

# *Barto, Hoss & Company, P.C.*

Certified Public Accountants

## **Highlights of Tax Changes in the "Job Creation and Worker Assistance Act of 2002"**

### **Dear Client:**

We are writing to tell you that there's a new law on the books carrying a number of important tax changes. The "Job Creation and Worker Assistance Act of 2002," signed into law by the President on March 9, mostly benefits businesses and professional practices. What's more, several changes are retroactively effective and may affect returns that have already been filed as well as those that are about to be filed for tax year 2001, and 2000 returns of fiscal year filers with tax years ending Sept. 30, Oct. 31., or Nov. 30 of 2001. There are several changes affecting individuals as well.

Here's what you need to know right now about this important new legislation:

*Tax breaks for businesses and professional practices include the following changes:*

...An additional 30% first-year depreciation writeoff for most types of new nonrealty property acquired after Sept. 10, 2001 and before Sept. 11, 2004. For example, if a business or practice bought a new qualifying \$10,000 machine normally depreciated over five years, the first-year writeoff under the new law is \$4,400. Under prior law, the maximum first-year writeoff is only \$2,000. The extra 30% first-year writeoff also applies to certain types of interior improvements to leased nonresidential realty (such as an office building or factory).

...The first-year depreciation dollar cap on new luxury autos bought for business purposes is boosted by \$4,600, effective for autos acquired after Sept. 10, 2001 and before Sept. 11, 2004. For qualifying autos bought after Sept. 10, 2001 and before 2003, that means a maximum first year writeoff of \$7,660 (the regular \$3,060 first year dollar cap plus \$4,600). The extra writeoff applies only if the auto is used more than 50% for business, and is fully available only if the auto is used 100% for business. The net result is a larger up-front deduction for those who buy new autos for use in their business or practice.

...The net operating loss (NOL) carryback period is increased from two or three years to five years, for NOLs arising in tax years ending in 2001 or 2002. This change could create additional refunds for businesses suffering losses. Related changes help businesses with NOLs avoid alternative minimum tax problems.

... Many tax breaks that expired at the end of 2001 are retroactively reinstated and extended for two years. These include the work opportunity tax credit and the welfare-to-work credit.

...Businesses operating in lower Manhattan that suffered as a result of the Sept. 11 terrorist attacks are given a package of five new tax breaks.

*Tax changes for individuals include the following provisions:*

...A two-year reprieve from an onerous rule that would have reduced an individual's personal nonrefundable credits (such as education credits) because of the alternative minimum tax (or AMT). Under the new law, for 2002 and 2003, you'll be able to use your personal nonrefundable credits to offset both your regular tax liability and your AMT liability.

...A crackdown on S corporation shareholders prevents them from increasing the basis of their stock in the entity (and thereby being able to deduct suspended losses) by debt that's forgiven and excluded from the corporation's income when the entity is bankrupt or insolvent.

...A number of changes, mostly favorable, deal with the enhanced retirement savings opportunities created by the 2001 tax law. For example, a change makes it clear that a person can make "catch-up" contributions any time during the year he or she turns age 50, not just after the calendar date he or she attains age 50.

...For 2002 and 2003, there's a new up-to-\$250 deduction for educators below the college level who spend their own money on books and other materials they use in the classroom. The new deduction is available to itemizers and non-itemizers.

Please keep in mind that I've described only the highlights of the most important changes in the new law. Give us a call at 423.855.0700 at your earliest convenience for more details on how you may be affected, and whether immediate action is needed to take advantage of the new law's tax breaks.

Sincerely,

Barto, Hoss & Co., P.C.