

## TAX AND ESTATE PLANNING NEWSLETTER

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*The following tax and estate planning news may be of interest to you in your business or personal pursuits. If you have questions about any of these items, please call or e-mail one of the Tax and Estate Planning Attorneys listed below by clicking on the attorney's e-mail address or calling the telephone number.*

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### WHAT THE NEW TAX BILL

#### MEANS TO YOU

While there is continuing debate about the economic effect of the new tax bill signed by President Bush May 28, it is clear that most of us will pay less in taxes – at least in the short term.

**Your income will be taxed at lower rates.** For regular tax purposes, the first "slice" of your taxable income is taxed at 10%, and additional slices of taxable income are taxed at progressively higher rates until you reach the maximum rate. The various "slices" of taxable income, and the tax rates each is subject to, are commonly referred to as the "tax brackets." All of the following tax rate cuts apply retroactively to Jan. 1, 2003:

... If you file as a single person or are a married person filing separately from your spouse, the first \$7,000 (instead of \$6,000) of your taxable income will be taxed at 10%, the lowest tax rate. Because the extra \$1,000 was taxed at 15% under prior law, you save a maximum of \$50.

... If you file a joint return, the first \$14,000 (instead of \$12,000) of your taxable income will be taxed at 10%, the lowest tax rate. Because the extra \$2,000 was taxed at 15% under prior law, you save a maximum of \$100.

... If you file a joint return, more of your taxable income will be taxed at 15% (instead of winding up in the next highest tax bracket and being taxed at 25%).

... The new law reduces all of the tax rates above 15% for all individuals (as well as estates and trusts). The new tax rates above 15% are: 25% (instead of 27%), 28% (instead of 30%), 33% (instead of 35%) and 35%, the top rate (instead of 38.6%).

**How much will all of these tax rate changes save you?** The answer depends on how much taxable income you have and your filing status. For example:

... If you are single with \$60,000 of taxable income for 2003, your tax

bill will be \$682 less. If your taxable income is \$120,000, you save \$1,882. If your taxable income is \$250,000, you save \$4,482.

... If you are married, file a joint return and have \$60,000 of taxable income for 2003, your tax bill will be \$1,286 less. If your taxable income is \$120,000, you will save \$2,486. If your taxable income is \$250,000, you save \$5,086.

**The tax savings will be higher if taxable income included dividends or capital gains** (taxed at a lower rate under the new law, see below). Additional tax savings will be realized if the individual is entitled to an enhanced child tax credit.

Wage-earners will get a larger paycheck as a result of these (and other) changes for individuals. The IRS says payroll withholding will reflect the new law as soon as employers and payroll processors put new withholding tables into effect.

**Bigger standard deduction for joint filers.** If you are married, file a joint return, and don't itemize your deductions, your basic standard deduction for 2003 is \$9,500, a \$1,550 increase. There's no increase in the additional standard deduction amounts for elderly and blind persons.

**Bigger alternative minimum tax (AMT) exemptions.** The alternative minimum tax, which is payable only if it exceeds your regular tax bill, is a hazard because many tax breaks ("preferences") allowed for purposes of calculating regular taxes are disallowed for AMT purposes. The "preferences" are added back to regular taxable income, an AMT exemption amount (which phases out at higher income levels) is subtracted, and the balance is subject to an AMT rate of 26% or 28%. The new law makes the AMT less of a problem by

increasing the maximum AMT exemption amount to \$58,000 for marrieds filing jointly (a \$9,000 increase), to \$40,250 for unmarried individuals (a \$4,500 increase), and to \$29,000 for married individuals filing separate returns (a \$4,500 increase).

**Boosted child tax credit, partially refundable for 2003.** The child tax credit for 2003 is \$1,000 per qualifying child (a \$400 increase over the prior-law \$600 amount). What's more, the increased amount of the child tax credit will be paid "in advance" beginning in mid-July over a period of three weeks. This year, a qualifying family with one child will receive an advance payment check from the Treasury for up to \$400, and a qualifying family with two children will receive a check for up to \$800. The amount of advance payments will be based on a person's 2002 filing status and income, as well as the number of children claimed on the 2002 tax return who will still be under age 17 in 2003.

**Reduced taxes on capital gains and dividends.** For sales and exchanges (and installment payments received) after May 5, 2003, gains on most capital assets held longer than one year will be taxed at a maximum rate of 15% (instead of 20%). In addition, dividends you receive in 2003 from a domestic corporation (or certain "qualified foreign corporations") are taxed at the same rates that apply to capital gains. In other words, the dividends are taxed at a maximum rate of 15%. These new capital gain and dividend rates apply for both the regular tax and the AMT.

**What the future holds in store.** In order to meet budget constraints many of the tax breaks in the new law are not permanent. For example, unless Congress changes the rules again, the new tax breaks for marrieds filing jointly (more income taxed in the 15%

tax bracket instead of a higher tax bracket, and larger basic standard deduction) are slated to be watered down after 2004, the AMT exemption amounts will drop after 2004, and the maximum child tax credit also will drop after 2004. The reduced tax rates for capital gains and dividends will only last through the end of 2008.

### **MEANWHILE IN OKLAHOMA**

Despite record shortfalls and budget cuts, the 2003 Oklahoma legislative session did not enact any new taxes and raised only some new revenues from increased fees. Many Title 68 (the taxation title of Oklahoma statutes) bills were assigned to special legislative conference committees and yet may be enacted. However, only a few measures (such as the call for a public vote on a diesel fuel and gasoline tax increase) will raise new revenues. Rep. Larry Adair, the Democratic Speaker of the House, has indicated that the legislators may return later in the year to a special session to address taxes. He believes that as additional budget cuts are implemented, the public will see the need for additional revenues and the individual legislators will be more receptive to tax increases. Republican legislators as well as some individual Democrats still appear very opposed to nearly any or all tax increases. They argue that the general economic downturn requires governments as well as families to cut their budgets and live on less. It seems unlikely that any significant tax increase would garner the support of a supermajority (75%) of the legislature so as to avoid a public vote at a general election as required by State Question 640.

Many organizations, including those seeking additional funding for education,

welfare assistance, road maintenance, and governmental employee salaries, are already conducting public campaigns that will outlast the recently completed legislative session.. The Oklahoma Education Association is conducting town meetings in support of the imposition of sales taxes on many services. Likewise, the American Cancer Society and other health care advocates are supporting a major increase in cigarette taxes. Speaker Adair believes that education of the public is key. He also said "If we write the budgets with the cuts that we think we are going to have to write, I think the general public is absolutely going to be shocked beyond anyone's imagination."

### **NEW CHARITABLE CONTRIBUTION CHECK-OFFS ADDED**

With many state programs suffering significant funding cuts and budget shortfalls, new legislation was approved by the Legislature and was signed into law by Democratic Governor Brad Henry that gives taxpayers a chance on their Oklahoma tax returns to make a contribution to certain governmental programs. S.B. 549. For tax years beginning on or after January 1, 2004, a new check-off will appear on both corporate and individual income tax returns that allows a taxpayer to designate a portion of a tax refund or to make an additional tax payment as a contribution to any of the following: Oklahoma's schools, road and highway maintenance, and the State's Medicaid program. A Taxpayer who mistakenly makes a check-off contribution may seek a refund of the contribution within three years of the return's due date.