Jennifer A. Jones, CPA, Ltd.

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New Tax Law

As you may know, Congress recently enacted a new tax law. Known as the **Jobs and Growth Tax Relief Reconciliation Act of 2003** (JAGTRRA), the Act provides significant tax cuts to individuals, families, investors and businesses, generally retroactive to the beginning of 2003.

Here is a quick rundown of the new law's key provisions.

For individuals: The new law widens the bottom 10% tax bracket. Because of the graduated tax rate system, this helps all taxpayers from bottom to top—**more of your income will be taxed at the low 10% rate**. In addition, the new law reduces tax rates above the 15% bracket. Under the old rules, the tax brackets for middle- and upper-income taxpayers were 27%, 30%, 35% and 38.6%. The new rates are 25%, 28%, 33% and 35% respectively.

For families: Under the old rules, families could claim a $600 tax credit for each dependent child under age 17. The new law **temporarily increases the credit to $1,000 per child**. Most eligible families will receive the $400 credit increase in the form of rebate checks to be sent out by the government starting in July.

The new law also contains two provisions designed to help alleviate the so-called marriage penalty (the extra tax some working couples pay when they get married). The new law increases the basic standard deduction for married couples filing jointly from $7,950 to $9,500. The new law also *widens* the 15% tax bracket for married filing jointly. Again, this means that **couples above the 15% bracket will have more of their income taxed at the low 15% tax rate**.

For investors: The new law **reduces the special tax rates on long-term capital gains** (this is the profit you realize when you sell investment assets held for more than one year). Under the old rules, with certain exceptions, the maximum capital gains tax rate was 20% for taxpayers in a regular income tax bracket above 15%. For taxpayers in the 15% bracket, the maximum rate was 10%. The new law reduces the maximum rates to 15% and 5%, respectively, effective for sales on or after May 6, 2003.

The new law also **reduces the tax** that investors (including owners of closely held corporations) pay **on dividends**. Under the old rules, dividends were taxed at ordinary income rates, the same rates that applied to salaries or interest income. But under the new law, **most dividends will qualify for the new lower capital gains tax rates**.

For businesses: First, let's look back to last year. A tax law enacted in 2002 temporarily created a bonus depreciation allowance on the purchase of new equipment and machinery. The bonus allowance allowed businesses to claim an immediate write-off of 30% of the cost of their purchases—over and above their regular depreciation deductions. The new law increases the bonus depreciation allowance to 50%.

The new law also increases the "Section 179" deduction for small businesses. Under the old rules, small business could immediately expense up to $25,000 of their equipment and machinery purchases annually in lieu of depreciation. **The new law increases the Section 179 deduction to $100,000** and makes more small businesses eligible for the deduction.

For more information, IRS provides the following articles that may be of interest:

Tax Law Changes for Individuals,
Tax Law Changes for Businesses and
Adjust Estimated Tax Payments to Get Tax Cut Benefits

Notice to Employers

Because of the reduction in the tax rates and other changes for 2003 and 2004, IRS has issued new withholding tables, **Publication 15-T**. Employers should use these new tables as soon as they can work them into their payroll systems, but not later than July 1, 2003. By the third week of June, employers can expect to find in the mail a printed copy of the 64-page Publication 15-T

The Cost-of-Living Dollar Limits for 2003 Tax Year

IRA Contribution Limit $3,000
50 & Over Catch-up IRA Contribution $500
401(k) deferral limit $12,000
50 & Over Catch-up 401(k) Contribution $2,000
Annual compensation limit $200,000
Defined contribution IRC Sec 415 limit $40,000
Compensation limit for SEP eligibility $450
Deferral limit for SIMPLE $8,000
IRC Section 179 $100,000 (up from $25,000)
Unified Credit Exclusion $1,000,000 in 2003
Unified Credit Exclusion $1,500,000 in 2004
Self-employed health ins. AGI deduction 100%
Business mileage rate $0.36/mile
Medical mileage rate $0.12/mile
Charitable mileage rate $0.14/mile

Social Security

Wage Base for 2003 $87,000

Retirees under 65 may earn up to $11,520 ($960 a month). For each $2 earned over the amount for the year, the retiree loses $1 in benefits. Retirees turning 65 in 2003 can earn up to $30,720 in the year without losing benefits, counting only earnings before the month they turn 65. For each $3 earned over this limit, the retiree loses $1 in benefits. No limit if 65 or over, effective January 1, 2000.

As you work and pay Social Security taxes, you earn "Credits", up to a maximum of 4 for each year. The amount of earnings it takes to earn a credit changes each year. In 2003, you earn one credit for each $890 of your earnings. So if you have earned at least $3,560 during the year, you get the maximum 4 credits.

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DEADLINES

July

15

Monthly-filers Form 941 federal tax deposit due

DC sales tax return and payment due, quarterly and monthly filers

Maryland income tax withheld return and payment due, monthly filers

20

Virginia and Maryland sales tax return and payment due, quarterly and monthly filers

DC income tax withheld return and payment due, quarterly and monthly filers

31

Form 941 due

Virginia income tax withheld return and payment due, quarterly and monthly filers

Maryland income tax withheld return and payment due, quarterly and monthly filers

State unemployment tax returns and payment due

DC Personal Property Tax Return and payment due

Form 940 federal tax deposit due

Form 5500 Annual Return/Report of Employee Benefit Plan due

August

15

Monthly-filers Form 941 federal tax deposit due

DC sales tax return and payment due, monthly filers

Maryland income tax withheld return and payment due, monthly filers

Federal, DC and Maryland Individual Income Tax Returns due, if Form 4868 or first extension request was filed

20

Virginia income tax withheld return and payment due, monthly filers

DC income tax withheld payment return and payment due, monthly filers

Virginia and Maryland sales tax return and payment due, monthly filers

September

1

Virginia Individual Income Tax return due, if Form 760-E was filed

15

Monthly-filers Form 941 federal tax deposit due

DC sales tax return and payment due, monthly filers

Form 1040-ES voucher #3 with payment due

DC, Virginia, and Maryland individual estimated tax payment #3 due

Maryland income tax withheld return and payment due, monthly filers

20

Virginia income tax withheld return and payment due, monthly filers

DC income tax withheld payment return and payment due, monthly filers

Virginia and Maryland sales tax return and payment due, monthly filers

containing all the tables. You can access IRS' pdf file at http://www.irs.gov/pub/irs-pdf/p15t.pdf to print a copy now.

In making tax rate changes retroactive to the beginning of 2003, Congress recognized that tax withholding has already occurred at the higher rates required under the prior law. The new law's Conference Report states that "taxpayers who have been overwithheld as a consequence of this (should) obtain a refund of this overwithholding through the normal process of filing an income tax return, and not through the payor." Therefore, employers and others that withhold taxes should not attempt to "correct" amounts withheld at the rates required under the law before they could implement the new withholding rates.

Employees may adjust their withholding to bring the tax paid closer to the tax owed, but they may not claim more allowances than they are entitled to, based on their expected exemptions, deductions and credits. To avoid an estimated tax penalty for not paying enough during the year, they may want to see how much their withholding drops before making further adjustments. For more information, see: http://www.irs.gov/newsroom/article/0,,id=109817,00.html

New Compensation Strategy for C Corporation Owners

Owner-employees of closely-held C corporations have traditionally tried to pay out as much of their profits as possible as compensation rather than dividends. The reason, of course, was to avoid the double tax on corporate dividends: Compensation is deductible; dividends are not. Now, however, JAGTRRA may give owners an incentive to reverse things and increase their dividend payouts while correspondingly reducing their compensation. That's because the top tax rate on dividends is now the same as the capital gain rate-15%—while the top rate on compensation can run as high as 35%.

Of course, the IRS is not going to permit C corporation owner-employees to pay out everything in the form of dividends. There is a string of court case in which the IRS challenged S corporations that paid owner-employees large dividends, but little or no salaries, to avoid FICA tax-and the IRS always prevailed in court. But in any given situation, there will be a range of reasonable salaries that can be paid to owner-employees. Therefore, **in light of JAGTRRA, owner-employees may want to reduce their compensation as much as practical and pay out more of their profits as dividends.**

Remember, however, that retirement plan contributions are based only on compensation. Also, this strategy may not work for an owner of a Personal Service Corporation (doctors, dentists, consultants) because the federal corporate tax rate for these corporations is 35%, which is higher than most individual tax rates.

Employers with 401(k) Plans

The Employee Benefits Security Administration has clarified its position regarding the timeliness of remittances of participant contributions and loan payments to employee retirement plans. The timeliness of the remittance of these contributions and loan payments is an enforcement initiative, and there is a potential for significant costs to the employer if this issue is not addressed properly. Your procedures should be reviewed to ensure that employee contributions are being paid over to the plan on the earliest date reasonable. Although the Dept. of Labor has not defined what constitutes "the earliest date reasonable", they generally are holding employers accountable to **remit these payments in the same time frame that it takes to remit payroll taxes**.

Partners & Sub-S Owner Agreements Needed

Expenses paid by a partner or Sub-Chapter S corporation owner on behalf of the partnership or Sub-S Corporation are not deductible unless there is a written agreement with the entity saying that the partner/stockholder is to pay for the expenses. Without such an agreement, the expenses are deductible by the entity itself, so each owner gets a share of the deduction.

For those of you that still want more information about the new tax law, here's an article from the Intuit ProConnection June Newsletter.

Six Things You May Not Know about the New Tax Law

Terence M. Myers, JD and Dorinda D. DeScherer, JD

1. Some Tax Cuts May Be Minuscule

Single taxpayers don't fare as well as married couples. under JAGTRRA's acceleration of the 2001 tax cuts. For marrieds, the new law provides for

a. An increase in the basic standard deduction amount for joint filers to twice the basic standard deduction amount for singles individuals for 2003 and 2004 (e.g., a $9,500 standard deduction for 2003).

b. An expansion of the 15%- percent income tax rate bracket for joint filers to twice the width of the 15% bracket for single returns for 2003 and 2004.

c. An increase in the child tax credit from $600 to $1,000 for 2003 and 2004. (See note below at item 2.)

All taxpayers, singles and joint filers, above the 15% bracket also benefit from the acceleration of the 2001 Act's reduced tax rates. The tax rates scheduled for 2006 will go into effect in 2003. Thus, for 2003 and thereafter, the regular income tax rates in excess of 15% are 25%, 28%, 33%, and 35 %.

However, for single taxpayers below the 25% bracket, the only accelerated tax cut that helps them is the widening of the 10% bracket from $6.000 to $7,000 (the tax bracket for joint filers increases from $12,000 to $14,000). For example, suppose a single taxpayer has gross income of $35,000 in 2003. After claiming a standard deduction and personal exemption, the taxpayer's taxable income works out to $27,200 (near the top of the 15% bracket). As a result of JAGTRRA, the taxpayer will save a tax of five percentage points on $1,000 of taxable income—a savings of only $50 or less than $1 a week.

2. More Rebate Checks—but Not Like 2001

There will be rebate checks going out as a result of JAGTRRA but **the rebate program is much narrower than the one in 2001**. The new rebate program will pay advances only to taxpayers who claim the child tax credit.

Under the 2001 Act, the child tax credit for under-age-17 dependent children was scheduled to be $600 for 2003-2004, $700 for 2005-2008, $800 for 2009, and $1,000 for 2010. JAGTRRA increases the credit to $1,000 for 2003 and 2004, after which the credit reverts to the schedule contained in the 2001 Act (e.g., $700 for 2005).

JAGTRRA provides that the increase in the credit for 2003—$400 per eligible child—will be paid out to taxpayers in the form of rebate checks. The checks are slated to go out beginning in July 2003. The checks will be based on tax return information for the 2002 tax year. So, for example, if a young couple had their first baby in 2003, they will be entitled to the higher $1,000 child tax credit, but they will not get a rebate check. However, they can file a new Form W-4 and adjust their withholding to reflect the credit.

The IRS recently pointed out another group of families with children who will not be getting rebate checks. If a family doesn't owe any taxes, the child credit can be claimed only to the extent it's refundable. Under the 2001 Act, the child credit is refundable to the extent of 10% of the taxpayer's earned income in excess of $10,500. The percentage is scheduled to be increased to 15% percent starting in 2005. JAGTRRA did not accelerate this increase. So **families claiming a refundable credit will not benefit from JAGTRRA's increase in the child credit** and the IRS says that will not get a rebate check [FS-2003-13].

Editor's Note: As we are preparing this article for posting, the Senate has approved a bill to provide a tax cut and rebate checks to taxpayers claiming the refundable child tax credit. The measure is designed to correct the omission in JAGTRRA noted above. As of this writing the House has not yet acted on this issue.

3. Dividends Not Treated Exactly Like Long-Term Capital Gain

JAGTRRA reduces the current 10% and 20% rates on net capital gains to 5% (zero, in 2008) and 15%, respectively. In addition, JAGTRRA categorizes dividend income in "net capital gain." Long-term capital gains and losses and short-term capital gains and losses are netted first, and if a taxpayer ends up with net long-term capital gain, in excess of a net short-term loss, the difference is the "net capital gain." **So dividend income is taxed the same as net long-term capital gain in excess of net short-term loss.**

However, it's important to note that dividend income is treated as net capital gain, not as long-term capital gain. So **dividends cannot be offset against capital losses to arrive at net capital gain**.

For example, suppose in 2004 Liz Quinn has $6,000 of dividend income and two capital transactions—a $4,000 long-term capital gain and a $8,000 short-term capital loss. Quinn ends up with a net capital gain of $6,000 (representing her dividend income) taxed no higher than 15% and a net $4,000 short-term loss. The loss can offset up to $3,000 of ordinary income and the remainder is carried over to 2005.

The new law appears to have a little timing wrinkle in the capital gain/dividend area. The new tax rates for capital gain apply to sales and exchanges (and payments received) on or after May 6, 2003, and before January 1, 2009. However, JAGTRRA provides that all qualifying dividends received in 2003 will be treated like gain “properly taken into account” on or after May 6, 2003. So dividends received before May 6 will be taxed at the new 5%/15% rates, not the old 10%/20% rates.

The IRS has indicated that the mid-year effective date of May 6, 2003 will create complexity at tax return time and will likely result in a large number of errors (as occurred in 1997 when similar mid-year capital gain changes were made). For example, taxpayers whose only capital gains are capital gain distributions will not be able to use the shorter Capital Gain Tax Worksheet in the Form 1040 and Form 1040A instructions. Instead, these taxpayers will have to file Form 1040 and attach Schedule D to report the amount of their post-May 5 distributions and figure their tax using the 5%, 10%, 15%, and 20% rates. This provision is expected to increase the number of Schedule D filers by 6 million.

4. Compensation Strategy Is Turned on Its Head

Owner-employees of closely held C corporations have traditionally tried to pay out as much of their profits as possible as compensation rather than dividends. The reason, of course, was to avoid the double tax on corporate dividends: Compensation is deductible; dividends are not. Now however, JAGTRRA may give owners an incentive to reverse things and increase their dividend payouts while correspondingly reducing their compensation. That's because the top tax rate on dividends is now the same as the capital gain rate-15%—while the top rate on compensation can run as high as 35%.

> *Simplified Example:* Bob Blake is the president and sole owner of XYZ Inc., a C corporation. He has $100,000 of profits that he can pay out as compensation or dividends.
>
> If the profits are paid out as dividends, XYZ will owe a corporate tax of $13,750. That leaves $86,250 to be distributed to Blake. At a 15% tax rate, Blake will net $73,312.
>
> On the other hand, if the $100,000 of profits is paid out as compensation, XYZ will owe no corporate tax, but the compensation will be taxable at ordinary income rates. If Blake is in the 28% tax bracket, he will be left with $72,000 after income taxes. But then there is the FICA tax: $6,844 will have to be deducted from Blake's paychecks for Social Security and Medicare taxes (and XYZ will have to pay a like amount). So, by going the compensation route, Blake will net only $65,156, more than $8,000 less than he would with a straight dividend payout.

Of course, the IRS is not going to permit C corporation owner-employees to pay out everything in the form of dividends. There is a string of court case in which the IRS challenged S corporations that paid owner-employees large dividends, but little or no salaries, to avoid FICA tax-and the IRS always prevailed in court. But in any given situation, there will be a range of reasonable salaries that can be paid to owner-employees. Therefore, **in light of JAGTRRA, owner-employees may want to reduce their compensation as much as practical and pay out more of their profits as dividends**.

5. Alternative Minimum Tax—Relief?

More and more middle-income taxpayers are being ensnared by the alternative minimum tax (AMT) that was supposedly aimed at wealthy taxpayers. One reason this has happened is that the AMT exemption amount has not kept pace with inflation.

The AMT is the amount by which a taxpayer's tentative minimum tax exceeds his or her regular income tax. The tentative minimum tax equals (1) 26% of the first $175,000 of a taxpayer's alternative minimum taxable income (AMTI) in excess of an exemption amount and (2) 28% of the remaining AMTI. The current exemption amounts are $49,000 for joint filers s and $35,750 for singles. The exemptions are phased out once AMTI reaches $150,000 for joint filers and $112,500 for singles.

JAGTRRA provides AMT relief by increasing the exemption amounts. For 2003 and 2004, the exemption amounts are $58,000 for joint filers and $40,250 for singles.

This will help some, but the exemption amount is not the only culprit responsible for the increase in taxpayers subject to the AMT. Another problem area is the tax cuts enacted under the 2001 Act. By lowering the regular tax to a greater degree than the AMT, the 2001 Act increased the number of taxpayers subject to the AMT. In fact, prior to JAGTRRA, it was estimated that close to 40 million taxpayers would be hit by the AMT once the tax cuts were fully implemented by the end of the decade. By accelerating these tax cuts, JAGTRRA has accelerated this AMT problem. This will offset the advantage gained by the increase exemption amounts. So middle-income taxpayers will be well advised to keep a close eye on the AMT when making their tax plans.

For example, a taxpayer's marginal tax rate for regular income tax purposes may be 35%, but if the taxpayer is subject to the AMT, the marginal rate drops to 28%. Among other things, a taxpayer's true marginal tax rate can affect the choice of investment strategy (e.g., an investment in tax-exempt municipal bonds is less attractive at a 28% marginal rate than at a 35% rate).

Or maybe the taxpayer lives in a state with a high income tax. Accelerating a state estimated tax payment may make sense if the taxpayer only has to worry about a regular federal income tax. But if the AMT applies, there is nothing to be gained by accelerating the tax payment because state income taxes are not deductible for AMT purposes.

6. More Business Clients Eligible for Expensing Deductions

JAGTRRA increases the amount of property that may be expensed by businesses under Section 179 of the Internal Revenue Code. But what you may not be aware of is that the new law also increases the *number* of businesses that can claim a Section 179 deduction.

In lieu of depreciation, Section 179 allows a business to immediately expense a certain amount of qualifying property placed in service during the tax year. Qualifying property is generally defined as tangible personal property (e.g., equipment and machinery) that is purchased to use in an active trade or business. Prior to the enactment of JAGTRRA, the maximum expensing deduction was $25,000 for 2003. And the $25,000 allowable deduction was reduced, dollar for dollar, by the amount of qualifying property placed in service during the year in excess of $200,000. So, for example, if a business placed $205,000 of tangible personal property into service during the year, it could expense a maximum of $20,000. If the business placed more than $225,000 of tangible personal property into service, no expensing deduction was permitted for the year.

JAGTRRA increases the maximum Section 179 deduction from $25,000 **to $100,000** for 2003 through 2007. And it also increases the dollar limit on property placed in service from $200,000 to $400,000 for 2003 through 2007. **This will allow larger businesses to claim an expensing deduction for the first time ever.** For example, if a business places $440,000 of equipment and machinery into service in 2003, it will be allowed to claim a Section 179 deduction for $60,000. A business will be ineligible for any expensing deduction only if the qualifying property placed in service exceeds $500,000.

Websites of Interest

Small Business Sites

National Federation of Independent Business's tools and tips for small business owners at www.nfibonline.com

Current and archived versions of *Entrepreneur, BizStartups* and *HomeOfficemag* magazines www.entrepreneurmag.com

Free articles on buying, selling, or determining the value of your business at www.businessbookpress.com

Help for small businesses with sample business plans, employment and other legal forms, articles and guidance on various topics www.businessknowhow.com

To keep informed on tax related issues quickly and easily, visit Small Business and Self-Employed Community at http://www.irs.gov/businesses/small/index.html

The Center for Business Planning offers sample business plans, analyses of business strategies, info on evaluating business and marketing plans www.businessplans.org

Want to know what IRS examiners will look for, and how, when auditing certain industries? http://www.irs.gov/businesses/small/article/0,,id=108149,00.html

Tools for evaluating the lease vs. purchase of a new vehicle: www.leaseguide.com/index2.htm

How do your employee benefits compare with the federal government's? http://www.opm.gov/oca/leave/HTML/factindx.asp

College Savings

College Savings and 529 Plans: www.collegesavings.org
www.savingforcollege.com
www.dccollegesavings.com
www.collegesavingsmd.org
www.vpep.state.va.us
College savings and 529 Plan rebates www.upromise.com

Retirement Savings

To determine your required minimum distribution: http://www.newrmd.com/
Roth IRA information: www.rothira.com
Retirement Plan comparison: www.selectaretirementplan.org

General Interest

Product reviews www.consumerreview.com

Missing Records

To track down missing records, locate lost assets, or discover property you didn't know you had:
- Birth, marriage, and death certificates www.cdc.gov/nchs/howto/w2w/w2welcom.htm
- Military records www.nara.gov/regional/mprsf180.html
- Passport records www.travel.state.gov/passport_records.html
- Missing a pension from a previous employer www.pbgc.gov

Estate Planning

To assist in various aspects of estate planning: http://www.learnestateplanning.com/index.html

Forms and Publications

Tax Law Changes for Individuals

Public Law 108-27, *The Jobs and Growth Tax Relief Reconciliation Act of 2003*, was signed by President Bush on May 28, 2003. Described below are the major changes made by the new law that affect tax years beginning in 2003. Be sure to take these changes into account when figuring any future estimated tax payments due for 2003.

- The 2003 Tax Rate Schedules have been revised to reflect the following changes.

  1. The tax rate brackets of 27%, 30%, 35%, and 38.6%, have been reduced to 25%, 28%, 33%, and 35%, respectively.
  2. The 15% rate bracket for married taxpayers filing jointly and qualifying widow(er)s has expanded to twice that of single filers.
  3. The maximum taxable income subject to the 10% tax rate has increased to $7,000 for single taxpayers and married taxpayers filing separately ($14,000 for married taxpayers filing jointly and qualifying widow(er)s).

- The basic standard deduction for married taxpayers filing jointly and qualifying widow(er)s has increased to $9,500 (twice that of single filers). The standard deduction for married taxpayers filing separately has increased to $4,750 (the same as that of single taxpayers).
- The maximum child tax credit has increased from $600 to $1,000 per child. Beginning on July 25, 2003, checks will be mailed to taxpayers who claimed the child tax credit for 2002. The checks are an advance payment of the increased portion of the child tax credit for 2003, up to a maximum of $400 per child, and will be based on 2002 tax return information using the number of qualifying children under age 17 as of December 31, 2003. No action is required by any taxpayer to receive an advance payment check. The checks will be mailed to qualifying taxpayers on the dates shown in the Mailing Schedule for Advance Child Tax Credit Payments . The advance payment reduces the amount of the child tax credit allowed for 2003. Any advance payment that is more than the child tax credit for 2003 does not have to be paid back.
- The alternative minimum tax exemption amount has increased to $40,250 for single taxpayers and taxpayers filing as head of household; $58,000 for married taxpayers filing jointly and qualifying widow(er)s; and $29,000 for married taxpayers filing separately.
- The maximum tax rate on net capital gain (i.e., net long-term capital gain reduced by any net short-term capital loss) has been reduced from 20% to 15% (and from 10% to 5% for taxpayers in the 10% and 15% tax rate brackets) for property sold or otherwise disposed of after May 5, 2003 (and installment sale payments received after that date). The reduced rate applies for both the regular tax and the alternative minimum tax. The higher rates that apply to unrecaptured section 1250 gain, collectibles gain, and section 1202 gain have not changed.
- The same 15% (or 5%) maximum tax rate that applies to net capital gain also applies to dividends paid by most domestic and foreign corporations after December 31, 2002. Certain dividends from regulated investment companies (such as mutual funds), real estate investment trusts, and certain foreign corporations do not qualify for the reduced rates. The 2003 Form 1099-DIV and 2003 Instructions for Form 1099-DIV will be reissued in June 2003 to add a box for the reporting of qualified dividends subject to the reduced rates.

Forms and Publications

Tax Law Changes for Businesses

Public Law 108-27, *The Jobs and Growth Tax Relief Reconciliation Act of 2003*, was signed by President Bush on May 28, 2003. Described below are the major changes made by the new law that affect tax years beginning in 2003. Be sure to take these changes into account when figuring any future estimated tax payments due for 2003.

All Businesses, Including Self-Employed

- The special first-year depreciation allowance has been increased from 30% to 50% for qualified property acquired after May 5, 2003 (except for property acquired under a binding written contract in effect before May 6, 2003). Instead of claiming the 50% allowance, taxpayers may elect to claim the 30% allowance or elect not to claim any special allowance. The depreciation limit for vehicles subject to the 50% allowance is increased by $7,650. The 2002 Instructions for Form 4562 will be reissued in June 2003 for use by fiscal year 2002-2003 filers to reflect the increase in the special allowance.
- The limit on the section 179 expense deduction is increased to $100,000 for qualified property ($135,000 for qualified zone property, qualified renewal property, or qualified New York Liberty Zone property). This limit is reduced by the amount by which the cost of section 179 property placed in service during the year exceeds $400,000. Also, the definition of section 179 property has been expanded to include off-the-shelf computer software.

Corporations

- The installment due date for 25% of any corporate estimated tax payment otherwise due in September 2003 has been changed to October 1, 2003. The due date for the remaining 75% of the September 2003 estimated tax payment has not changed.

The Newsroom

Adjust Estimated Tax Payments to Get Tax Cut Benefits

Some of the tax cuts in the Jobs and Growth Tax Relief Reconciliation Act of 2003 will reach taxpayers without any action on their part. For example, the IRS will automatically figure the advance payments of the Child Tax Credit increase that will be sent starting July 25 to most taxpayers who claimed this credit on their 2002 returns. And by July 1, employers should use new tax withholding tables, reflecting lower tax rates and a higher standard deduction for married couples.

But for self-employed persons and those who have significant income from capital gains or dividends, the way to get the tax benefits this year may be to adjust their remaining 2003 estimated tax payments. These payments are due June 16 and Sept. 15, 2003, and Jan. 15, 2004.

When using the worksheets with Form 1040-ES, Estimated Tax for Individuals, or Publication 505, Tax Withholding and Estimated Tax, take these changes for individuals into account:

- A higher standard deduction for married persons: $9,500 for couples; $4,750 for those filing separate returns.
- Tax rate reductions: the 10% rate applies to the first $7,000 of taxable income for single persons, $14,000 for married persons filing jointly; the 15% rate for married couples covers up to $56,800 of taxable income; and all rates above 15% are lower. Use the new tax rate schedules to figure your 2003 tax.
- Lower tax rates for long-term capital gains on assets sold after May 5, 2003, and for qualified 2003 dividend income: 5% for those that would have been taxed at a regular rate of 10% or 15%; 15% for most items that would have been taxed at a higher rate. (But there are no changes in the special rates that apply to unrecaptured section 1250 gain, collectibles gain, or section 1202 gain.)
- A higher alternative minimum tax exemption amount: $40,250 for a single person or a head of household; $58,000 for married persons filing jointly and qualifying widow(er)s; and $29,000 for married persons filing separately.

Business owners should also consider changes to the first-year depreciation allowance and the Section 179 expensing deduction.

You don’t have to wait until your 2003 return to benefit from the tax cuts. Act now to bring the tax you pay closer to the tax you owe.