



Bigger and Better Tax Breaks

By Chanon Collins

Will Rogers once said that “the difference between death and taxes is death doesn't get worse every time Congress meets.” If Will were around today, he might have to retract his statement. Not only has Congress presented a favorable bill, it was conceived and passed within months and the President signed the bill the day after it passed the Senate. President George W. Bush signed the Job Creation and Worker Assistance Act of 2002. This act, signed on March 9th, offers many provisions for the current year, but a few benefits were made retroactive for the 2001 tax year.

The Job Creation and Worker Assistance Act offers generous write-offs for new business assets. Businesses are eligible to claim an additional first-year depreciation deduction equal to 30% of the cost of the equipment. Specific guidelines have been identified which must be met in order to claim the additional percent: assets must have a recovery period of 20 years or less, assets must be purchased after September 10, 2001, but before September 11, 2004, original use of the asset must begin after September 10, 2001, and must be placed in service no later than December 31, 2004.

Business vehicles also received attention in this new law. The maximum first year write-off for business vehicles was increased to \$7,660. If the vehicle is used for less than 100% of business activity, the depreciation figure must be reduced accordingly. This additional depreciation is only available for vehicles purchased/placed in service after September 10, 2001.

This law permits a five-year net operating loss carryback period as opposed to the two year carryback period under present law. Unfortunately this carryback is only available for a short time period – it must be used for tax years ending in 2001 or 2002.

In response to the terrorist attacks on September 11th, Congress has created several retroactive tax breaks for the New York Liberty Zone. These tax breaks address specific needs of those living or working in the NYLZ.

Congress also extended many tax breaks that were due to expire this year. The Medical Savings Account program was extended through 2003. The work opportunity tax credit and the welfare-to-work tax credit have also been extended through 2003. This bill also extended the right to use certain personal tax credits.

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Congress also took this opportunity to address errors in the Economic Growth and Tax Relief Reconciliation Act of 2001. The Internal Revenue Service had requested clarification of certain aspects of this bill. It is likely that Congress will continue the tradition of attaching clarifications of major bills to others at hand to address the requests of the IRS.

Educators received attention in this new law. Elementary and secondary school teachers will be allowed to deduct up to \$250 of eligible out-of-pocket expenses for the years 2002 and 2003. This deduction does not need to be itemized and eligible expenses include: books, computer hardware and software, equipment, and other supplementary supplies. Unfortunately, there is a restriction with this deduction. If a tax-free withdrawal is taken from an Education IRA or a 529 plan, the deduction for supplies will not be allowed.

Numerous other benefits are addressed in this new tax law. In order to see if you're eligible to reap any rewards, contact your accountant for more details.

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