Money Matters

Getting Your Piece Of The 2003 Tax Cut Pie

by Mary Sheeley, EA, *H & R Block*

If you were not among the 25 million families who received a $400 per child check this summer as part of the 2003 tax law package, hang tight. You could still reap some tax savings benefits.

With reduced tax rates, expanded tax brackets and increased credits, the new law has something for nearly everyone. That's the good news. The bad news is the new tax law comes with some complicated twists and turns making it difficult for the average taxpayer to navigate. But with a little bit of guidance, you'll be able to sort through the confusion on two of the major tax changes so you can see what they will mean to your wallet – now and come tax time.

Let's start with one of the biggest changes and the one that affected most taxpayers: the reduction in tax rates and the expansion of the 10 percent bracket. With the new law, the 10 percent rate now applies to the first $14,000 on a joint return rather than the first $12,000. That puts an additional $100 in your pocket. For singles, the income level goes from $6,000 to $7,000, a $50 savings.

Rates for upper-income taxpayers are also reduced. Taxpayers with taxable income large enough to be taxed at a rate higher than 15 percent reap a substantial benefit. The new rates are 25, 28, 33 and 35 percent versus the former rates of 27, 30, 35 and 38.6 percent. A married couple with an income of $50,000, for example will save $306 from this tax cut alone. The same couple making $100,000 will save $1,051. Singles with tax rates higher than 15 percent will save $432 at $50,000 taxable income and a little more than $1,400 at $100,000.

The nice thing about these rate cuts is that they took effect almost instantly, with employers switching to the new withholding rates by July 1. Even nicer, from the taxpayer's perspective, is that the new lower rates are retroactive to January 1, 2003. So, many of you can expect a refund, or a lower tax bill, when you file your 2003 returns because you overpaid for the first six months of the year.

One word of caution: if you want to control some of your overpayment by reducing your exemptions, H&R Block recommends talking to a tax professional first, before making any changes to your exemptions to avoid surprises such as a balance due at tax time. The tax professional can help you complete a new W-4, which you then simply turn into your payroll department at work.

Let's move on to one of the most talked about tax issues—the so-called "marriage penalty," which taxes some dual-income couples at higher rates than if they were filing as singles.

The new standard deduction for married taxpayers is now $9,500, that's twice the amount allowed for single filers. The shift primarily affects people who do not itemize. The new law also widened the 15 percent bracket for joint returns. Income taxed at 15 percent is now capped at $56,800, up from $47,450. That could lower a qualifying couple's taxes by more than $935 before the reduction in tax rates. But there is a catch—the marriage penalty reform is only good until 2005.

Of course there are many other tricky changes in the tax package that might affect you: the lower rates on dividends and capital gains, changes in the Alternative Minimum Tax, and new tax benefits to small business owners, just to name a few. Many of these changes are also temporary and begin to disappear in 2005. So, the key to taking advantage of these newest, accelerated tax changes is to act NOW.

The tax law changes can benefit you significantly, but only if you understand them and know how to claim them. Working with both a tax professional and financial advisor will ensure that you're on the right financial path and taking advantage of every tax break along the way. It's worth the time. It's worth the peace of mind.

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