

GROWTH TAX RELIEF RECONCILIATION ACT OF 2003



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INTRODUCTION

On May 27, 2003, President Bush signed a significant tax cut bill into law. It is officially known as the Jobs and Growth Tax Relief Reconciliation Act of 2003. The bill includes tax reductions of \$320 million, plus aid to states and increased child tax credits, putting the total cost at \$350 million. Most of the bill provides tax relief for individual taxpayers. However, there are some provisions specifically targeted to businesses that will be advantageous to farmers and ranchers.

SECTION 179 - FIRST YEAR DEPRECIATION ALLOWANCE

The Section 179 expensing deduction for first year depreciation increases to \$100,000, beginning January 1, 2003, for the years 2003, 2004, and 2005. This is an increase from \$25,000 in 2002. The new provision means that taxpayers can expense up to \$100,000 of equipment purchases in the first year. Drainage tile and single-purpose farm buildings, like hog barns and dairy barns, in addition to equipment, qualify for this option.

In the past the Section 179 deduction started to phase out if you bought and placed into service more than \$200,000 of qualifying property in one year. That threshold has been increased to \$400,000. The write-off is

then reduced dollar for dollar of total property placed in service if the threshold is exceeded. The write-off will phase out completely if purchases are \$500,000 or more.

Vehicles with a gross vehicle weight of 6,000 pounds or more still qualify for the deduction; light trucks and smaller cars do not qualify

This Section 179 Depreciation Allowance is phased out after 2005.

FIRST YEAR "BONUS" DEPRECIATION ALLOWANCE

The "bonus" depreciation on new equipment goes from 30% to 50%. The Job Creation and Worker Assistance Act of 2002 first created this allowance. It was set to expire on September 11, 2004, but the new act extends the bonus until December 31, 2004. The 50% bonus is for new equipment only. However, machine sheds and other multi-purpose buildings that do not qualify for the Section 179 deduction do qualify for this allowance.

New property purchased and placed in service after May 5, 2003 qualifies for the 50% allowance. Property purchased prior to May 6, 2003, still qualifies for the 30% allowance. Purchases with a binding contract written prior to May 6, 2003,

qualify for the 30% bonus only, even if they are placed in service after May 5, 2003.

CHILD TAX CREDIT

The child tax credit for children younger than 17 has been increased to \$1000 for 2003 and 2004. This is a \$400 increase per child compared to 2002 credit.

Taxpayers who claimed the credit on their 2002 income tax return will receive the extra \$400 per child in a check from the federal government. This is an advance on the 2003 credit. The refunds will be issued starting in mid-July.

Those who are eligible for 2003 but were not eligible in 2002 will not receive a check in the mail, but will get the full credit on their 2003 tax return.

TAX RATES ON DIVIDEND INCOME

Tax rates on dividends from stocks and mutual funds will be reduced to 15% maximum. This does not apply to patronage dividends. Long-term capital gains rates are also lowered to 15%. For taxpayers in the 10% or 15% tax brackets, rates on dividends and long term capital gains will be reduced to 5%.

Any dividends paid from a C corporation, including closely held corporations, will qualify for the new rates. The tax rate on capital gains attributable to building depreciation has not changed. The maximum rate remains at 25%. Short-term capital gains will still be taxed at ordinary tax rates.

These rates take effect January 1, 2003 and will remain in effect through 2007.

MARRIAGE PENALTY CHANGE

There is relief from the marriage penalty in the new act. The 15% tax bracket and standard deduction for married filing jointly taxpayers will be double that of single taxpayers. These provisions take effect on January 1, 2003, and are set to expire on December 31, 2004.

The 10% tax bracket has been expanded. It increases \$1000 for single filers and \$2000 for married taxpayers filing jointly.

Many tax rates have been reduced under the new bill. The 27% rate has been reduced to 25%, the 30% rate to 28%, the 35% rate to 33%, and the 38.6% rate to 35%. These rates are in effect for 2003 and 2004.

Alternative minimum tax exemptions have been increased under the new act. For 2003 and 2004, the exemption has been increased by \$9000 to \$58,000 for married taxpayers filing jointly. It has been increased by \$4500 to \$40,250 for single filers. The exemptions will revert back to the present amounts after 2004, unless Congress takes further action.

As always, check with your tax preparer regarding the effect of these new changes on your tax situation.