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Timely Tax Tips:

Focus on 2003 Tax Law Changes for Individual Tax Returns

By Cynthia Hatfield

Uncle Sam and the State of Ohio were busy writing tax law changes last year. Here's how they may affect your tax return. In general, if you had about the same situation as you did for the 2002 tax year, your federal taxes should be less, and your Ohio taxes should be higher. But, really, how often do things remain the same? Here are a few of the specific federal tax law changes to note based on the Jobs and Growth Tax Relief Reconciliation Act enacted in May 2003.

Capital gains on assets sold after 5/5/03 are now taxed at a 5% or 15% flat rate, depending on your overall tax bracket, as are qualified dividends, regardless when they were received in 2003. What is a qualified dividend, you wonder? These are dividends paid by a domestic corporation, or by certain foreign corporations. The stock held must also meet specified holding period requirements. The main concern here is whether the brokerage firm reported your dividends correctly. If the statement is in error, it will likely be revised, so you may not want to rush to file your tax return. If you have any questions regarding these reporting statements (Forms 1099-DIV), contact your brokerage firm directly.

The child tax credit has been increased to $1,000 for 2003 and 2004. If you had a child, under the age of 17 at the end of 2003, and your federal Adjusted Gross Income (AGI) was under the phase out limit of $110,000 (for married filing joint returns), $55,000 (for married filing separate), $75,000 (head of household filing status), then you were eligible for the advance payment of the child tax credit that the IRS sent last summer. The advance payment was up to $400 per eligible child, and can be verified by logging on to www.IRS.gov. There is bound to be some confusion on this issue as there was with the advance payment of the tax rate reduction. The bottom line is that the advance payment, plus the amount you claim on line 49 of the Form 1040, cannot exceed $1,000 per child.

Another child-based credit, the dependent care credit, has been increased with the 2003 Act. This credit applies to dependent care expenses incurred for children under 13, or for anyone who is mentally or physically incapable of caring for themselves, in order to allow the taxpayer(s) to work. The maximum credit for childcare payments has changed: for one child it increased from $900 to $1,050, and for two or more children in daycare, from $1,440 to $2,100. This is a dollar for dollar tax credit, and it is not subject to any phaseout limitations.

For your children attending college, or for your own education, the limit on the lifetime learning credit has been increased from 20% of a maximum $5,000 of college expenses to 20% of $10,000. These expenses must be out-of-pocket payments and may not include any expenses that were paid by either grants or scholarships. This is a much more realistic level, given today's college tuition costs. Once again, however, there is a phaseout limit beginning at $83,000 of AGI for married taxpayers filing jointly and at $58,000 for other filers. If your AGI exceeds these phaseout ranges, perhaps you will be able to benefit from the deduction available for higher education expenses, taken on page 1 of the Form 1040. This deduction has a higher phaseout level of $130,000 for married taxpayers filing jointly and $65,000 for single filers.

These are the highlights of the 2003 law. There is, of course, a multitude of other federal tax law changes, which space does not permit me to explore further in this column. If you have questions regarding this or any other tax or business topic, feel free to contact me at chatfield@zinnerco.com.

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