What the New Law Means to You

The Jobs and Growth Tax Relief Reconciliation Act of 2003

INTRODUCTION

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (“Jobs and Growth Act”), the third largest tax cut in U.S. history, includes significant tax relief for many individuals, substantial tax breaks for investors, and beefed-up first-year deductions for businesses that buy new machinery and equipment. However, because of budget constraints many of the tax breaks in the Jobs and Growth Act are not permanent. For example, unless the rules are changed again, some tax breaks for individuals will be watered down after 2004, and the reduced tax rates for capital gains and dividends will only last through the end of 2008.

This Client Guide highlights how the Jobs and Growth Act affects individuals, investors, businesses and professional practices right now. It also gives you an idea of the changes that are in store for future years, and why tax and financial planning has become more complex than ever before. See your professional adviser for more details on how you, your investments, and your business are affected by the Jobs and Growth Act.

TOPICS IN THIS GUIDE

HOW THE NEW LAW AFFECTS INDIVIDUALS

¶ 101. Overview

The Jobs and Growth Act reduces your taxes in the following ways:

- Your income will be taxed at lower rates. There are savings for all but those with very low incomes. The amount you save due to the reduction in regular tax rates varies with your taxable income level and your filing status. Joint filers and those in the higher brackets will save the most. See ¶ 102–¶ 105.
- If you are a married person, you will be entitled to claim a larger standard deduction. See ¶ 105.
- The child tax credit is increased by as much as $400 per child. What’s more, most parents won’t have to wait until tax return time to benefit—they’ll receive a check from the U.S. Treasury for the increased credit in a matter of weeks or months. See ¶ 106.

- The alternative minimum tax (AMT) can be a problem for people who claim substantial deductions in certain categories (such as state and local income and property taxes). Thanks to the Jobs and Growth Act, the AMT is less of a threat to your pocketbook, for at least a couple of years. See ¶ 107.

You won't have to wait until tax return time to benefit from the lowered regular tax rates. Employers will withhold federal income taxes from wages based on the Jobs and Growth Act's changes in the tax rates and brackets. In other words, less tax will be withheld from wages. Additionally, you can reduce your estimated tax payments to reflect the lowered tax rates on non-wage income (as well as the reduced rates for capital gains and dividends, see ¶ 201).

Looking down the road. As you'll see, the Jobs and Growth Act complicates long-range tax planning at the same time as it reduces taxes this year and the next. That's because many of the new tax breaks are temporary (unless Congress changes the rules again).

For how the Jobs and Growth Act reduces your tax bill as an investor, see ¶ 201.
For how the Jobs and Growth Act reduces taxes for businesses and professional practices, see ¶ 301.

¶ 102. More Income Taxed at the Lowest Rate

For regular tax purposes, the first "slice" of your taxable income (what's left after subtracting deductions from income) is taxed at 10%, and additional slices of taxable income are taxed at progressively higher rates until you reach the maximum rate. The various "slices" of taxable income, and the tax rates each is subject to, are commonly referred to as the "tax brackets."

Under the Jobs and Growth Act, for 2003 and 2004, more income is taxed at 10% instead of at 15%, the next highest tax bracket. For 2003 and 2004, the 10% bracket applies as follows:

- For single individuals and married taxpayers filing separately, to the first $7,000 (up from $6,000) of taxable income. Because that extra $1,000 would otherwise be taxed at 15% (the next highest tax bracket), the maximum savings here is $50.
- For married joint return filers and qualifying surviving spouses, to the first $14,000 of taxable income (instead of $12,000). Because that extra $2,000 would otherwise be taxed at 15% (the next highest tax bracket), the maximum savings here is $100.
- For 2004 only, the taxable income levels for the 10% bracket will be adjusted for inflation. In other words, the lowest bracket may apply to a slightly larger amount of taxable income.

Observation: The Act does not change the size of the 10% bracket for heads of households (except to adjust it for inflation for 2004 only). It continues to apply to the first $10,000 of taxable income.

Looking down the road. After 2004, the size of the 10% tax bracket will change (unless Congress acts). For 2005 through 2007, the 10% bracket will ***shrink***—it will apply to the first $6,000 of taxable income for unmarried individuals and married taxpayers filing separately, and to $12,000 for married individuals filing jointly. In 2008, the 10% bracket will ***expand*** and once again apply to the first $7,000 of taxable income for unmarried individuals and married taxpayers filing separately, and to the first $14,000 of taxable income for married individuals filing jointly. The taxable income levels for the 10% rate bracket will be adjusted annually for inflation for tax years beginning after 2008. Barring Congressional action, the 10% bracket will ***disappear entirely*** in 2011 (in other words, without a law change, the first slice of taxable income will again be taxed at 15% instead of 10%).