

2003 Economic Stimulus Package

Effective May 28, 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) introduced many new rules and accelerated benefits with a myriad of retroactive, temporary and phased-in/phased-out effective dates.

Capital Gains

JGTRRA lowered the maximum long-term capital gains rate as follows:

Tax Bracket:	1/1/03 – 5/5/03	5/6/03 – 12/31/07	1/1/08 – 12/31/08	1/1/09 & on
25% or higher	20%	15%	15%	20%
10 – 15%	10%	5%	0%	10%

- Consider gifting children over age 13 (and exempt from the “kiddie” tax) with appreciated assets. Assuming that the child’s bracket is otherwise lower than 25%, a sale of the asset in 2008 will not be taxed at all—a great way to contribute to a college fund.
- The capital gains rate is not “across the board.” Gains from some assets, such as collectibles, remain subject to a 28% rate.
- Deductions of capital losses against ordinary income continue to be limited to \$3,000 per year.

Dividends

Effective with dividends received in 2003 and ending with dividends paid through 2008, qualified dividend income received by an individual shareholder of a domestic or qualified foreign corporation will be taxed at a maximum rate of 15% for most taxpayers. Lower income taxpayers (in the 10 & 15% brackets) will pay at a rate of 5% through 2007 and 0% in 2008. Pre- JGTRRA rates will return in 2009.

- Dividends paid by a mutual fund may count as “qualified dividend income” if the income being passed from the fund to the investors is qualified dividend income in the hands of the fund and not short-term capital gain or interest from bonds.
- Certain dividends are excluded from qualified dividend income, including dividends paid by tax-exempt corporations and dividends paid on certain employer securities (see IRC §404(k)).

(continued on reverse)



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Tax Relief Reconciliation Act of 2003

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The Legend Group

4600 East Park Drive, Suite 300
Palm Beach Gardens, FL 33410

Telephone: (561) 694-0110

Facsimile: (561) 626-6465

E-mail: mailbox@legendgroup.com

www.legendgroup.com

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Local Office:

Individual Income Tax Rates

JGTRRA accelerates tax cuts that EGTRRA (2001's tax cut legislation) schedules for 2006 and beyond. Rates above 15% generally fall about 2% while the highest rate of 38.6% falls to 35%. All cuts are retroactive to 1/1/2003 and are subject to EGTRRA's sunset provisions under which rates revert to 15, 28, 31, 36 and 39.6% after 2010.

- *JGTRRA raised the taxable income levels for the 10% bracket that was scheduled to kick in after 2007. For single filers, the threshold increases from \$6,000 to \$7,000. For married couples, the threshold increases from \$12,000 to \$14,000. The old thresholds, however, will reappear in 2005, but, due to EGTRRA, the new thresholds will return again in 2007.*

Child Tax Credit

Under EGTRRA, the child tax credit was scheduled to gradually rise to \$1,000 by 2010. JGTRRA boosted the credit from \$600 to \$1,000 as of 1/1/2003; however, the increase is temporary. In 2005, the credit will fall to \$700, but will again increase to \$1,000 under the old EGTRRA schedule.

Marriage Penalty Relief

JGTRRA changed the standard deduction for married couples to twice the amount of the standard deduction for single taxpayers. Again, this relief is temporary—only for two years, 2003 and 2004. In 2005, the standard deduction for married taxpayers will fall to 174% of the deduction for singles taxpayers and then gradually rise to double the amount in 2009.

- *The increase in the standard deduction will influence a couple's decision on whether or not to itemize their deductions.*
- *The higher deduction may require more couples to pay the Alternative Minimum Tax.*

Standard Deduction Chart

Filing Status	Prior to JGTRRA	After JGTRRA
Single	\$4,750	\$4,750
Married filing jointly	\$7,950	\$9,500
Married filing separately	\$3,975	\$4,750
Heads of households	\$7,000	\$7,000