

Recently Enacted Tax Legislation

Known as the Economic Growth and Tax Reconciliation Act of 2001, this recently enacted tax legislation is packed with provisions relating to everything from tax rate reductions to elimination of the estate tax. Nearly all of the provisions are phased in over a period of 10 years, beginning with 2001. *Several of the changes do not begin until 2006*, and some of the provisions sunset after 2010 (i.e., certain of the recently enacted provisions will cease to exist after 2010 unless Congress acts to extend them).

Due to the sheer number of changes, discussion of this important tax legislation will be presented as a three-part series, with the remainder to be discussed in the 3rd and 4th Quarter 2001 issues of the Newsletter.

Expect a Refund Soon

Resulting from a retroactive reduction in marginal tax rates¹, a majority of taxpayers that filed year 2000 federal income tax returns will soon be receiving refunds². Taxpayers who did not have a year 2000 federal income tax liability will not receive a refund³. Additionally, nonresident aliens and those who could be claimed as dependents are not eligible to receive refunds.

The refund amount is a maximum of **\$300** for single filers, **\$500** for head of household filers, and **\$600** for married couples filing joint returns. Most taxpayers will get the full amount as an advance payment this year; some will have it split between this year and next; and some may get all of it as a credit on the 2001 tax return. The refund will be reduced by any outstanding federal government debt, such as back taxes, or because of past-due child support obligations.

Refunds will be sent out according to the last 2 digits of the primary filer's social security number⁴ (see table below).

<u>Last 2 Digits</u>	<u>Expect Refund During Week of</u>
00-09	July 23
10-19	July 30
20-29	August 6
30-39	August 13
40-49	August 20
50-59	August 27
60-69	September 3
70-79	September 10
80-89	September 17
90-99	September 24

Marriage Penalty Relief Minimal

Currently, the tax code penalizes married couples in which both spouses earn income by causing them to pay more in taxes than if they had chosen to remain single. According to a recent New York Times article by David Johnston, *the marriage penalty may reach as high as \$18,000* under extreme circumstances.

Resulting from the current legislation, **no** marriage penalty relief will be implemented through 2004; two minor relief provisions are scheduled to be implemented in stages from 2005 through 2009:

- 1) An increase in the standard deduction for married couples filing joint returns to twice that afforded to single filers.
- 2) An increase in the 15% bracket for married couples filing joint returns to twice that afforded to single filers.

Several married couples (especially homeowners) itemize their deductions, and thus, the first marriage penalty relief provision *does nothing* to reduce their marriage penalty. The maximum penalty reduction afforded by the second provision, if fully implemented in 2001, would have been less than \$1,350.

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¹ Effective January 1, 2001, the 15% marginal rate has been reduced to 10% for the first \$6,000 to \$12,000 of taxable income, contingent upon filing status.

² The refund will be 5% of the taxable income shown on line 39 of the 2000 Form 1040, subject to certain filing status limits.

³ The refund cannot exceed the filer's tax liability minus any nonrefundable credits (shown on line 51 of the 2000 Form 1040).

⁴ Refunds for taxpayers that have not yet filed 2000 federal income tax returns will be delayed.