

Tax Reform: Good News/Bad News

By Attorney Robert Hood

The 2003 Tax Act contains provisions intended to have a positive business impact. These provisions, however, will only be effective for a short period of time unless extended by Congress; they are as follows.

1) For 2003 through 2008 the tax rate on most dividends will be 15 percent. This first applies for dividends received after January 1, 2003.

2) Capital gain rates are cut from the current rates to 15 percent or five percent depending on the income level of the taxpayer for sales and exchanges and payments received on or after May 6, 2003, and before January 1, 2009. Consequently, after January 1, 2009, the old rates on the taxation of dividends and capital gains will return.

3) For qualifying taxpayers, bonus depreciation in 2003 is increased from 30 percent of the assets depreciable basis to 50 percent. This bonus depreciation provision, however, expires at the end of 2004.

4) Section 179 of the Internal Revenue Code which allows a direct expensing of the cost of depreciable assets is increased from \$25,000.00 pre-2003 to \$100,000.00 for the years 2003 through 2005. In addition, the limitation on the capital asset acquisition amount subject to Section 179 expensing is increased from \$200,000.00 to \$400,000.00 for the years 2003 through 2005. After 2005, however, the Section 179 expense deduction returns to \$25,000.00 and the annual limit on assets acquired is set again at \$200,000.00

The 2003 Tax Act short-term benefits are immense, however, they require fast action on your part.

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