

PRATT & ASSOCIATES SUMMER/FALL NEWSLETTER

ECONOMIC GROWTH AND TAX RECONCILIATION ACT OF 2001

On June 7, 2001 a new tax bill called the Economic Growth and Tax Relief Reconciliation Act of 2001 was signed into law. Below we have written a brief summary on the more important changes that will affect taxpayers over the next few years.

I. INCOME TAX RATE CUTS

- A. Starting in 2001 the tax relief act creates a new 10% tax bracket that applies to:
- 1) The first \$6,000 of taxable income for single & married filing separately taxpayers (previously 15%).
 - 2) The first \$10,000 of taxable income for heads of household (previously 15%).
 - 3) The first \$12,000 of taxable income for married filing jointly & surviving spouses (previously 15%).

*** Please Note: Due to the advanced refund (rebate) received in the summer of 2001, the new 10% tax bracket may not apply until the 2002 tax year.

B. New Tax Rate Table Thru 2010

- 1) Below is a tax rate table showing all the new income brackets thru 2010.

<u>Tax Years</u>			<u>Brackets</u>			
2001 (before 7/1)	10%	15%	28%	31%	36%	39.6%
2001 (after 6/30) – 2003	10%	15%	27%	30%	35%	38.6%
2004 – 2005	10%	15%	26%	29%	34%	37.6%
2006 and later	10%	15%	25%	28%	33%	35.0%

II. CHILD RELATED TAX CREDITS

- A. Child Tax Credit (under 17 years of age)
- 1) The child tax credit will increase to a maximum of \$1,000 per child by 2010. Below is a table showing the credit increases.

<u>Tax Years</u>	<u>Credit Amount Per Child</u>
2001-2004	\$600
2005-2008	\$700
2009	\$800
2010 – Later	\$1000

B. Refundable Child Tax Credit

- 1) The new tax law makes the child tax credit refundable for certain taxpayers. The credit can be refundable to the extent of the greater of:
 - a- 10% of earned income over \$10,000 or
 - b- For taxpayers with three or more qualifying children, the excess of the taxpayer's Social Security taxes for the tax year over the taxpayer's earned income credit for the year.

C. Adoption Credit

- 1) After 2001 the new act allows a maximum credit of \$10,000 per eligible child, including special needs children, up from \$5,000 in 2000.
- 2) The income range at which the credit phases out increases to \$150,000 - \$190,000 of Modified Adjusted Gross Income.

D. Dependent Care Credits

- 1) For tax years after 2002, the Act will increase the maximum amount of eligible dependent care expenses from \$2,400 to \$3,000 for one qualifying child or from \$4,800 to \$6,000 for two or more qualifying children.
- 2) It will also increase the maximum credit from 30% to 35%.

III. MARRIAGE PENALTY RELIEF

- A. The marriage penalty relief is not scheduled to be implemented until 2005.

IV. EDUCATION TAX CREDITS

- A. Education IRA's
 - 1) Starting after 2001, the contribution limit will increase to \$2,000 per beneficiary.
 - 2) The income range at which the credit phases out increases to \$190,000 - \$220,000 for married filing joint taxpayers or \$95,000 - \$110,000 for single and heads of households.
 - 3) The education savings accounts can now be used to pay for elementary and secondary school expenses, changed from college only.
- B. College Tuition Deduction
 - 1) The new law introduces an adjustment to income deduction for qualified higher education expenses.
 - a- Starting in 2002-2003, taxpayers with Adjusted Gross Income below \$65,000 (single) or \$130,000 (married filing joint) will be able to claim a deduction of \$3,000.
 - b- A taxpayer won't be able to claim the Hope Scholarship or Lifetime Learning Credits in the same year they claim the College Tuition deduction for the same student.
- C. Student Loan Deduction
 - 1) For tax years after 2001 individuals can deduct a maximum of \$2,500 for interest paid on qualified higher education loans.
 - 2) Effective for loan interest paid after 2001, the law repeals the 60-month limit on interest deductibility.
 - 3) The income range at which the credit phases out increases to \$50,000 to \$65,000 for single taxpayers and to \$100,000 to \$130,000 for married filing joint taxpayers.

V. ESTATE TAX RELIEF

- A. The new act repeals the estate tax by year 2010. Below is a schedule showing the estate tax phase-out.

<u>Tax Years</u>	<u>Exemption Amount</u>
2002-2003	1.0 million
2004-2005	1.5 million
2006-2008	2.0 million
2009	3.0 million
2010	repealed N/A
2011	1.0 million (revision is anticipated)

VI. PENSION & IRA CHANGES

- A. Higher IRA Contribution Limits

1) Starting in 2002 the maximum annual contribution limit for IRA's increases to \$3,000. Below is a table showing the increases in the contribution limits.

<u>Tax Years</u>	<u>Max Deductible Amount</u>
2002-2004	\$3,000
2005-2007	\$4,000
2008 & Later	\$5,000

B. Catch-Up Contributions

- 1) Starting in 2002 individuals age 50 and older can make an additional \$500 IRA contribution.
- 2) Below is a table that illustrates the maximum contributions by individuals 50 and older.

<u>Tax Years</u>	<u>Max Deductible Amount</u>
2002-2004	\$3,500
2005	\$4,500
2006-2007	\$5,000
2008 & Later	\$6,000

C. Tax Credit for Lower Income Taxpayers

- 1) Lower income taxpayers will be able to claim a non-refundable tax credit for contributions to retirement accounts. The credit starts in 2002 and ends in 2006. Below is a table that shows the credit rates.

	50%	20%	10%
Married Filing Jointly	0-30,000	30,000-32,500	32,500-50,000
Heads of Household	0-22,500	22,500-24,375	24,375-37,500
All Other Filers	0-15,000	15,000-16,250	16,250-25,000

D. Rollover Portability

- 1) Starting in 2002, distributions from a pension or an IRA retirement account can be rolled over to any type of qualified plans. This includes section 403B annuities and government section 457 plans. Prior law only allowed a rollover distribution into a similar retirement plan.

E. Waiver of 60 Day Rule

- 1) For distributions made after December 31, 2001, IRS may waive the required 60-day rollover period to reinvest, if good cause exists beyond the reasonable control of the taxpayer.

F. Increases to Elective Deferral Limits

- 1) Starting in 2002 the maximum elective deferrals for 401(k) plans, section 403(b) annuities, and sec 457 plans will increase to \$11,000.
- 2) Below is a table showing the yearly contribution limits until a maximum of \$15,000 is reached in 2006.

<u>Tax Yr</u>	<u>Max Contribution Amount</u>
2002	\$11,000
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006	\$15,000

G. Limits on SIMPLE Elective Deferrals

- 1) Starting in 2002 the maximum annual deferrals to a SIMPLE plan will be \$7,000 for 2002.
- 2) Below is a table showing the maximum contributions until it reaches \$10,000 in 2005.

<u>Tax Yr</u>	<u>Max Contribution Amount</u>
2002	\$7,000
2003	\$8,000
2004	\$9,000
2005	\$10,000

REMEMBER, THE TOPICS COVERED IN THIS NEWSLETTER ARE AN ABRIDGED VERSION TO THE ACTUAL TAX LAWS AND CODES COVERED BY THE IRS AND NEW YORK STATE. THEREFORE SOME INFORMATION MAY BE SUBJECT TO CHANGE ON A CASE-BY-CASE BASIS. IF YOU HAVE ANY QUESTIONS REGARDING THE ABOVE INFORMATION PLEASE EMAIL US AT KSPNBRG@NYCAP.RR.COM.