Above 15%**

For 2003 and thereafter, the tax rates above 15% will be 25%, 28%, 33%, and 35%. After 2010, rates above 15% will revert to the pre-2001 EGTRRA rates.

### **Increase of the Child Credit**

The child credit will increase to \$1,000 per qualifying child. After 2004, the child credit will drop back to \$700 per qualifying child. For 2003, the increased amount of the child credit will be paid in advance beginning in July or August 2003.

### **Marriage Penalty Relief**

For 2003 and 2004 the basic standard deduction for married persons will be double the basic standard deductions for single individuals. After 2004, a joint filer's basic standard deduction will revert to the levels enacted by the 2001 EGTRRA. In addition, the 15% tax bracket for joint filers will increase. After 2004, this expanded tax bracket will revert to the levels enacted by the 2001 EGTRRA.

### **Expand the 10% Bracket**

For 2003 and 2004, the 10% bracket will be expanded for joint and single filers. The increased figures will be indexed in 2004. From 2005 through 2007, the end point of the 10% bracket will revert to the 2001 EGTRRA levels.

### **Increase the AMT Exemption**

For 2003 and 2004, the maximum AMT exemption amount will increase to \$58,000 for joint filers and surviving spouses and \$40,250 for single filers. These increased amounts will revert to \$45,000 and \$33,750 after 2004.

## Increase Bonus First Year Depreciation

For 30% bonus first-year depreciation purposes, qualifying property may be acquired before 2005. In addition, 50% bonus depreciation applies to qualified property if the following conditions are met:

- The original use commences with the taxpayer after May 5, 2003;
- The asset is acquired by the taxpayer after May 5, 2003 and before 2005;
- And, the asset is placed in service by the taxpayer before 2005.

On a class-by-class basis, taxpayers may elect to claim 30% first-year depreciation instead of 50%, or elect not to claim bonus first-year depreciation.

## Increase Code Section 179 Annual Expensing

The following expensing changes will be effective for property placed in service beginning in tax years 2003, 2004, and 2005:

- The maximum annual expensing amount is increased to \$100,000.
- The maximum annual expensing amount is reduced (but not below zero) by the amount by which the cost of qualifying property exceeds \$400,000.
- The above limits will be indexed after 2003.
- Off-the-shelf computer software will become eligible for expensing.
- Taxpayers may make or revoke expensing elections on amended returns without IRS consent.

## Change in Corporate Estimated Tax Payments

17% of the amount of any required installment of corporate estimated tax which is otherwise due on September 15, 2003 will instead be due on October 1, 2003.

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## FAQ Section

Here are a few frequently asked questions from our clients. Do you have a question for us? [E-mail us](#) and we'll post it on the Internet.

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**I have \$5,000 saved for my children, ages 9 and 7, for their future education. How do you suggest I invest it?**

We believe that the best way to save for your children's education is by using a Qualified State Tuition Program ("QSTP"), such as California's Golden State Scholarshare program. Earnings within a QSTP are Federal tax-free to the extent they are withdrawn and used to pay for qualifying education expenses. Currently, California continues to tax QSTP earnings at the beneficiary's (child's) rate when withdrawn. In the event that the funds will not be used for the intended student, they may be used for the education of another family member (relative of the beneficiary), or, subject to a penalty (usually 10%-15%) and tax at your rate, withdrawn by you for any other (non-educational) use. While as donor/account owner, you cannot control how the funds are invested, you do control withdrawals. Most states have QSTP's and most of them allow residents of other states to participate, so you have many plans to choose from. The funds can be used at any accredited post-secondary institution in the United States (including public and private colleges and universities, graduate schools, community colleges and vocational schools). Contributions can be made at over time or all at once. A special rule allows a contribution of up to \$55,000 per donor to be made in one year.

**How will I be taxed on the sale of a rental residence?**

First you calculate your gain (if any) by subtracting from net sales proceeds, your basis and any improvements made prior to the sale. Depending on the method used to depreciate the property, some of the gain may be taxed as ordinary income. The balance of the gain will be treated as capital gain subject to a top federal tax rate of 15%.

**I am approaching retirement but would like to continue working part-time. How much can I earn before losing some or all of my social security benefits?**

Under the new law social security benefits are impacted in one of three ways:

1. If you are under full retirement age (i.e. between 65-67 depending on when you were born) your current benefits will be reduced by \$1 for every \$2 earned over \$11,280 (year 2002 limit indexed for inflation),
2. In the year in which you reach full retirement age (i.e. the year you reach age 65-67) your current benefits will be reduced by \$1 for every \$3 earned over \$30,000, but only counting earnings up to the month before you reach full retirement age,
3. Starting with the month you reach full retirement age you will get your full benefits with NO limit on your earnings. These new rules apply as of January 2000.

Having been a single mother for the last twenty-two years, I have not had the opportunity to save any money. Now that all the children are on their own, what is the best way for me to save and accumulate enough money for my retirement? I am 41 years old. Most of us do not recognize the idea that we must pay ourselves first in order to ensure our own financial security. Thus, a practical strategy is to treat savings as a "fixed" expense and

not as the amount left over after all of our other needs are met. Consider utilizing your employer's 401(k) plan to set aside savings pre-tax.

### **Can probate be avoided through a living trust?**

Yes, but only if titles to the assets have been transferred to the trust. Failure to make the title transfers will leave the assets subject to a will and subject to the costs and delays of going through a probate. Probate fees are set by statute, and are non-negotiable. Also, probate fees are calculated on the value of your gross estate. For example, if you have a \$200,000 house with a \$180,000 mortgage, the probate fees are computed on \$200,000, and can run between 6% to 8%, or \$12,000 to \$16,000.

### **Are the funds distributed to a beneficiary from a retirement plan of a fully vested participant who dies before age 59 1/2 subject to a penalty?**

No distribution from a qualified retirement plan received by a beneficiary on account of a participant's death will be subject to the ten percent early distribution penalty. Additionally, the beneficiary will not be required to pay any excise tax on excess distributions received from the qualified plan on account of the participant's death.

### **I have my own business, are there any benefits to hiring my (minor) children?**

Assuming your children perform actual services and are paid according to the value of their work, there are many benefits. First, you will receive a tax deduction for compensation expenses. Second, if your business is a sole proprietorship (or partnership where both partners are the parents), payments for the services of your child (under 18) are not subject to social security and Medicare taxes. Third, the wages your child receives will be considered "earned income" and are not subject to the kiddie tax rules. The income will be taxed at your child's lower tax rates. Finally, the wages can provide a means to start a savings plan, including deductible IRA contributions, that will benefit your child significantly down the road.