



Overview of 2003 Income Tax Law Changes

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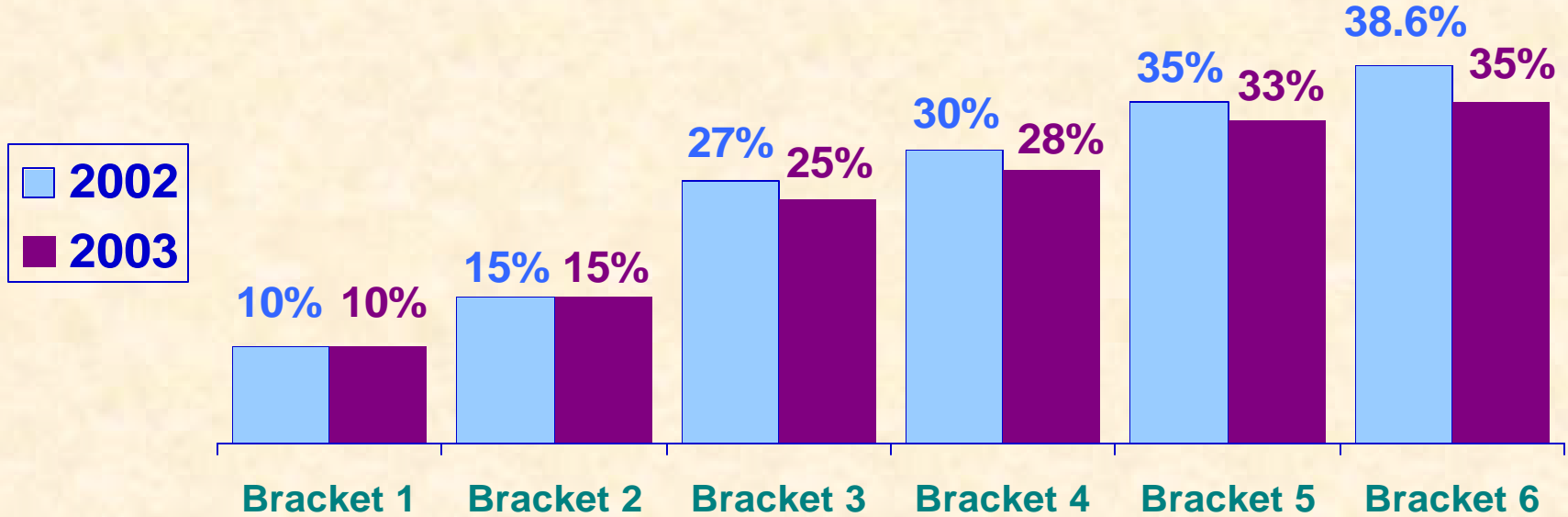
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Individual Tax Rates Reduced

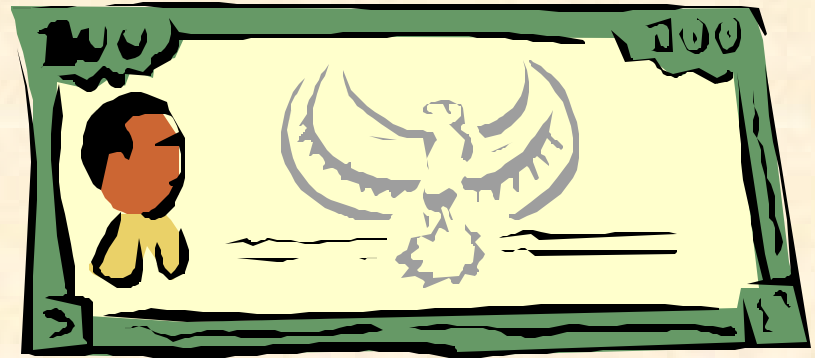




Tax Rates on Net Capital Gain Reduced

Maximum tax rate on net capital gain reduced from 20% to **15%** (from 10% to **5%** for taxpayers in the lowest two tax brackets) for **post-May 5** transactions

New rates apply for both regular tax and AMT





Tax Rates on Qualified Dividends Reduced

- Rate cut to **15%** (**5%** for taxpayers in the 10% or 15% rate brackets) for all 2003 qualified dividends
- Rates apply for both regular tax and AMT
- Only for dividends from a domestic corporation or a qualified foreign corporation
- Major exceptions: Most REIT and certain RIC (mutual fund) dividends, dividends on stock that does not meet special holding period rule, and dividends treated as investment income



Marriage Penalty Relief

For married taxpayers filing jointly and surviving spouses:

- ❑ 15% rate bracket expanded to **twice** that of single taxpayers
- ❑ Standard deduction is increased to **\$9,500** (twice that of single taxpayers)





Additional Tax Relief

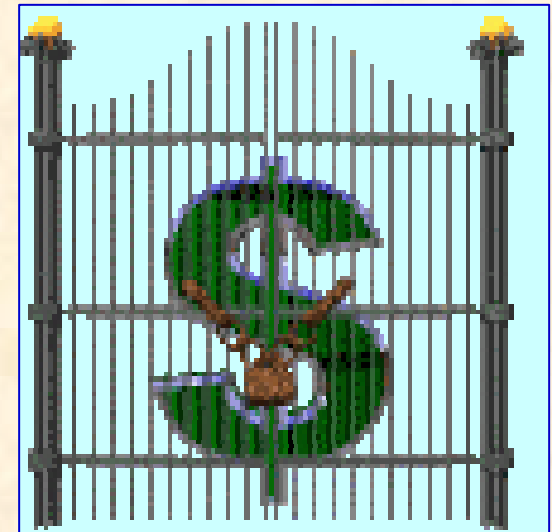
- ❑ 10% rate bracket extended to **\$7,000** for single taxpayers and married taxpayers filing separately (**\$14,000** for married taxpayers filing jointly and surviving spouses)
- ❑ Alternative minimum tax exemption amount increased to **\$40,250** for single and head of household taxpayers; **\$58,000** for married taxpayers filing jointly and surviving spouses; and **\$29,000** for married taxpayers filing separately



IRA Deduction

AGI Phase-out Range Increases:

- Single, head of household, or married filing separately and lived apart from spouse: **\$40,000-\$50,000.**
- Married filing jointly or surviving spouse: **\$60,000-\$70,000.**





Higher Limits for Employee Contributions to 401(k), 403(b), 457, and SIMPLE Plans

- ❑ Maximum increases to **\$12,000** (**\$8,000** for SIMPLE plans).
- ❑ Workers age 50 and older may contribute **\$2,000** more (**\$1,000** more for SIMPLE plans).
- ❑ More generous limits for participants in 457 plans who are within 3 years of retirement.



Self-Employed Health Insurance Deduction

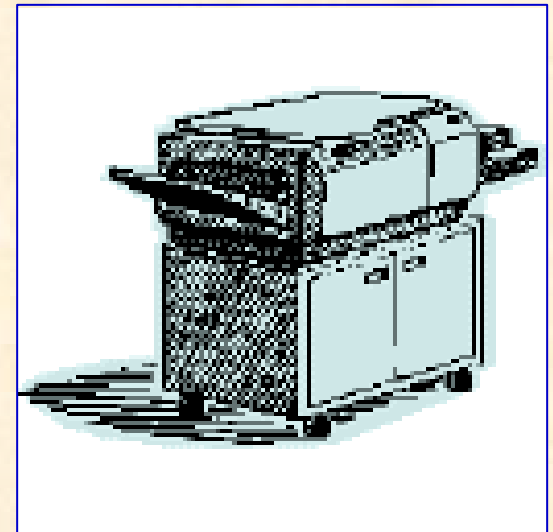
Maximum increases to **100%** of health insurance expenses.





Section 179 Expense Deduction

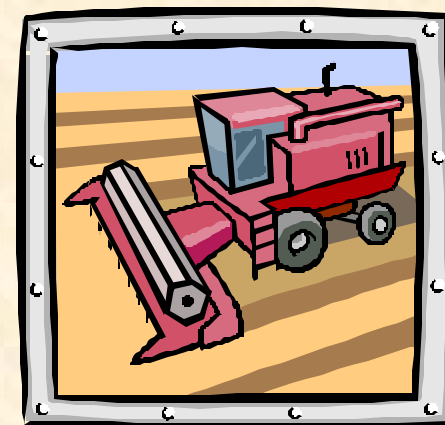
- ❑ Maximum increases to **\$100,000** (**\$135,000** for enterprise zone, renewal community, and New York Liberty Zone businesses).
- ❑ Phase-out begins when section 179 property exceeds **\$400,000**
- ❑ Off-the-shelf computer software now qualifies as section 179 property





Special Depreciation Allowance

- ❑ Special depreciation allowance increases to **50%** for property acquired **after May 5, 2003**
- ❑ Taxpayer may elect to use existing 30% allowance or elect out entirely for any class of property
- ❑ If the 50% allowance applies, the limit on depreciation and section 179 deduction for automobiles is increased by **\$7,650**





Child Tax Credit

- Maximum credit increases to **\$1,000** per child.
- Advance payment of increased portion of credit (maximum of **\$400** per child) was paid in July and August 2003 based on 2002 tax return information.
- Advance payment reduces credit on 2003 tax return.





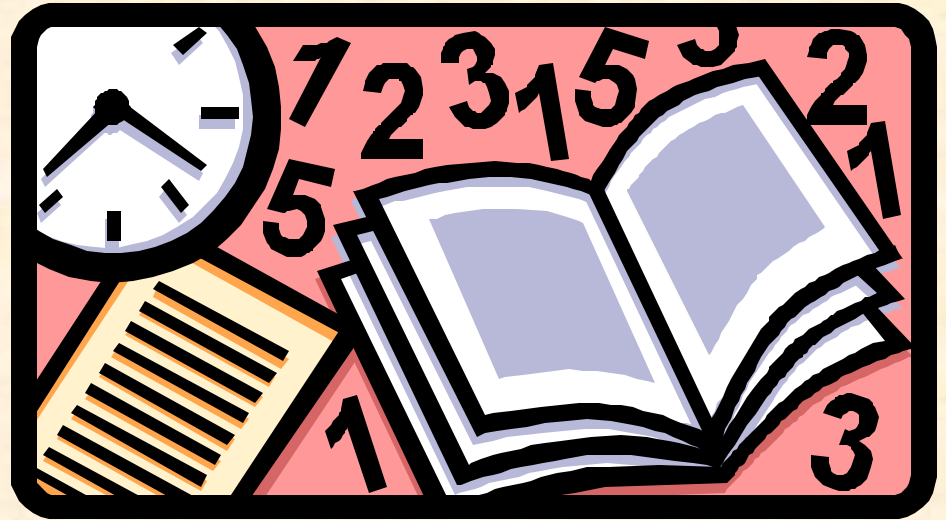
Child and Dependent Care Credit

- Maximum rate increases to **35%**.
- Limit on qualifying expenses increases to **\$3,000** (one qualifying person) and **\$6,000** (two or more).
- Decrease in credit percentage begins when AGI exceeds **\$15,000**.
- Spouse monthly earned income amount increases to **\$250** (**\$500** for two or more).



Lifetime Learning Credit

- ❑ Limit on qualified expenses doubles to **\$10,000**.
- ❑ As a result, the maximum credit doubles to **\$2,000**.





Adoption Credit & Exclusion

For each child **with special needs**:

- Adoption expenses are deemed to be **\$10,160** (even if actual expenses are less).
- Employer-paid adoption expenses deemed to be **\$10,160** for exclusion (even if actual expenses paid by employer are less).





Estimated Tax Changes

- ❑ For **individuals** (other than farmers and fishermen) whose 2002 AGI was over \$150,000 (over \$75,000 if married filing separately for 2003), safe harbor decreases to **110%** of last year's tax
- ❑ For **corporations** only, **25%** of the installment otherwise due in September 2003 is now due **October 1** (the due date of the remaining 75% has not changed)



Disclosure of Reportable Transactions

New **Form 8886** required for six types of reportable transactions:

8886

Form
(March 2003)

Department of the Treasury
Internal Revenue Service

Reportable Transaction Disclosure Statement

- ▶ Attach to your tax return.
- ▶ See separate instructions.

OMB No. 1545-1800

Attachment
Sequence No. **137**

2 Identify the type of reportable transaction. Check the box(es) that apply. (see instructions)

- | | |
|---|--|
| a <input type="checkbox"/> Listed transaction | d <input type="checkbox"/> Loss transaction |
| b <input type="checkbox"/> Confidential transaction | e <input type="checkbox"/> Transaction with significant book-tax difference |
| c <input type="checkbox"/> Transaction with contractual protection | f <input type="checkbox"/> Transaction with brief asset holding period |



Additional Resources

Draft 2003 forms:

www.irs.gov/taxpros/lists/0,,id=97784,00.html

Final forms:

www.irs.gov/formspubs/lists/0,,id=97817,00.html

Legislation: <http://thomas.loc.gov>