

SUPPLEMENT TO ACCOMPANY

**CORPORATE, PARTNERSHIP,
ESTATE AND GIFT TAXATION**

2002 EDITION

Pratt and Kulsrud

**Changes introduced by the
Economic Growth and Tax Relief Reconciliation Act of
2001**

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On May 26, 2001 Congress enacted the *Economic Growth and Tax Relief Reconciliation Act of 2001* (The Act). The Act is intended to deliver tax cuts over the next 10 years of over \$1.35 trillion. Virtually all of these cuts are reserved for individuals. The new law provides substantial tax rate reductions, marriage penalty relief, an increase in the child credit, new education savings incentives, repeal of the estate tax, and a host of pension reforms. The Act contained virtually nothing for business.

Perhaps the most interesting part of The Economic Growth and Tax Relief Reconciliation Act of 2001 is the surprise ending. Virtually all of the changes made by the Act are repealed in 2011. The repeal was necessary to satisfy Senate budget rules. Consequently, the entire set of tax breaks just enacted will expire in 2011 and will have to be reinstated by a future Congress. Thus, the fate of the new provisions is in the hands of Congress and the President. If there is an economic slowdown—as is already apparent—or if the Democrats retake the White House, many of these schedule cuts may never occur.

As noted above, the new law has little direct effect on the provisions governing corporations, partnerships, and S corporations. Similarly, there are few changes related to international taxation, and the Federal changes do not alter the principles of state and local taxation. Consequently, this supplement largely contains modifications to the transfer taxes contained in Chapters 13, 14, 15, and 16.

CHAPTER 1: INCOME TAXATION OF CORPORATIONS

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Deductions for Individual Taxpayers: Standard Deduction. As part of the Act, Congress attempted to address the marriage tax penalty in several ways. Beginning in 2005, the standard deduction for joint filers is increased so that by 2009 it will be exactly double that of single taxpayers.

Deductions for Individual Taxpayers: Three Percent Cutback Rule Eliminated in 2010. Under the new law, the 3% cutback of itemized deductions—which adds 1.17% to the tax rate of higher income taxpayers—is phased out beginning in 2006 and eliminated in 2010. (§68(f))

Deductions for Individual Taxpayers: Exemption Phase-out Eliminated in 2010. Under the new law, the phase-out of exemptions—which hikes the tax rate by .93% for higher income taxpayers—is phased out beginning in 2005 and eliminated in 2010. (§151(d)(3)(F)).

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Corporate Tax Rates. There were no changes in the tax rates for corporations. However, as explained below, the primary focus of the new law was tax rate reduction for individuals. For comparison purposes, the changes relating to individual rates are discussed below

Individual Tax Rates. While the Act left corporate tax rates alone, it made significant cuts in the rates for individual taxpayers. The cuts are across-the-board, slashing the tax rates for all taxpayers, low income and high income alike. As can be seen in the text (inside front cover), prior to the change, there were five individual rates: 15%, 28%, 31%, 35% and 39.6%. When the rate reduction is complete in 2006, individual taxpayers will have six rates: 10%, 15%, 25%, 28%, 33% and 35%. In short, all taxpayers should benefit.

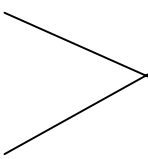
Perhaps the most notable change in the tax rates is the creation of a new 10% bracket. Under prior law, the first dollar of taxable income was taxed at a marginal rate of 15%. Beginning in 2001, the first marginal rate will drop to 10%. The new “initial bracket” of 10% is carved out of the 15% rate. In other words, the previous 15% bracket is split into two portions: a 10% portion and a 15% portion. The width of the 10% bracket depends on the taxpayer’s filing status as shown below:

<u>Filing Status</u>	<u>Pre Act 15%</u>	<u>New 2001 Law</u>			
Married filing jointly	\$0 - \$45,200	\$0	-	\$12,000	10%
		\$12,001	-	\$45,200	15%
Single taxpayers	\$0 - \$27,050	\$0	-	\$6,000	10%
		\$6,001	-	\$27,050	15%
Heads of household	\$0 - \$36,250	\$0	-	\$10,000	10%
		\$10,001	-	\$36,250	15%

As seen above, the 10% bracket is \$12,000 for joint filers and \$6,000 for single taxpayers. Also observe that the next rate, 15%, remains the same except that it applies to a smaller amount of income due to the new 10% bracket.

The Act continues the rate reduction beyond the 15% bracket. The top four tax rates drop by half a percentage point in 2001 and continue to drop until 2006 as follows:

<u>Tax year</u>	<u>Rates</u>			
2000	28.0%	31.0%	36.0%	39.6%
2001	27.5	30.5	35.5	39.1
2002-2003	27.0	30.0	35.0	38.6
2004-2005	26.0	29.0	34.0	37.6
2006 and later	25.0	28.0	33.0	35.0



Note that each of the top four rates is scheduled to drop about 3 percentage points (4.6 percentage points at the highest level).

New 10% bracket. The creation of the 10% tax bracket produces tax savings for most individuals equal to 5% (15% - 10%) of the amount that otherwise would have been taxed at 15%. For example, for a married couple filing jointly, the maximum savings will be \$600 (5% x the initial bracket amount \$12,000) while single individuals may save up to \$300 (5% x the initial bracket amount \$6,000). In hopes of giving the economy a quick boost, Congress decided to put these savings in the hands of the taxpayer as soon as possible by mailing taxpayers who paid taxes last year \$600 or \$300 as the case may be. The refund checks were sent only to taxpayers who paid tax last year. It was assumed that if taxes were paid last year, the taxpayer would receive at least \$300 or \$600 depending on his or her filing status. If the taxpayer who receives a refund is not required to pay taxes in 2001 (e.g., does not file a return), there is no provision requiring the taxpayer to repay the refund to the government.

Taxpayers Ineligible for 10% Bracket. Importantly, the benefits of the 10% bracket were not extended to certain taxpayers for 2001. For example, §6428(c)(3) provides that the 10% bracket is not available for any individual for whom a dependency exemption is claimed by another taxpayer. For example, a child who is claimed as dependent by his or her parents and has sufficient income to require a return will *not* enjoy the savings of the 10% bracket. For 2001 only the lowest rate for these taxpayers continues to be 15%. The 10% bracket is available for these taxpayers in 2002.

The 10% bracket is not available for trusts or estates. The rate schedule for trusts and estates remains the same with the lowest bracket being 15% (§1(e)). This is true for 2001 and all subsequent years.

Implementation of 10% Bracket. Interestingly, the tax rate schedule for 2001 provided with the forms (see below) will not contain a 10% bracket. Instead, under §6428, eligible individuals will be entitled to a credit equal to 5% of the taxable income that does not exceed the initial bracket amount (e.g., \$6,000 for singles or \$12,000 for married taxpayers filing jointly). This so-called *rate reduction credit* appears on line 50 on page 2 of Form 1040 (see www.pktax.com for a draft version of the 2001 forms). In fact, it is the only new line required to be added to the 2001 forms (most provisions are effective in 2002 or later). In other words, the 5% rate reduction credit operates in lieu of the 10% bracket for 2001. According to the instructions to Form 1040 for 2001, individual taxpayers must perform a reconciliation. They are to compute the amount of the credit for which they are entitled on a special worksheet contained in the instructions. This worksheet requires taxpayers to compute the credit for which they are eligible and then reduce the credit by the amount of refund check that they received during the year. As noted above, if the taxpayer who receives a refund is not required to pay taxes in 2001 (e.g., does not file a return), there is no provision requiring the taxpayer to repay the refund to the government.

Inflation Adjustment. The 10% bracket is not increased for inflation until 2009. However, the other rates are indexed. In addition, Congressional attempts to reduce the marriage tax penalty resulted in the widening of the brackets for taxpayers filing joint returns as discussed in Chapter 4 in this supplement.

2001 Rate Schedules. The new rate schedules for 2001 are shown below. Note that the schedules include the cut in the top four rates by .5 percentage points. Also observe that the schedules do not include the 10% bracket as discussed above.

MARRIED FILING JOINTLY:

If taxable income is	The tax is
Not more than \$45,200	15% of taxable income
Over \$45,200 but not more than \$109,250	\$6,780.00 + 27.5% of excess over \$45,200
Over \$109,250 but not more than \$166,500	\$24,393.75 + 30.5% of excess over \$109,250
Over \$166,500 but not more than \$297,350	\$41,855.00 + 35.5% of excess over \$166,500
Over \$297,350	88,306.75 + 39.1% of excess over \$297,350

SINGLES

If taxable income is	The tax is
Not more than \$27,050	15% of taxable income
Over \$27,050 but not more than \$65,550	\$4,057.50 + 27.5% of excess over \$27,050
Over \$65,550 but not more than \$136,750	\$14,645.00 + 30.5% of excess over \$65,550
Over \$136,750 but not more than \$297,350	\$36,361.00 + 35.5% of excess over \$136,750
Over \$297,350	\$93,374.00 + 39.1% of excess over \$297,350

HEADS OF HOUSEHOLD:

If taxable income is	The tax is
Not more than \$36,250	15% of taxable income
Over \$36,250 but not more than \$93,650	\$5,437.50 + 27.5% of excess over \$36,250
Over \$93,650 but not more than \$151,650	\$21,222.50 + 30.5% of excess over \$93,650
Over \$151,650 but not more than \$297,350	\$38,912.50 + 35.5% of excess over \$151,650
Over \$297,350	\$90,636.00 + 39.1% of excess over \$297,350

Planning Opportunities. The most fundamental of all tax planning principles focuses on the taxpayer's marginal rate. As a general rule, taxpayers prefer to minimize the marginal tax rate imposed on income. In contrast, taxpayers like to maximize the value of their deductions by claiming them at the highest possible marginal rate. By properly timing the reporting of income and deductions, taxpayers can realize substantial tax savings. The new law clearly creates such an opportunity. By deferring income and accelerating deductions in light of the dropping tax rates, taxpayers can reap some savings. For example, consider a taxpayer who is in the 35% bracket in 2003. If he or she can defer \$100,000 of income from 2003 to 2004 (from December 31 to January 1), the savings would be \$1,000 ($\$100,000 \times (35\% - 34\% = 1\%)$). To achieve such savings, taxpayers might use the following techniques:

- Postpone the receipt of bonuses or the exercise of stock options.
- Delay billing of customers.
- Defer the sale of property or sell on the installment basis.
- Accelerate charitable contributions (e.g., pay in December rather than January).
- Prepay state income tax liabilities and other deductible expenses

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Tax Credits: New Credit for Employer Provided Child-Care. The new law adds an important new credit for businesses, including corporations. To encourage employers to provide quality child care for its employees, Congress established a special credit. The employer-provided child-care credit becomes effective in 2002. The credit will be considered a part of the general business credit.

Under new §45F, employers may claim a credit equal to 25% of the cost of qualified child care expenditures and 10% of qualified child care resource and referral expenditures. The maximum total amount of credit is limited to \$150,000 per year. In addition, the basis of any property is reduced by the amount of credit claimed. Similarly, any other deduction or credit must be reduced by the amount of credit claimed.

Qualifying expenditures include the costs of (1) building, acquiring, rehabilitating or expanding property that is used as part of a *qualified child care facility* of the taxpayer for its employees; (2) operating such facilities and (3) a contract with a qualified child care facility. A *qualified child care facility* is a facility whose principal use is to provide child care assistance and meets the requirements of all applicable laws and regulations of the state and local government in which it is located, including the licensing requirements applicable to a child care facility. The definition does not include a facility which is the principal residence of the operator of the taxpayer or any other employee of the taxpayer. Thus day care centers will be qualified only if they are separate and distinct from the operator's personal residence. In addition, expenses incurred in providing child-care resource and referral services are eligible for a 10% credit. Usage of a facility cannot favor high income earners, and at least 30% of the children in the center must be children

of employees. Finally, if the facility is no longer used as a child care center or there is a disposition of the taxpayer's interest (e.g., the taxpayer sells the property), §45F(d)(2) requires the taxpayer to recapture (i.e., pay back to the government) a percentage of the tax savings from prior years as shown below:

<u>If the recapture event occurs in years</u>	<u>Percentage Recapture</u>
1-3	100%
4	85
5	70
6	55
7	40
8	25
9-10	10
11 and thereafter	0

CHAPTER 6: PENALTY TAXES ON CORPORATE ACCUMULATIONS

Page 6-3

When the phase-in of the individual tax cuts is complete, the accumulated earnings tax rate will be the same as the highest individual tax rate at 35%.

Page 6-27

The personal holding company tax rate is coordinated with the reduction of the top individual tax rate. When the phase-in of the individual tax cuts is complete, the personal holding company rate will be the same as the highest individual tax rate at 35%.

CHAPTER 11: S CORPORATIONS

Page 11-1

Choice of Entity. The Act's gradual drop in the individual tax rates will make the S corporation more attractive in comparison C corporations.

Page 11-6

Eligible Shareholders: Pension Trusts. Before 1998, exempt organizations, including pension trusts such as an Employee Stock Ownership Plan were not considered eligible shareholders. The Small Business Job Protection Act of 1996 altered this treatment permitting such organizations to hold stock in an S corporation. The change also required the exempt organizations to treat the income that flowed through from an S corporation as unrelated business taxable income and, consequently, the exempt organization had to pay tax on its share of the S corporation's income. The Taxpayer Relief Act of 1997 retained this rule for exempt organizations other than ESOPs. Thus an ESOP could hold the stock of an S corporation and the income that flowed through would be deferred. (Recall from Chapter 18 that an ESOP is simply a retirement plan trust to

which the corporation contributes its own stock to the accounts of the employees. When an employee retires, he or she typically sells his or her shares in the corporation back to the ESOP for cash.)

The 1997 change provided a huge opportunity for owners of S corporations. For example, if an S corporation transferred substantially all of its shares to an ESOP, the effect would be to defer tax on its income until the ESOP distributed the shares to its shareholders. This created a tremendous advantage for S corporations that many businesses found attractive.

The new law virtually eliminates this favorable treatment. Under the new law, ESOPs may still own stock in an S corporation. However, the ESOP will pay a penalty tax after 2004 when substantial amounts of shares in the ESOP are held on behalf of persons who individually own 10% or more of the stock of the corporation. For example, if the sum of the 10% shareholders retirement accounts own more than 50% of an S corporation's stock, a penalty will be imposed. In contrast, if the ESOP of United Airlines were to get more than 50% of the corporation's stock in the ESOP, the penalty probably would not apply since it is unlikely that there are any 10% shareholders.

CHAPTER 14: THE FEDERAL TRANSFER TAXES

Page 16-1

Repeal of the Estate Tax. Under the new law, the estate tax—but not the gift tax—will slowly die. The estate tax is scheduled for phase-out and complete elimination in 2010. However, the gift tax remains with an exemption of \$1,000,000 and a top rate of 35%. It should be emphasized that without further action by Congress, virtually all of the rules enacted by the 2001 Act are effectively repealed beginning in 2011. In other words, in 2011, the tax law will revert to the rules that existed prior to enactment of the 2001 Act. In such case, the estate tax would be reinstated in 2011 as would all of the other rules that existed prior to the 2001 Act. Consequently, good tax planning suggests that taxpayers should die in 2010! Interestingly, commentators have noted that prior to 2011, there will be two presidential elections (2004 and 2008) and four congressional elections (2002, 2004, 2006, and 2008) before the estate tax expires. Most believe that it is highly unlikely that the estate tax will be completely repealed. But only time will tell whether Congress has the nerve to reinstate it.

Page 16-2

Unified Credit and Tax Rates. The exemption equivalent of the unified credit increases in 2002 to \$1,000,000 for both estate and gift tax purposes. At the same time, the top marginal rate will drop from 55% to 50% and the 5% surtax on gifts and estates in excess of \$10 million is eliminated. In 2004, the estate and gift taxes will uncouple. The estate tax exemption will increase to \$1.5 million while the gift tax exemption will remain at the 2002 mark of \$1,000,000. The highest estate tax rate is scheduled to continue to decrease to 40% in 2003, 48% in 2004, and continue downward until it reaches 45% in 2009. Simultaneously, the estate tax exemption will continue to rise to \$3.5 million in 2009. In 2010 the estate tax is scheduled to be repealed, but the gift tax will be equal to the highest individual income tax (presumably 35%). These changes are summarized in the table below.

	<u>Year</u>	<u>Estate Gift Exemption</u>	<u>Highest Rates Exemption</u>	<u>Estate and Gift Tax</u>
2002	\$1 million	\$1 million		50%*
2003	\$1 million	\$1 million		49%
2004	\$1.5 million	\$1 million		48%
2005	\$1.5 million	\$1 million		47%
2006	\$2 million	\$1 million		46%
2007	\$2 million	\$1 million		45%
2008	\$2 million	\$1 million		45%
2009	\$3.5 million	\$1 million		45%
2010	Tax repealed	\$1 million		35% (gift tax)
2011**	\$1 million	\$1 million		55%

* Reflects repeal of the 5% surtax.

Unification. Observe that with the repeal of the estate tax, the Act has eliminated unification that has existed since 1976. Presumably the rationale the gift tax was retained to dissuade income splitting by gifting large amounts of income-producing property.

Page 16-6

Gift Tax. As noted above, the gift tax remains even if the estate tax is repealed. The top rate for gifts in 2010 would be 35% and there would be an exemption of \$1,000,000. Note that taxable gifts made after 2001 (those over the \$10,000 annual exclusion) will count against the \$1,000,000 exemption.

Page 16-11

Computation of Gift Tax. As stated above, the exemption equivalent of the unified credit increases in 2002 to \$1,000,000 for both estate and gift tax purposes. At the same time, the top marginal rate will drop from 55% to 50% and the 5% surtax on gifts and estates in excess of \$10 million is eliminated. In 2004, the estate and gift taxes will uncouple. The estate tax exemption will increase to \$1.5 million while the gift tax exemption will remain at the 2002 mark of \$1,000,000. The highest estate tax rate is scheduled to continue to decrease to 40% in 2003, 48% in 2004, and continue downward until it reaches 45% in 2009. Simultaneously, the estate tax exemption will continue to rise to \$3.5 million in 2009. In 2010 the estate tax is schedule to be repealed, but the gift tax will be equal to the highest individual income tax (presumably 35%).

Page 16-12

Exhibit 16-12. Decrease in Estate and Gift Tax Rates. The Act decreases the estate and gift tax rates. The estate and gift tax rates for 2001 are shown in Exhibit 16-12 but are reproduced for your convenience below. As can be seen in the table, under prior law, the top rate was generally 55% for total cumulative transfers over \$3,000,000. (Note that the table ignores the 5% additional tax levied on transfers over \$10,000,000 designed to eliminate the tax benefits of the lower brackets and the unified credit.)

ESTATE AND GIFT TAX RATES FOR 2001

If taxable transfer is		Tax liability	Of the
Over	But not over		Amount over
\$ 0	\$10,000	18%	\$ 0
10,000	20,000	\$1,800 + 20%	10,000
20,000	40,000	\$3,800 + 22%	20,000
40,000	60,000	8,200 + 24%	40,000
60,000	80,000	13,000 + 26%	60,000
80,000	100,000	18,200 + 28%	80,000
100,000	150,000	23,800 + 30%	100,000
150,000	250,000	38,800 + 32%	150,000
250,000	500,000	70,800 + 34%	250,000
500,000	750,000	155,800 + 37%	500,000
750,000	1,000,000	248,300 + 39%	750,000
1,000,000	1,250,000	345,800 + 41%	1,000,000
1,250,000	1,500,000	448,300 + 43%	1,250,000
1,500,000	2,000,000	555,800 + 45%	1,500,000
2,000,000	2,500,000	780,800 + 49%	2,000,000
2,500,000	3,000,000	1,025,800 + 53%	2,500,000
3,000,000		1,290,800 + 55%	3,000,000

Under the Act, the maximum estate and gift tax rate (55% above) is reduced as follows:

<u>Year</u>	<u>Top Rate</u>
2002	50%
2003	49%
2004	48%
2005	47%
2006	46%
2007-09	45%

As noted above, although the estate tax is repealed, the gift tax remains. For gifts after December 31, 2009, the top gift tax rate will be 35% for gifts over \$500,000. The exemption equivalent at that time will be \$1,000,000.

Page 16-13

Increase in Unified Credit. Consistent with the ultimate repeal of the estate tax, the amount of the unified credit (exemption equivalent) is gradually increased as follows:

<u>Year of Death</u>	<u>Exemption Equivalent</u>
2001	\$ 675,000
2002-03	1,000,000
2004-05	1,500,000
2006-08	2,000,000
2009	3,500,000
2010 Estate tax repealed	
2011 Estate tax reinstated	

Page 16-16

Exhibit 16-16. In 2005, the credit for state death taxes is repealed and is converted to a deduction. Consequently, the formula for computing the estate tax will reflect a new deduction for state death taxes.

Page 16-19

Carryover Basis. Currently, taxpayers who inherit property are entitled to a basis for their property equal to its fair market value at date of death. For example, if a taxpayer purchased IBM stock for \$10 per share and at date of death the value of the stock was \$100 per share, the heirs of the taxpayer would be entitled to compute their gain or loss using a basis of \$100 per share rather than \$10 per share. Thus under current law, the built-in gains, \$90 in the example, that existed immediately prior to death are wiped out when the taxpayer dies since the heir enjoys an increase in basis. The reverse is true with losses. However, when the estate tax is repealed, the basis of inherited property will normally be the same as the decedent's (\$10 in the example above). In other words, the decedent's basis carries over to the heirs. As a result, the heirs will ultimately be responsible for the income tax on the assets they inherit. This revenue gain from the income tax is viewed as a replacement for the estate tax.

The Act does provide for a limited step up in basis. Each estate will be permitted to increase the basis of property by an aggregate amount of \$1.3 million not to exceed the fair market value of the assets. In addition, if the assets pass to a surviving spouse, the estate may increase the basis by another \$3 million. Thus a surviving spouse effectively can step-up the basis by a total amount of \$4.3 million. The executor makes the determination as to which assets are to receive an increase in basis.

Technically, the basis of inherited property is the lesser of the property's fair market value at date of death or the decedent's basis. Thus for property with a built-in loss, the basis is stepped down to fair market value. The loss is not lost, however. The losses can be added to the basis of other property and charged to the \$1.3 or \$4.3 million allowed.

Page 16-20

Deduction for Qualified Family Owned Businesses The deduction for qualified family owned businesses is repealed for decedents dying after December 31, 2003. The special deduction was seen as unnecessary in light of the increase in the unified credit.

Page 16-30

Credit for State Death Taxes. The credit for state death taxes will be phased-out until it is repealed entirely in 2005. At that time, it will be converted to a deduction. Reductions occur as follows:

<u>Year</u>	<u>Reduction</u>
2002	25%
2003	50
2004	75
2005	Repealed

Note that this will create a severe revenue shortfall for states that impose a state death tax equal to the maximum amount of state death tax credit allowed for Federal estate tax purposes. Moreover,

states must begin to deal with this shortfall almost immediately even though the repeal of the estate tax is not scheduled until 2010.

Page 16-33

Payment of the Estate Tax. Although not discussed in the text, the deferral of §6166 for the payment of estate taxes only applies to the tax attributable to closely held businesses. To be considered “closely-held” at least 20% of the total capital of the partnership or 20% of the total value of the corporation's voting stock must be included in the gross estate or the decedent is a partner in the partnership or a shareholder in the corporation and such partnership or corporation has 15 or fewer partners or shareholders. Under the new law, the number of allowable partners and shareholders is increased from 15 to 45 after 2001.

The Act extended the deferral provision to lending and finance companies. However, the tax attributable to such businesses can be deferred for only five years rather than 15 years for other businesses.

Page 16-34

Generation Skipping Transfer Tax. Like the estate tax, the GSTT is also gradually repealed. Beginning in 2002, the GSTT rate is reduced from a flat 55% to 50%. The rate continues to decrease along with the highest estate and gift tax rates until elimination of the tax in 2010. Note that the GSTT exemption remains at its current level of \$1,000,000 as adjusted for inflation (\$1,060,000 in 2001).

CHAPTER 15: INCOME TAXATION OF ESTATES AND TRUSTS

Page 15-5

Fiduciary Tax Rates. Under the Act, Congress made no provision to create a 10% bracket for trusts and estates. Consequently, the first bracket amount for trusts and estates is 15%. However, the remaining rate reductions that apply to individuals also apply to estates and trusts (§1(i)(2)).

CHAPTER 16: FAMILY TAX PLANNING

Page 16-1

Income Shifting. The creation of a 10% bracket for the first \$6,000 of taxable income (\$12,000 for joint filers) increases the advantage of income shifting. When the new rates are completely phased-in for individual taxpayers, income could be shifted from the top rate of 35% to the bottom rate of 10%, resulting in a 25% savings over a bracket width of \$6,000 or \$1,500.

Page 16-3

Marriage Tax Penalty. As part of the Act, Congress attempted to address the marriage tax penalty. Beginning in 2005, the 15% rate bracket for joint filers is expanded. When the phase-in is complete in 2008, the 15% bracket will be twice the size of the corresponding bracket for an unmarried individual. In this regard, note that the new 10% bracket effective for 2001 for joint returns follows this pattern: the bracket width for joint filers is twice that of single taxpayers (\$12,000 vs. \$6,000). It should also be emphasized that the expansion applies only to the 10% and 15% brackets. The brackets for the higher rates are *not* expanded to twice the corresponding single filer tax brackets.

In addition to expanding the brackets for joint filers, beginning in 2005, the standard deduction for joint returns is increased. Once the increase is complete, the standard deduction for joint filers will be exactly double that of single taxpayers in 2009. The phase-in is shown below.

<u>Years</u>	<u>Standard Deduction for Joint Filers as Percentage of Standard Deduction for Single Filers</u>
2001-2004	167%
2005	174%
2006	184%
2007	187%
2008	190%
2009-2010	200%
2011 and later	167%

Page 16-18

Transfer Tax Planning. The Act makes it extremely difficult for estate planning during the next 10 years. With the law in a constant state of flux and the possibility of the complete repeal uncertain, planners will need multiple estate plans. Timely review of the estate plan will be mandatory in light of the annual changes. For some interesting insights for what the repeal might mean to taxpayers, see Blattmachr and Gans, *Wealth Transfer Tax Repeal: Some Thoughts on Policy and Planning*, *Trusts and Estates* (February, 2001).

In reading the estate planning materials, recognize that in 2002 the effective exemption increases from \$675,000 to \$1,000,000 and the top rate drops to 50%. All of the examples should be adjusted accordingly.
