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Ag Decision Maker

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Jobs and Growth Tax Relief Reconciliation Act of 2003 *

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The Jobs and Growth Tax Relief Reconciliation Act of 2003 was signed into law on May 28, 2003. Below is a summary of selected provisions.

Expense method depreciation

The expense method depreciation annual allowance, which was $25,000 for 2003, has been increased to $100,000 effective for 2003, 2004 and 2005. Thereafter, the limit returns to $25,000 unless there is further legislation to change the amount.

The phase-out for eligible property is increased to $400,000 from $200,000 for taxable years beginning after 2002 and before 2006. The phase-out applies, dollar for dollar, to qualifying property placed in service each year above the phase-out amount.

Off-the-shelf computer software is eligible for expense method depreciation if placed in service in a taxable year beginning after 2002 and before 2006.

The dollar limit ($100,000) and the phase-out threshold amount ($400,000) are adjusted for inflation in calendar years after 2003 and before 2006.

The inflation adjustment is in $1,000 increments for the $100,000 amount and $10,000 increments for the $400,000 amount.

The 2003 Act excludes air conditioning and heating units from eligibility for expense

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Handbook Updates

For those of you subscribing to the *Ag Decision Maker Handbook*, the following updates are included.

Historic Hog and Lamb Prices — File B2-10 (2 pages)

Historic Cattle Prices — File B2-12 (2 pages)

Please add these files to your handbook and remove the out-of-date material.

Inside . . .

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method depreciation. The legislation also excludes from eligibility property described in I.R.C. ◊ 50(b) (property used outside the United States, property used for lodging, property used by certain tax-exempt organizations and property used by governmental units or foreign persons or entities).

The new law also provides that expense method depreciation elections can be revoked (with respect to any taxable year beginning after 2002 and before 2006) by the taxpayer with respect to any property; the revocation, once made, is irrevocable.

Bonus depreciation amount

The Act increases the special allowance for eligible property acquired after September 10, 2001, and before September 11, 2004 (the cut-off date before the 2003 amendment) from 30 percent to 50 percent of the income tax basis of eligible property (after expense method depreciation has been claimed).

The increased allowance applies to property the original of which commences with the taxpayer after May 5, 2003 if the property was acquired by the taxpayer after May 5, 2003 and before January 1, 2005 if there was no binding contract for the acquisition of the property in effect before May 6, 2003. If there was a binding contract in effect before May 6, 2003, but not before September 11, 2001, the property remains qualified for the 30 percent allowance previously available.

The property must be placed in service under the new provision before January 1, 2005 except, for property described in I.R.C. ◊ 168(k)(2)(B) (property having longer production periods) before January 1, 2006.

For passenger automobiles, which are subject to inflation-adjusted depreciation limits, the increase in the first year allowance for new vehicles under the bonus depreciation rules is boosted from $4,600 to $7,650 with the same effective dates as for the increase from 30 percent to 50 percent of the income tax basis of eligible property. Thus, for new passenger automobiles that are depreciable, the allowable depreciation is $3,060 plus $7,650 or $10,710. For new passenger automobiles acquired before May 6, 2003, the limit is $3,060 plus $4,600 or $7,660. The first year limit for used passenger automobiles remains at $3,060.

Under the 2003 Act, an election with respect to any class of property for purposes of bonus depreciation does not apply to all property in the class.

The bonus depreciation amendments apply to taxable years ending after May 5, 2003.

Capital gains

The 2003 Act reduces the income tax rate on long-term capital gains from 10 percent to 5 percent for those in the 10 or 15 percent brackets and from 20 percent to 15 percent for those in higher income tax brackets. The reduction applies to both regular tax and alternative minimum tax calculations. For those in the 15 percent income tax bracket, the Act reduces the rate on long-term capital gains to zero for taxable years beginning after 2007 and before 2009 (unless changed in the meantime).

The provision applies to sales after May 5, 2003, in taxable years ending on or after May 6, 2003. The provision continues through 2007.

The provision provides for proration for 2003.

The 2003 Act wipes out the 8 and 18 percent rates from earlier legislation.

Dividends

Under the Act, dividends from domestic corporations (either C or S corporations) and qualified foreign corporations are generally taxed at the same rates as net long-term capital gain for taxable years beginning after December 31, 2002 and beginning before January 1, 2009. This provision applies for purposes of both regular tax and alternative minimum tax purposes. Thus, dividends will be taxed under the provision for 2003 at rates of 5 and 15 percent.

If a shareholder does not hold a share of stock for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date, dividends on the stock are not eligible for the reduced rates.

Corporate “penalty” taxes

The 2003 Act reduces the accumulated earnings tax rate (to 15 percent) and the personal holding

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company tax rate (also to 15 percent) effective in 2003.

Alternative minimum tax

The Act increases the AMT exemption amount for married taxpayers filing a joint return and surviving spouses from $49,000 to $58,000 and for unmarried taxpayers from $35,750 to $40,250 for taxable years beginning in 2003 and 2004.

Income tax rates

The Act accelerates the reductions in the regular income tax rates in excess of the 15 percent rate. For 2003 through 2005, the regular income tax rates in excess of 15 percent are 25 percent, 28 percent, 33 percent and 35 percent.

Beginning in 2005 and running through 2007, the Act increases the taxable income level for the 10 percent regular income tax rate brackets for single individuals from $6,000 to $7,000 and, for married individuals filing jointly from $12,000 to $14,000.

The Act increases the size of the 15 percent regular income tax bracket for joint returns to twice the bracket width of the 15 percent regular income tax rate bracket for single individuals for 2003 and 2004.

Standard deduction

The Act increases the basic standard deduction amount for joint returns to twice the basic standard deduction for single returns effective for 2003 and 2004. For taxable years beginning after 2004, the applicable percentages revert to those allowed under pre-Act law.

Child tax credit

The Act increases the child tax credit from $600 to $1,000 for 2003 and 2004. After 2004, the credit reverts to pre-Act levels.

For 2003, the increased amount of child credit is paid in advance, supposedly beginning in July, 2003, on the basis of information in each taxpayer's 2002 return filed in 2003. Advance payments are not expected to individuals who did not claim the child credit for 2002.

Corporate estimated tax

Under the Act, 25 percent of corporate estimated tax payments due on September 15, 2003, is not due until October 1, 2003.

Building New Competitive Advantages for the 21st Century

by Jason Henderson, Economist, and Nancy Novack, Associate Economist, Center for the Study of Rural America

A more detailed assessment of the challenges facing the rural economy and the need for new competitive advantages appears in the first quarter 2003 issue of the Federal Reserve Bank of Kansas City's Economic Review.

Rural America has struggled in the 21st century as a national recession and drought have battered rural and farm economies. Rural businesses, on and off Main Street, are facing stiff competition from a new set of foreign competitors. Many rural stakeholders are now searching for new ways to compete in tomorrow's economy. While the challenges remain daunting, some rural firms and communities are demonstrating that success in the 21st century can be built with a renewed commitment to entrepreneurship and technological innovation.

The erosion of rural competitiveness

Traditionally, the success of rural economies was founded principally on low-cost land and labor. Rural businesses often competed with their urban neighbors by being the low-cost producer. Rural firms developed competitive advantages surrounding the availability of these low-cost resources. And, many rural economic developers pursued development strategies that targeted land and labor-intensive industries to take advantage of these assets in their communities.

But globalization has brought new competitors to the rural landscape. Rural manufacturers now compete with foreign factories in addition to factories in U.S. cities. Foreign factories are able to compete effectively with rural manufacturers

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