



**Adams and Reese
Tax Team**

**Baton Rouge
225.336.5200**

Claire Babineaux-Fontenot
claire.babineaux-fontenot@arlaw.com

Jason Raphael Brown
jason.brown@arlaw.com

Jeffrey W. Koonce
jeffrey.koonce@arlaw.com

**Birmingham
205.250.5000**

Robert T. Gardner
robert.gardner@arlaw.com

**New Orleans
504.581.3234**

Julian P. Brignac
julian.brignac@arlaw.com

Mark S. Embree
mark.embree@arlaw.com

Robert L. Wollfarth
robert.wollfarth@arlaw.com

**Baton Rouge
Birmingham
Houston
Jackson
Mobile
New Orleans
Washington, DC**

www.adamsandrees.com

Jobs and Growth Tax Relief Reconciliation Act of 2003

As you know, Congress just passed sweeping tax cuts that are labeled as the third largest in U.S. history. This is the third year in a row that Congress has approved major tax relief legislation at the urging of President Bush.

The "Jobs and Growth Tax Relief Reconciliation Act of 2003" (the "Tax Act") was signed by the president on May 28 and gives immediate tax relief to both individuals and small businesses. Since the majority of tax breaks are retroactive to January 1, 2003, and they lower marginal tax rates across the board, they 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) and provides significant tax incentives designed to help businesses grow and thrive. The Tax Act does not provide any provisions relative to estate, gift, and generation-skipping taxes, however, so the uncertainty of those taxes produced by the 2001 Tax Act will continue.

Some of the major highlights of the Tax Act 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) 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 pay third quarter 2003 estimated corporate taxes from September 15, 2003 to October 1, 2003.

Most of the Tax Act provisions are temporary (see chart on page 3), so you should structure your planning to take advantage of these tax breaks while they are still in force.

MORE DETAILS

Lower marginal tax rates. Before the Tax Act, the marginal individual income tax rates were 10, 15, 27, 35, and 38.6 percent. These were the tax rates for 2003 put into effect when Congress passed the 2001 tax legislation. The new law changes the marginal rates for 2003, retroactive to January 1, 2003, to 10, 15, 25, 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 ordinary income tax brackets. Taxpayers in the 10 and 15 percent ordinary income tax 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.

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

Bonus depreciation. Under the 2002 tax legislation, businesses were given a 30 percent depreciation bonus for assets acquired between September 11, 2001 and September 10, 2004. The Tax Act 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 is needed to make the most of the tax relief in the Tax Act. This is especially true because of the retroactive effective dates and the temporary duration of many of the provisions.

Taxpayers need to look at transactions that are already in the works and those 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.

Careful planning is needed to make the most of the tax relief in the Tax Act. This is especially true because of the retroactive effective dates and the temporary duration of many of the provisions.

10-Year Tax Forecast After 2003 Tax Legislation

Changes made by the Jobs and Growth Tax Relief Reconciliation Act of 2003 are shaded. Additional limitations, inflation adjustments, effective dates and transitional rules may apply.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CAPITAL GAINS										
Capital gains rate	20%	15%*	15%	15%	15%	15%	15%	20%	20%	20%
Capital gains rate for taxpayers in 10% or 15% bracket	10%	5%*	5%	5%	5%	5%	0%	10%	10%	10%
DIVIDENDS										
Dividends rate (taxed as capital gains)	N/A	15%	15%	15%	15%	15%	15%	N/A	N/A	N/A
Dividends rate for taxpayers in 10% or 15% bracket (taxed as capital gains)	N/A	5%	5%	5%	5%	5%	0%	N/A	N/A	N/A
INCOME TAX RATE REDUCTIONS										
Top bracket	38.6%	35%	35%	35%	35%	35%	35%	35%	35%	39.6%
Fifth bracket	35%	33%	33%	33%	33%	33%	33%	33%	33%	36%
Fourth bracket	30%	28%	28%	28%	28%	28%	28%	28%	28%	31%
Third bracket	27%	25%	25%	25%	25%	25%	25%	25%	25%	28%
Second bracket	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Initial bracket	10%	10%	10%	10%	10%	10%	10%	10%	10%	No 10% bracket
EXPANSION OF 10% BRACKET										
Taxable income limit-joint filers	\$12,000	\$14,000	\$14,000	\$12,000	\$12,000	\$12,000	\$14,000	\$14,000	\$14,000	No 10% bracket
Taxable income limit-single filers	\$6,000	\$7,000	\$7,000	\$6,000	\$6,000	\$6,000	\$7,000	\$7,000	\$7,000	No 10% bracket
MARRIAGE PENALTY RELIEF										
Basic standard deduction for joint filers- Percentage of single filer amount	N/A	200%	200%	174%	184%	187%	190%	200%	200%	N/A
15% bracket size for joint filers- Percentage of 15% bracket size for single filers	N/A	200%	200%	180%	187%	193%	200%	200%	200%	N/A
CHILD TAX CREDIT										
Amount per child	\$600	\$1,000	\$1,000	\$700	\$700	\$700	\$700	\$800	\$1,000	\$500
AMT EXEMPTION										
Joint filers	\$49,000	\$58,000	\$58,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000
Single filers	\$35,750	\$40,250	\$40,250	\$33,750	\$33,750	\$33,750	\$33,750	\$33,750	\$33,750	\$33,750
CODE SEC. 179 EXPENSING										
Deduction amount	\$24,000	\$100,000	\$100,000	\$100,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Investment limitation (on cost of property)	\$200,000	\$400,000	\$400,000	\$400,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000

*Post – 5/5/03

Adams and Reese LLP
One Shell Square
701 Poydras Street, Suite 4500
New Orleans, LA 70139

ADAMS AND REESE LLP



www.adamsandree.com

BATON ROUGE ■ BIRMINGHAM ■ HOUSTON ■ JACKSON
MOBILE ■ NEW ORLEANS ■ WASHINGTON, DC

0601203