

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "2003 Act") was passed by the House of Representatives and the Senate on May 23 and signed by the President today. Like the Economic Growth and Tax Relief Reconciliation Act of 2001 (the "2001 Act") and the Job Creation and Worker Assistance Act of 2002 (the "2002 Act"), the 2003 Act is intended to help stimulate the U.S. economy. Its principal features for individuals are accelerating into 2003 the federal income tax rate reductions scheduled by the 2001 Act to become effective in 2004 and 2006, reducing the tax rate on long-term capital gains, and taxing most dividend income at the same reduced tax rate as long-term capital gains. The 2003 Act reduces the marriage tax penalty by accelerating into 2003 and 2004 increases in the standard deduction and expansion of the 15 percent tax bracket for joint filers. It also accelerates into 2003 the scheduled increase in the child tax credit from \$600 to \$1,000. For businesses, the principal features of the 2003 Act are increasing the small business expense allowance for qualifying depreciable property from \$25,000 to \$100,000 and increasing the first-year bonus depreciation for qualifying depreciable property from 30 percent to 50 percent. As was the case with the 2001 Act, the 2003 Act includes sunset provisions so that the legislation as it proceeded through the Senate remained in compliance with certain budget reconciliation procedural rules. The 2003 Act contains no provisions that raise revenue. A more detailed explanation of the principal features of the 2003 Act follows.

FOR INDIVIDUALS

Individual Tax Rate Reductions

The one-percent reductions in tax rates above the 15 percent tax rate bracket scheduled to occur in years 2004 and 2006 under the 2001 Act are accelerated into 2003. Accordingly, the tax rate brackets for 2003 through 2010 are 10, 15, 25, 28, 33, and 35 percent. In addition, taxable income subject to the 10 percent bracket is increased by \$1,000 for single individuals and \$2,000 for married individuals in taxable years 2003 and 2004. Also, starting in 2004 the 10 percent bracket will be indexed for inflation. For taxable years beginning in 2003 and 2004 the alternative minimum tax exemption amount for married individuals filing a joint return is increased to \$58,000, and for single individuals to \$40,250.

Capital Gains and Dividend Income

The maximum tax rate for net long-term capital gains is reduced from 20 to 15 percent for individuals in a higher than 15 percent rate bracket and from 10 to 5 percent (zero percent in 2008) for individuals in the 10 or 15 percent rate brackets. Dividend income from domestic corporations and qualified foreign corporations is taxed at the same reduced rate as long-term capital gains, for the regular tax and the alternative minimum tax. The rate reduction for capital gains applies to sales, exchanges and payments received on or after May 6, 2003, and before 2009. The rate reduction for dividend income applies to dividends received in taxable years beginning on or after January 1, 2003, through taxable years beginning in 2008. Thereafter, these rate reductions sunset and the separate higher rates for dividend income and capital gains is scheduled to return to prior-law levels.

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Marriage Penalty

The standard deduction for married taxpayers filing a joint return is increased in 2003 and 2004 to 200 percent of the standard deduction for single individuals. Thereafter, the percentage increases phased-in under the 2001 Act apply. Thus, in 2005 the standard deduction for married taxpayers filing a joint return is reduced to 174 percent of the standard deduction for single individuals. (As generally is the case with all tax legislation, simplification was not one of the goals of this legislation.)

Similarly, in 2003 and 2004 the maximum taxable income subject to the 15 percent tax rate for married individuals filing a joint return is equal to 200 percent of the maximum taxable income subject to the 15 percent rate for single individuals. Thereafter, the percentage increases phased-in under the 2001 Act apply (for example, 180 percent for 2005).

Child Tax Credit

For 2003 and 2004, the child tax credit for eligible taxpayers is increased from \$600 to \$1,000. Thereafter, the credit returns to the amounts provided under the 2001 Act (for instance, \$700 in 2005 through 2008). Beginning in July 2003, the increase in the amount of the credit for 2003 (up to \$400 per child) will be paid in advance by the Internal Revenue Service, based upon information in the taxpayer's 2002 return.

FOR BUSINESSES

Expense Allowance for Small Businesses

For taxable years beginning in 2003, 2004, and 2005 the maximum cost of tangible personal property that businesses may elect to deduct in the year the property is placed in service is increased from \$25,000 to \$100,000. In addition, the cost of qualifying property after which the expense allowance begins to phase-out is increased from \$200,000 to \$400,00 for taxable years beginning in 2003, 2004, and 2005. For these years, these increased amounts are indexed for inflation. Property qualifying for this deduction for these years now also includes off-the-shelf computer software.

First-Year Bonus Depreciation

Under the 2002 Act, taxpayers who purchase or produce after September 10, 2001 and before September 11, 2004 new depreciable personal property (including certain qualifying leasehold improvement) are entitled to a 30 percent deduction in the year the property is placed in service, in addition to the small business expense allowance and regular depreciation. The 2003 Act provides a first-year depreciation deduction of 50 percent for property that would have qualified under the 2002 Act for the 30 percent deduction and that is acquired or constructed after May 5, 2003 and before January 1, 2005. Property acquired after May 5, 2003, pursuant to a binding written contract in effect before May 6, 2003, does not qualify for the 50 percent deduction.

September 2003 Corporate Estimated Tax Payment

25 percent of the amount of any required installment of corporate estimated tax due in September 2003 is deferred until October 1, 2003.