

TAX – SAVING OPPORTUNITIES

JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT OF 2003

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Individuals

1. Purchase dividend-paying stocks.

- Dividends federally taxable at 15% (5% in lower tax brackets) 2003 through 2008.
- Domestic stocks and most foreign stocks.
- Possible to leverage investment without increasing tax liability.
- Cautions.
 - Must hold stock at least 60 days during the 120 days surrounding the ex-dividend date.
 - Mutual fund and REIT “dividends” qualify only to the extent representing pass through dividends.
 - Distributions from retirement plans (e.g., 401(k)s, traditional IRAs, SEPs, Keoghs) do not qualify; taxable as ordinary income. (However, retirement plans pay no tax on their dividends and capital gains.)

2. Sell investment property.

- Long-term capital gains federally taxable at 15% (5% in lower tax brackets) May 6, 2003 through December 31, 2008.
- Must have held the asset more than 12 months before sale.
- Cautions.
 - Gain representing depreciation on commercial real estate remains taxable at 25%.
 - Don’t let the tax tail wag the economic dog.

Businesses

Invest in depreciable business property.

- Deduct up to \$100,000 of “Section 179 Property” in year acquired (2003-2005).
 - New or used tangible personal property or computer software.
 - Must be purchased for use in business.
 - Must elect to expense.
 - Subject to limitations based on cost of all Section 179 property acquired the same year and taxable income from the business.

- Deduct 50% of the cost (“bonus depreciation”) of qualified property in year acquired.
 - New property depreciable over 20 or fewer years.
 - Includes computer software and leasehold improvements.
 - Property must be acquired and placed in service after May 5, 2003 and before January 1, 2005 (January 1, 2006 for certain self-constructed property).
 - Applies automatically unless taxpayer instead elects 30% bonus or 0% bonus.

Other ideas and observations

See Law, Explanation and Analysis, “Jobs and Growth Tax Relief Reconciliation Act of 2003,” by CCH Incorporated (2003).

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