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HIGHLIGHTS OF THE 2003 TAX ACT

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1. Rate Reduction: The rate reductions in the 2001 Tax Act that were to take effect in 2006 have been accelerated. Thus, the top tax rate of 38.6% has been reduced to 35% and the 35% rate has been lowered to 33%.
2. Alternative Minimum Tax Exemption Increased: The exemption amount has been increased by a modest \$4,500.
3. Capital Gains: Long term capital gains that formerly qualified for a 20% federal tax rate have been reduced to 15%. This reduction also applies to the Alternative Minimum Tax. Since the rate reduction is not *retroactive*, the capital gain rate for 2003 is bifurcated between gains recognized *before* May 6 and those gains recognized *after* May 6. The lower rate applies to the latter.
4. Dividends: Qualifying dividends are now taxed at 15%. Qualifying dividends are dividends received from a domestic corporation or certain foreign corporations. Unlike capital gains, the reduced dividend rates apply to all dividends paid during 2003. In order to qualify for the 15% rate, an investor must hold the dividend paying stock for 60 days during the 120 day period beginning 60 days before the ex-dividend date. The reduced rates are also applicable to dividends passed through Regulated Investment Companies and Real Estate Investment Trusts.

5. Depreciation: New tangible personal property acquired after May 5, 2003, and placed in service before January 1, 2005, qualifies for a 50% bonus depreciation in the first year. This applies to “5, 7 and 15” year property. The effect of this accelerated allowance is phenomenal. For example, new “5 year” property acquired after May 5, 2003, changes the depreciation schedule as follows:

<u>Year</u>	<u>With Bonus Depreciation</u>	<u>Without Bonus Depreciation</u>
1	60%	20%
2	15%	32%
3	9.6%	19.2%
4	5.76%	11.52%
5	5.76%	11.52%
6.	2.88%	5.76%

The bonus depreciation is *in addition to* an increased expensing of qualifying property. A taxpayer may not elect to expense, rather than capitalize and depreciate, certain property up to \$100,000 per year (up from \$25,000). This amount begins to phase out once a taxpayer exceeds \$400,000 in new property. The phase out is dollar for dollar. Thus, if a taxpayer places in service qualifying property of \$425,000 in 2003, the amount that can be expensed is \$75,000 (\$100,000-(\$425,000-\$400,000)). The expensing provision applies to property placed in service after 2002. It is also limited to the aggregate taxable income of the taxpayer actively involved in a trade or business. The expensing provision applies to both new and used property acquired.