

AVOID DOUBLE TAXATION

Reinvestment

Jobs and Growth Tax Relief Reconciliation Act of 2003

On May 23rd, Congress narrowly passed the third significant tax bill of the Bush presidency. This one is called the Jobs and Growth Tax Relief Reconciliation Act of 2003. The new law has nothing but good news for taxpayers because there are absolutely no "revenue raisers" (better known as tax increases) included in the package. In addition, some of the most favorable and important changes are retroactive to January 1st of this year. That said, almost everyone will find something to like in the 2003 Act.

Changes That Help Almost Everybody

Future Rate Cuts Accelerated Into 2003

Perhaps most importantly, the individual income tax rate cuts that were included in the 2001 tax legislation but delayed until 2004 and 2006 are accelerated into 2003 by the new law. (When it comes to rate cuts, sooner is definitely better than later.) It's as if you woke up on January 1st with lower tax rates. (It's not just a dream; it really happened!). Now let's get specific. Here are the rate reductions:

Old Rate	New Rate
27%	25%
30%	28%
35%	33%
38.6%	35%

The existing 10% and 15% rates remain unchanged. Furthermore, under a sunset rule, your rates will return to the pre-2001 Tax Act rates of 15%, 28%, 31%, 36%, and 39.6% after 2010 unless Congress takes further action. The 10% rate would disappear entirely with 15% becoming the lowest rate.

Bigger 10% Bracket for Most Folks

In another favorable change, the new law widens the 10% rate bracket effective back to January 1st. The 10% bracket is expanded by \$2,000 for married individuals who file jointly (\$0 to \$14,000 versus \$0 to \$12,000 under prior law). The bracket is now \$1,000 wider for single filers and married individuals who file separately from their spouses (\$0 to \$7,000 versus \$0 to \$6,000 before). This means a bit more of your income will be taxed at the lowest 10% rate. However, this break was not extended to those who use head of household filing status (the 10% bracket continues to cover the first \$10,000 of taxable income as before).

Unless Congress takes further action, these expansions of the 10% rate bracket will expire after 2004.

Major Relief for Married Taxpayers (Finally)

The unfairness of the "marriage penalty" has been a constant tax topic for many years. It just doesn't seem quite right that getting married in and of itself can actually cause a higher federal income tax bill for the newly wedded pair. We have good news on this issue. While the 2003 Act doesn't completely eliminate the problem, it nevertheless delivers significant relief to joint filers. It also helps married persons who file separately from their spouses. Here are the specifics:

- Thanks to the new law, the 15% bracket for those who file jointly is now twice as wide as the 15% bracket for single filers. This means the 15% bracket for joint filers now extends to taxable income of \$56,800 (up from the old-law figure of \$47,450).

- The standard deduction for joint filers has been made bigger too. It's now \$9,500, which is exactly double the amount for single filers (up from \$7,950 under prior law).
- The 15% bracket for married filing separate status is now the same as for single filers. So, the 15% bracket now extends to taxable income of \$28,400 (versus only \$23,725 under prior law).
- Finally, the standard deduction for married filing separate status is now \$4,750, which is the same as for single filers (under prior law it was only \$3,975).

Under yet another sunset rule, all these favorable changes will last only for 2003 and 2004 unless Congress takes further action.

The information mentioned here in above is of general nature and cannot be regarded as legal or tax advice. For more information, please contact Anne Tahim at 714-772-4744

