



2003 Tax Law Gives Small Businesses and Families a Big Boost

You may have heard about recent changes in the tax law. And, unlike previous tax law changes, the 2003 changes offer something for everyone. The new tax package includes a mix of tax cuts and credits, instant rebates and relief provisions that may surprise you. Signed into law on May 28, 2003, by President Bush, the "Jobs and Growth Tax Relief Reconciliation Act of 2003" calls for the third largest tax reduction in United States history. As such, this law provides substantial tax savings for both businesses and individuals.

No new taxes – try out the new tax cuts instead. Believe it or not, the new law collapses time for tax cuts originally scheduled to occur in phases until 2006. If you were in the 38.6% tax bracket in 2002, for example, your 2003 rate will be only 35%. On the other end of the scale, income ceilings for the 10% and 15% tax brackets have been raised. In all, most Americans have gained an increase in their take-home pay. Small businesses, however, may be getting the best deal of all.

A big boost for small business. The new tax law was designed, in large part, to stimulate small business growth. To this end, the Section 179 Expense Deduction was liberally increased from \$25,000 to \$100,000 for listed business property purchased after May 5, 2003. In other words, small businesses can now write off \$100,000 in equipment expenses. Qualifying business property generally includes, but is not limited to automobiles, pickup trucks, photographic and phonographic equipment, communications equipment, computers and peripheral equipment, and office furniture and fixtures. In addition to this, business owners may take 50% "bonus depreciation" in the first year for qualifying equipment. This is up from 30%.

Both Section 179 deductions and the bonus depreciation provision may be combined to generate significant tax savings for most any small business. These added allowances, however, will expire over the next two or three years unless further action is taken by Congress. So, it may well be in the best interest of your business to strategize accordingly in order to take full advantage of these incentives while they are available. Section 179 applies to both new and used assets while the bonus depreciation applies only to new assets, so you may want to explore the possibility of expensing purchases of used assets while depreciating new assets.

In addition to reduced marginal top tax rates, small businesses may also benefit from the substantial reduction of the top tax rates for dividends and capital gains. Beginning January 1, 2003, these top rates were reduced from 38.6% to 15% on dividends and from 20% to 15% on long term capital gains. On an individual basis, it will prove beneficial to most stakeholders of dividend paying corporations, as well as investors, who have substantial, locked-in capital gains. It is important to note, however, that dividends and capital gains will now be treated equally. Previously, dividends were taxed as regular income and portions of capital gains were deductible. As a result, some investors may wish to adjust their strategies to take advantage of the new provisions.

On the home front. In addition to the previously mentioned tax cuts, the new tax law may help some couples book their second honeymoon – at least those couples filing jointly. The act increases the standard deduction for married couples to double the amount for those filing single. If this is not enough, the Child Tax Credit will increase from \$600 to \$1000 per qualifying child under the age of 17. Remember, a tax credit reduces your tax dollar for dollar where a deduction reduces the amount of your income subject to taxes. This means you may be eligible for a rebate of up to \$400 per child. These two features of the new tax law are also scheduled to expire, or revert to a lesser amount, at the end of next year, but should provide significant savings during 2003 and 2004.

The "Jobs and Growth Tax Relief Reconciliation Act of 2003" has something for almost everyone. It will affect individuals differently depending on their income level and family situation. The new tax law gives a big boost to small business by encouraging spending. To develop a sound strategy to take advantage of all the benefits the new tax law has for you, give us a call today.

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