

IMPROVING ECONOMIC SECURITY

HOW THE JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT OF 2003 WILL BENEFIT AMERICAN AGRICULTURE

On May 28, 2003, President Bush signed a jobs and growth plan for all Americans. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, farm households will receive over \$4 billion in Federal income tax relief in 2003.



The Act accelerates marginal tax rate reductions and other relief that was scheduled to be phased-in under the 2001 Act, reduces the tax rate on dividends and capital gains and increases the amount of capital investment that can be expensed by small businesses.

Over 86 percent of all farm households will receive some tax relief under the 2003 Act. The average tax savings in 2003 for all farm households is estimated at about \$2,000 or a 16% reduction.

THE BENEFITS TO AMERICAN AGRICULTURE

Specific provisions and benefits for American farmers and ranchers include:

- **Acceleration of the 2001 Act Tax Relief:** The acceleration to 2003 of the 2001 Act tax relief that was originally scheduled to be phased-in over the next several years includes:
 - (1) an expansion of the 10-percent bracket from \$12,000 to \$14,000 for joint returns (\$6,000 to \$7,000 for single taxpayers),
 - (2) a reduction in the current marginal tax rates of 27%, 30%, 35% and 38.6% to rates of 25%, 28%, 33% and 35%,
 - (3) an increase in the standard deduction and the width of the 15% bracket for married couples to twice the amount for single taxpayers, and
 - (4) an increase in the child tax credit from \$600 to \$1,000.

Benefit to American Agriculture: This accelerated relief will reduce the tax burden of farm households by about \$2.3 billion in 2003. This includes an additional \$100 million that will be provided to middle and lower income farm households under the refundable portion of the child credit.

- **Reduced Tax Rate on Dividends:** Under the Act, dividends paid to individuals will be taxed at 15 percent (5 percent for taxpayers in the 15 percent or lower income tax brackets).

Benefit to American Agriculture: About one third of all farm households, including over half of all households with a farmer over 65, receive dividend income that is taxable. These households will realize average tax savings of about \$1,200 for a total reduction in Federal income taxes of about \$700 million in 2003.

➤ **Reduced Tax Rate on Capital Gains**

The Act reduces the tax rate on capital gains to 15 percent and 5 percent for taxpayers in the 15 percent or lower income tax brackets.

Benefit to American Agriculture: Capital gains are an important component of income for many farmers. According to Internal Revenue Service (IRS) data, 45 percent of all farmers report some capital gains. This is more than double the share for all taxpayers and on average the amount of capital gain reported by farmers is 50 percent higher. The new lower tax rate generally applies to sales on or after May 6, 2003. For 2003, farmers will save an estimated \$500 million. The tax benefit will increase to over \$750 million in 2004 since the new lower rates will be in effect for the full tax year.

➤ **Increased Expensing of Capital Investment**

The Act increases the bonus first-year depreciation from 30 to 50 percent (for purchases after May 5, 2003) and raises the amount of investment that can be expensed from \$25,000 to \$100,000.

Benefit to American Agriculture: For 2003, this will allow over 90 percent of all investment in farm machinery and equipment to be immediately deducted. Ninety-eight percent of all farmers will be able to deduct their entire investment, greatly simplifying the record-keeping burden associated with the depreciation of capital purchases. Increasing the bonus first-year depreciation and the amount of capital investment that can be expensed will reduce the effective tax rate on farm capital, resulting in increased purchases of farm machinery and equipment.

For 2003, the amount of farm machinery and equipment that can be immediately deducted is estimated to increase by about \$3.5 billion or 25 percent. This will reduce Federal income and self-employment taxes paid by farmers by about \$1 billion. The tax savings would gradually decline in future years as depreciation deductions drop since most capital purchases would have already been written off.

➤ **Alternative Minimum Tax Relief**

The alternative minimum tax (AMT) exemption amount would be increased by \$9,000 for married taxpayers and by \$4,500 for single taxpayers for 2003 and 2004.

Benefit to American Agriculture: This AMT relief is important to farmers since, compared to other taxpayers, slightly more farmers are subject to the AMT. Under the AMT relief, most farmers would fully benefit from the tax cuts.