

## Tax Provisions of the Job and Growth Tax Relief Reconciliation Act of 2003

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May 31, 2003

Congress recently passed the third largest tax cut package in U.S. history. It is designed to impact a significant number of the population with its capital gains tax reduction, its small business investment deduction, an increase in the first-year bonus depreciation deduction, and perhaps most far-reaching, its tax rate reduction on ordinary income.

Here are highlights of the tax provisions for you to consider as you evaluate your tax situation.

The expansion of the 10-percent bracket scheduled for 2008 is accelerated to apply in 2003 and 2004. The end point of the 10-percent bracket increases from \$12,000 of taxable income to \$14,000 for married couples and \$6,000 to \$7,000 for single taxpayers. The reductions in income tax rates in excess of 15-percent scheduled for 2004 and 2006 are accelerated to 2003, resulting in new rates of 25%, 28%, 33%, and 35%. The standard deduction for married couples is increased to double the amount of the standard deduction for single tax payers in 2003 and 2004. The width of the 15-percent tax bracket for married couples is increased to twice the width for single taxpayers in 2003 and 2004. These provisions were scheduled to phase-in over the period between 2005 and 2009. The amount of the child tax credit is increased to \$1,000 in 2003 and 2004 (from \$600). In 2003, the increased amount of child tax credit will be paid in advance beginning in July 2003 on the basis of information on the taxpayer's 2002 tax return. The maximum tax rate on dividends paid by corporations to individuals and on individuals' long-term capital gains is reduced to 15% in 2003 through 2008. For taxpayers in the 10% and 15% ordinary income tax rate brackets, the rate on dividends and capital gains is reduced to 5% in 2003 through 2007, and to zero in 2008. The amount of investment that may be immediately deducted by small businesses is increased from \$25,000 to \$100,000 beginning in 2003. The amount of investment qualifying for this immediate deduction begins to be phased out for small business with investments in excess of \$400,000. These changes are effective for taxable years beginning in 2003, 2004, and 2005. The additional first-year bonus depreciation deduction is increased from 30 percent to 50 percent for investments acquired and placed in service after May 5, 2003 and before January 1, 2005. To ensure that the benefits from the acceleration of the tax reductions are not reduced by the AMT, the AMT exemption amount is increased by \$9,000 for married taxpayers and \$4,500 for single taxpayers in 2003 and 2004.