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Re: 2003 Tax Legislation -- General Highlights of Provisions

Dear Client:

As you know, Congress just passed sweeping new tax cuts. This is the third year in a row in which the Congress has approved major tax relief legislation at the urging of President Bush. Although the president did not get everything he asked for, Congress did pass a relief package that has already saved you money because of its many retroactive provisions, and promises to save you substantially more for the rest of this year and over the next several years. Especially in the case of this particular new law, with its temporary effective dates and its new capital gains and dividends tax rate structure, tax planning becomes essential for you to maximize many of these benefits.

The "Jobs and Growth Tax Relief Reconciliation Act of 2003" ("JGTRRA'03") was passed by Congress just before Memorial Day and gives immediate tax relief for both individuals and small businesses. Since the majority of tax breaks are retroactive to January 1, 2003, and it lowers marginal tax rates across the board, it will mean extra disposable income for all taxpayers in 2003. In addition, the law lightens the tax burden on investors by lowering the tax rates on earnings from investments (including stock dividends). It also provides significant tax incentives designed to help businesses grow and thrive.

The passage of this new law is not just a time for celebration however. Since many of its benefits are retroactively effective and all are temporary in nature, it is important that we get this information to you immediately and begin to plan your strategy for how to make the most of the new tax benefits. The new tax law creates a new environment that deserves your attention, both for enhancing your tax savings on a personal level and for revising your business plans to maximize after-tax business profits.

Some of the major highlights in what is being called the third largest tax cut in U.S. history are:

- * Lower individual marginal tax rates;
- * Lower taxes paid on both capital gains and stock dividends;
- * Increase in the child tax credit, with a rebate check in the amount of the increase (\$400 per child) being sent to most taxpayers with children this summer;
- * Marriage penalty relief;
- * Expansion of the 10 percent bracket;
- * Alternative minimum tax relief;
- * Quadrupling the amount small businesses can elect to expense for the purchase of "qualified property"
- * Increase in the first year "bonus" depreciation businesses can take for assets acquired after May 5, 2003; and
- * Postponement of the due date for paying third quarter 2003 estimated corporate taxes from September 15, 2003 to October 1, 2003.

More details

Lower marginal tax rates. Before JGTRRA'03, the marginal income tax rates were 10, 15, 27, 30, 35, and 38.6 percent. These were the tax rates for 2003 that were put into effect when Congress passed the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The new law changes the marginal rates for 2003, retroactive to January 1, 2003, to 10, 15, 25, 28, 33, and 35 percent.

Capital gains rates. Inclusion of capital gains relief in this legislation came as a surprise and was part of a compromise for lowering taxes on dividends. The tax rate on capital gains drops from 20 to 15 percent for all taxpayers except those in the lowest brackets. Taxpayers in the 10 and 15 percent brackets will pay five percent on any capital gains recognized (down from 10 percent). The 15 percent rate applies to transactions occurring for gains able to be recognized on or after May 6, 2003, and remains in effect only through December 31, 2008. In 2008, taxpayers in the 10 and 15 percent brackets will be taxed on their capital gains at zero percent. In 2009, the capital gains rates are scheduled to return to 20 and 10 percent levels. The reduced rates and the temporary nature of the reductions call for immediate revisions in many taxpayers' investment strategies.

Stock dividends. Stock dividends, which had been taxed at the same rate as ordinary income, will be taxed at 15 percent for most taxpayers effective January 1, 2003. This rate remains in effect until December 31, 2008. Lower income taxpayers will pay taxes on dividends at five percent effective January 1, 2003 through December 31, 2007. In 2008, lower income taxpayers will pay a zero percent tax on dividends. However, not all corporate distributions are entitled to tax-reduced dividend treatment, creating a new web of complex rules for both shareholders and corporations alike.

Increase in the child tax credit. Before JGTRRA'03 was enacted, the child tax credit for 2003 and 2004 was scheduled to be \$600. The new law increases the credit to \$1,000. Beginning around July, the IRS will send rebate checks (\$400 per child) to qualifying individuals based on 2002 tax returns. After 2004, the child tax credit will revert back to the previously scheduled amount.

Marriage penalty relief. JGTRRA'03 immediately raises the standard deduction for married couples filing jointly to twice the standard deduction for single taxpayers for 2003 and 2004. In 2005 the standard deduction for married couples falls to 174 percent of the standard deduction for single taxpayers but doubles again in 2009. Included in marriage penalty relief is also a doubling of the income range in the 15 percent tax bracket for couples filing joint returns.

Business tax breaks

Increased small business expensing. JGTRRA'03 quadruples the amount of qualified property that a business can annually expense from \$25,000 to \$100,000 for 2003, 2004, and 2005. JGTRRA'03 also changes the definition of qualifying property to include off-the-shelf computer software.

Bonus depreciation. Last year, under the Job Creation and Worker Assistance Act of 2002 (JCWA), businesses were given a 30 percent depreciation bonus for assets acquired between September 11, 2001 and September 10, 2004. JGTRRA'03 boosts the bonus significantly to 50 percent for assets acquired on or after May 6, 2003, and before January 1, 2005. This "bonus" is in addition to regular first-year depreciation. If bonus depreciation will not be advantageous to your business from a tax perspective, the law allows you to "elect out." A special rule applies the bonus depreciation to the purchase of a "luxury" automobile.

What's next?

This is a *very brief* description of the tax cuts in the new law. It does not cover all the tax benefits and the planning opportunities that apply to your specific business and personal situation. Careful planning will have to be exercised to make the most of the tax relief in JGTRRA'03. This is especially true because of the retroactive effective dates and the temporary duration of many of the provisions.

We need to look at transactions that are already in the works and those you planned for this year to see how the new law affects them -- and how they might be quickly revised. In addition, there may be new personal and/or business projects or investments that the new law will enable you to undertake, which were not possible before its passage.

Call us today so we can map your tax strategy to take best advantage of the new provisions.

Sincerely yours,

Larry M. Walker, Jr., EA

Enrolled Agent

P.S. - I will be attending the Annual National Conference of the National Association of Tax Professionals (NATP), in Orlando, from July 5th through July 12th. I will have the office phone forwarded, but may not be able to answer at all hours of the day. I will be checking both voice & e-mail while I am away. If you have projects scheduled during this time, please contact me before July 4th to arrange for scheduling. All monthly work scheduled for completion by July 15th will be completed on time.