

## Summary of Jobs and Growth Tax Relief Reconciliation Act of 2003

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MAY 28, 2003

On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Tax Bill"). Because of the Tax Bill's complexity, this **Stroock Special Bulletin** offers only a summary of certain key provisions. For legal advice on specific situations involving the Tax Bill, please contact your Stroock attorney.

### *Child Credit*

The per-child credit is increased from \$600 to \$1000 (although it is still subject to phase-out depending on income) for 2003 and 2004 only. The increased amount of the child tax credit for 2003 will be paid in advance during 2003.

### *Marriage Penalty*

The so-called "marriage penalty" is reduced significantly by increasing the standard deduction for married couples to twice the standard deduction for single taxpayers, and increasing the income of joint-filing married couples that is eligible for the 15% tax bracket. As with the per-child credit, this provision applies for 2003 and 2004 only.

### *Reduction in Marginal Rate*

The highest marginal tax rate is reduced from 38.6% to 35% effective January 1, 2003. This rate will revert to 39.6% in 2011.

### *50% First-Year Deduction*

Fifty percent of the cost of certain depreciable tangible personal property that is placed in service after May 5, 2003 and before January 1, 2005 may be deducted in the first year.

### *Immediate Expensing*

In addition to the 50% first-year deduction mentioned above, taxpayers are permitted to deduct immediately up to \$100,000 (the previous limit was \$25,000) of the cost of depreciable tangible personal property placed in service in taxable years beginning in 2003, 2004, or 2005. The \$100,000 is reduced, dollar-for-dollar, by the amount by which the cost of such property acquired each taxable year exceeds \$400,000.

### *Reduction in Long-Term Capital Gains Rate*

The generally applicable maximum long-term capital gains rate for individuals is reduced from 20% to 15%, effective for sales on or after May 6, 2003 through December 31, 2008. There is still no special capital gains rate for C corporations.

### *Reduction in Tax Rate on Dividends*

Effective for dividends paid to individuals between January 1, 2003 and December 31, 2008, the maximum tax rate is reduced to 15%. This provision does not apply to dividends received by C corporations.

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- Holding Period To qualify for the reduced tax rate on dividends, the taxpayer must have held the stock for at least 60 days.
- Foreign Corporations The reduced dividend tax rate also applies to dividends paid by foreign corporations in foreign countries with comprehensive tax treaties with the United States, which are determined to be satisfactory for this purpose by the IRS, and foreign corporations the stock of which is readily tradable on an established securities market in the United States. However, the reduced dividend tax rate will not apply to dividends paid by a “foreign personal holding company,” “foreign investment company,” or “passive foreign investment company.”
- Excluded Entities The reduced dividend tax rate does not apply to dividends paid by certain current and former tax-exempt entities; certain regulated investment companies, except to the extent the regulated investment companies receive qualifying dividends; and REITs, except to the extent of the REIT’s undistributed income for the prior year and certain recognized built-in gains of the REIT for the prior year, net of the taxes paid by the REIT on that income and gain.
- Exclusion from Investment Income Dividends qualifying for the reduced dividend tax rate are excluded from the definition of investment income for purposes of deducting investment interest, unless the taxpayer elects to exclude the dividends from the lower tax rate.
- Conforming Changes The tax rate for the accumulated earnings tax and the personal holding company tax is reduced to 15%.
- Collapsible Corporations The collapsible corporation rules are repealed.
- Sunset Provision None of the dividend provisions mentioned above will apply in taxable years beginning after December 31, 2008.

## *Estimated Tax Payment*

Twenty-five percent of the estimated tax payments owed by corporations on September 15, 2003 may be postponed to October 1, 2003.

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