



CLIENT TALK

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ECONOMIC GROWTH & TAX RELIEF RECONCILIATION ACT OF 2001

TAX "REFORM" OVERVIEW

The Economic Growth and Tax Relief Reconciliation Act of 2001, *EGTRRA*, provides *minimal tax reduction* this year. Most of the tax changes gradually take effect starting in 2004 to 2009 resulting in very little economic stimulus at this time. The much heralded Estate Tax elimination is for one year - 2010. After 2010, the estate tax is automatically reinstated at 35%.

MARGINAL RATE REDUCTIONS

The new law changes the current individual tax rate structure of 15, 28, 31, 36, and 39.6% with the reduced rates of 10, 15, 25, 28, 33, and 35%. The new 10% rate begins July 1, 2001 and applies to the first \$12,000 of taxable income for married couples filing joint returns. The 15% bracket remains the same, and the other tax rates are reduced by 1%. These tax rate reductions are the basis for the rebates of up to \$600 per married couple and \$300 per single individual. Unfortunately, there are no further reductions in rates until 2004.

MARRIAGE PENALTY RELIEF

There is no marriage penalty relief until 2004 when the 15% bracket is expanded. The basic standard deduction for married couples filing jointly is increased to twice the amount of single individuals starting in 2005. That provision will provide **no relief for individuals itemizing deductions**. Other family tax issues include:

- ❑ Increasing the \$500 childcare credit to \$600 for 2001 to 2004, then in steps to \$1000 by 2010.
- ❑ Permanently increasing the Adoption Tax credit to a maximum of \$10,000 per child effective 2002.
- ❑ Increasing the Childcare/Dependent Care Tax Credit starting in the year 2002 from \$2400 to

\$3000 per individual.

- ❑ Increasing the annual contribution limits in Educational Savings Accounts from \$500 to \$1,000 and allowing tax-free distributions from education accounts. Further, employers may establish qualified tuition plans.

ESTATE AND GIFT TAX

EGTRRA repeals the Estate and Generation Skipping Taxes only for the year in 2010. After 2010, the tax will be 35%. The unified credit equivalent amount is increased from \$675,000 in 2001 to \$1 million dollars in 2002, and eventually increases to \$3.5 million in 2009 and in 2010. The increased exemption amount will eliminate the estate tax for many taxpayers. Nevertheless, the cost is a carry over basis for the beneficiaries of an estate causing higher income taxes for them.

RETIREMENT SAVINGS

IRA contribution limits are increased to \$3,000 for 2002 and further increased to \$4,000 per year in 2005. There are also increases in the amount of wages that can be considered in determining 401(K) and SEP or SIMPLE plans as well as simplifying retirement plan transfers.

CONCLUSION

Any tax relief is welcome. Each person, not the government, has the right to choose how to spend their own money. Although the total amount of taxes to be reduced sounds very positive, it is simply a preliminary step in the process. Due to all the delays in the actual reduction in tax rates and improving benefits, the real cost and advantages of the tax reform must be substantially discounted.