

IMPROVING ECONOMIC SECURITY

HOW THE PRESIDENT'S JOBS & ECONOMIC GROWTH PLAN WILL BENEFIT AMERICAN AGRICULTURE

President Bush recently announced a growth and jobs plan to strengthen the American economy. He has called upon Congress to act swiftly to pass it.

The President's economic agenda has three main goals:

- ☑ **Encourage consumer spending** that will continue to boost the economic recovery.
- ☑ **Promote investments by individuals and businesses** that will lead to economic growth and job creation.
- ☑ Deliver critical **help to unemployed citizens**.



PRESIDENT'S PLAN & BENEFIT TO AMERICAN AGRICULTURE

Over \$4 billion in tax relief to farm households in 2003 would be provided by the elimination of the tax on dividends, the acceleration of reductions in marginal tax rates, marriage penalty relief, increases in the child tax credit, and the increase in the amount of capital investment that can be expensed by small businesses.

The President's new proposal would:

- **Accelerate the 2001 tax rate cuts.** All rate cuts scheduled to take effect in 2004 and 2006 under current law would be made retroactive to January 1, 2003. This would make the rate structure for 2003: 10 percent, 15 percent, 25 percent, 28 percent, 33 percent, and 35 percent. The Treasury would provide new withholding tables to employers so that employees would get tax benefits immediately.

Benefit to American Agriculture: About 85 percent of farmers and ranchers will likely benefit from the income tax reductions specified in the new law. The acceleration of tax relief scheduled to be phased-in over the next several years would reduce the tax burden of farm households by about \$2.3 billion in 2003.

- **End the double taxation of dividend.** This would benefit roughly 35 million American households who receive dividend income that is taxable.

Benefit to American Agriculture: About one third of all farmers, including over half of all farmers over 65, receive dividend income that is taxable. These farm households will realize average tax savings of over \$1,600 for a total reduction in Federal income taxes of about \$1.3 billion in 2003.

- **Accelerate tax relief for married filers.** Tax relief for married taxpayers would be accelerated so that the standard deduction for married filers is set at twice that for single filers in 2003.

Benefit to American Agriculture: About one-half of all tax returns filed by farm households are by sole proprietors who are married, file jointly and use the standard deduction. Increasing the standard deduction for these households will lessen their tax loads starting in 2003, not in 2005 as under current law.

- **Increase the limit for small business expensing.** The limit would be increased from \$25,000 to \$75,000, indexed for inflation in the future. It would phase out for small businesses with investments exceeding \$325,000, phasing out dollar-for-dollar up to \$400,000.

Benefit to American Agriculture: The increase in the small business expensing of new investment from \$25,000 to \$75,000 will allow over 90 percent of all investment in farm machinery and equipment to be immediately deducted. Ninety-seven percent of all farmers who purchase farm machinery and equipment and who report positive farm income will be able to deduct their entire investment, greatly simplifying the record keeping burden associated with the depreciation of capital purchases. For 2003, the amount of farm machinery and equipment that could be immediately deducted is estimated to increase by about \$2.5 billion or nearly 20 percent. This would reduce Federal income and self-employment taxes paid by farmers by over \$750 million.

- **Increase the Alternative Minimum Tax exemption.** The individual AMT exemption amount would be increased by \$4,000 for single filers and \$8,000 for joint filers through 2005, holding taxpayers harmless from the AMT effects of the various tax changes.

Benefit to American Agriculture: Farmers are disproportionately affected by the AMT. By increasing the AMT exemption by up to \$8,000, more tax savings will be passed on to the producer.

Additional benefits of the President's jobs and economic growth plan include:

- **Expansion of the 10 Percent Bracket.** The bottom of the 15 percent bracket for single filers would be increased in 2003 from \$6,000 to \$7,000 for single filers, and from \$12,000 to \$14,000 for married filers. These amounts would be indexed for inflation.
- **Increase in the Child Credit.** The credit would be set at \$1,000 per child in 2003, a \$400 increase from current law. Treasury would send out checks in 2003 for the increased amount of \$400 per child.
- **Stimulus to the economy.** The Administration's stated stimulus effects on U.S. manufacturing may raise manufacturing's net worth and aid off-farm employment in the rural sector. U.S. growth, based on Administration expectations, may have a spillover effect on international economies that would increase demand for U.S. agricultural exports, so long as the U.S. dollar does not appreciate significantly.

Analysis prepared by USDA's Office of the Chief Economist.

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