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Jobs and Growth Tax Relief Reconciliation Act of 2003 affects businesses and professional practices.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (the Jobs and Growth Act), which was recently signed into law, contains two key provisions meant to encourage businesses and professional practices to buy more machinery and equipment and thereby stimulate the economy. It also carries other business changes you may need to know about, like reduced taxes on dividends, revamped payroll withholding rules, shifted estimated tax payments for some corporations, and a reduction in several penalty-type corporate tax rates.

Quadrupled maximum annual expensing amount. A business or practice that buys machinery and equipment generally deducts its cost over a number of years via depreciation. The expensing election permits a business or practice to expense (that is, deduct immediately rather than depreciate over several years) a certain amount of the cost of tangible depreciable personal property purchased and placed in service during the year. Under the Jobs and Growth Act, effective for tax years beginning in 2003 through 2005, the maximum annual expensing amount is $100,000. That's four times the prior-law $25,000 ceiling. Additionally, the maximum annual expensing amount begins to phase out dollar-for-dollar only where the business or practice places in service during the tax year expensing-eligible property in excess of $400,000. (Under prior law, the expensing amount phased out dollar-for-dollar where the taxpayer placed in service during the tax year expensing-eligible property in excess of $200,000.)

The Jobs and Growth Act also makes these other expensing changes:

- the $100,000 annual expensing limit and the $400,000 phaseout limit will be indexed for inflation for tax years beginning in 2004 and 2005;
- property eligible to be expensed includes off-the-shelf software placed in service in a tax year beginning in 2003, 2004, and 2005 (it was ineligible for expensing under prior law); and
- for tax years beginning in 2003, 2004, and 2005, the expensing election can be revoked without the IRS's consent (under prior law, IRS consent was necessary).

Results. These major expensing liberalizations mean that most small businesses and practices, and even those of moderate-size with modest capital equipment needs, will be able to claim a full deduction for the cost of their business machinery and equipment, thereby reducing their effective cost for the assets. Additionally, the ability to currently deduct the entire cost of qualifying property makes purchasing (as opposed to leasing) a more attractive option than it was under prior law.

Bonus first-year depreciation allowance. The Jobs and Growth Act gives enterprises a 50% bonus first-year depreciation deduction for most capital assets (other than buildings) acquired new after May 5, 2003 and before 2005 (there can't be a written binding contract for the asset's acquisition in effect before May 6, 2003). Qualifying new capital assets generally must be placed in service before 2005 (before 2006 for certain longer-lived property). Under prior law, extra first-year depreciation took the form of a 30% bonus writeoff for most new capital assets (other than buildings) acquired after Sept. 10, 2001, and before Sept. 11, 2004, and placed in service before 2005 (before 2006, for certain property).

Results: The bonus 50% first-year writeoff means that an enterprise can recover more of the cost of a business asset in the year it is placed in service.

What qualifies. Bonus first-year depreciation applies to:

- most types of new, nonrealty assets, such as business machines, computers, most types of computer software, many types of production equipment, trucks, trailers, and business furniture; and
- qualified leasehold improvements which, in general, are interior improvements made under a lease to commercial property (such as an office building or warehouse), and placed in service more than three years after the building was first placed in service. Certain structural improvements don't qualify, and neither do expansions.

New business autos. The so-called "luxury auto" dollar caps limit the combined regular depreciation and expensing deduction that may be claimed for a business auto. Under the Jobs and Growth Act, the luxury auto dollar cap for the year a new business auto is placed in service is increased by $7,650 for a passenger auto that's otherwise eligible for bonus 50% first-year depreciation. For 2003, this will result in an allowable first-year writeoff of about $10,710 (the final figure hasn't yet been released by the IRS). The passenger auto must be used more than 50% for business. The extra first-year allowance is reduced for autos treated as used for personal as well as business driving.

Other new rules. Under the Jobs and Growth Act, an enterprise may elect, on a property-class-by-property-class basis, to claim 30% instead of 50% bonus first-year depreciation for qualifying property, or elect not to claim bonus first-year depreciation at all. A property class consists of all property placed in service during the year that is depreciable over the same period. We'll let you know whether an election to claim smaller bonus first-year depreciation (or to elect out of it entirely) makes sense for your enterprise.

Other tax changes for business. The Jobs and Growth Act makes these other changes for business:

- The top tax rate on dividends has been reduced to 15%. This may encourage more businesses to operate as C corporations, pay lower compensation (which is taxed at a top rate of 35%) to owners, and pay out more dividends.
- Despite the general rule that estimated tax payment installments must be made by calendar-year taxpayers no later than Apr. 15, June 15, Sept. 15 and Dec. 15, 25% of the amount of any required installment of corporate estimated tax which is otherwise due in September, 2003 will not be due until Oct. 1, 2003. Corporate clients not on calendar years should give our office a call to see if they are affected by this provision.
- The IRS has published new withholding tables that incorporate the Jobs and Growth Act's lower tax rates. Employers should use the new tables to figure the federal income tax to withhold from employee wages as soon as they can work them into their payroll systems, but not later than July 1, 2003.
- Two special corporate tax rates—the accumulated earnings tax and personal holding company tax—have been reduced to 15% (from 38.6%), effective for tax years beginning after Dec. 31, 2002. Additionally, a special set of tax restrictions known as the collapsible corporation rules have been repealed, effective for tax years

beginning after Dec. 31, 2002. Corporate clients should contact our office for more details about the impact of these changes.

Should you need additional information about the new law and your business, please give our office a call.