

## Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16)

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Individual income tax rates</b>	Lowest bracket is 15%	<p>A new low-rate bracket of 10% exists for the first \$10,000 for HH; \$12,000 for MFJ; and \$6,000 of income for all other filing status, effective for years beginning after December 31, 2000. (However see the next issue.)</p> <p>For years beginning after December 31, 2008, the HH bracket remains at \$10,000, the MFJ bracket increases to \$14,000, all other filing status increase to \$7,000. Inflation adjustments will apply to this tax bracket for years beginning after December 31, 2008. <b>(IRC §1(i) / Act §101(a))</b></p>
<b>Individual income tax rates</b>	none	<p>Instead of having the 10% bracket incorporated into the 2001 tables and schedules for 2001, the 2001 return will have a credit equal to the amount of savings a taxpayer has as a result of the creation of this 10% bracket less the amount of the “advance refund check” already given to the taxpayer, (but not below zero). SEE SEPARATE ARTICLE ON “ADVANCED REFUND CHECK.”</p> <p>Individuals not eligible for this advance refund check include estates or trusts, nonresident aliens, and dependents. <b>(IRC §6428 / Act §101(b))</b></p>

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by <b>IRC section and Act section</b> )
<b>Individual income tax rates</b>	The tax brackets are 15%, 28%, 31%, 36%, and 39.6%	<p>For 2001 the rates of 28%, 31%, 36%, and 39.6% will be reduced to 27.5%, 30.5%, 35.5%, and 39.1%, respectively. (The reduction takes place effective July 1, 2001, therefore instead of one full percentage point, the reduction is ½ of a percentage point.)</p> <p>For 2002 and 2003 the rates of 28%, 31%, 36%, and 39.6% will be reduced to 27%, 30%, 35%, and 38.6%, respectively.</p> <p>The rates will decrease one percentage point each even numbered year until the final rates of 25%, 28%, 33%, and 35%, respectively are reached in 2006. (<b>IRC §1(i)</b> / Act §101(a))</p>
<b>Estates and trusts</b>	Income tax rates (Form 1041) range from 15% to 39.6%	Tax rates are generally reduced in the same manner as the tax rates for individuals. However, the creation of the 10% tax rate does not apply to estates and trusts. ( <b>IRC §1(i)</b> / Act §101(a))
<b>Kiddie tax</b>	Parents reporting child's income on their return use 15% for the first portion of the child's income (\$700 in 2000)	Parents reporting child's income on their return use 10% for the first portion of the child's income (\$750 for 2001) effective with taxable years beginning after December 31, 2000. ( <b>IRC §1(g)(7)</b> / Act §101(c)(1))
<b>Individual income tax withholding</b>	Withholding tables are changed effective January 1 <sup>st</sup> of each year	Change withholding as soon as possible for 2001, to take into account the rate changes for 2001. (Act §101(c))
<b>Voluntary withholding on various Federal payments, such as Social Security benefits</b>	Rate options are 7%, 15%, 28%, and 31%	Rate options are 7% and the three lowest individual tax rates effective with payments after August 7, 2001 (after the 60 <sup>th</sup> day after enactment) ( <b>IRC §3402(p)(1)(B)</b> / Act §101(c)(6))
<b>Voluntary withholding on unemployment compensation</b>	Rate is 15%	Rate is 10% effective with payments after August 7, 2001 (after the 60 <sup>th</sup> day after enactment) ( <b>IRC §3402(p)(2)</b> / Act §101(c)(7))
<b>Withholding on certain gambling winnings</b>	Rate is 28%	Rate is the third lowest individual tax rate effective with payments after August 7, 2001 (after the 60 <sup>th</sup> day after enactment) ( <b>IRC §3402(q)(1)</b> / Act §101(c)(8))

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<b>Withholding on Indian casino profits</b>	Rate is 31%	Rate is equal to the fourth lowest individual tax rate effective with payments after August 7, 2001 (after the 60 <sup>th</sup> day after enactment) ( <b>IRC §3402(r)(3)</b> / Act §101(c)(9))
<b>Backup withholding</b>	Rate is 31%	Rate is equal to the fourth lowest individual tax rate effective with payments after August 7, 2001 (after the 60 <sup>th</sup> day after enactment) ( <b>IRC §3406(a)(1)</b> / Act §101(c)(10))
<b>Withholding on supplemental wages, such as bonuses</b>	Flat rate method is at 28%	Flat rate is at the third lowest individual tax rate effective with payments after August 7, 2001 (after the 60 <sup>th</sup> day after enactment) ( <b>RevRec 93 Act §13273</b> / TRA 01 Act §101(c)(8))
<b>Phase-out of personal exemptions</b>	Phase-out begins at various levels based on filing status	The existing phase-out of personal exemptions is repealed for years beginning after December 31, 2009. For the years 2006 & 2007 the phase-out will be reduced by 1/3, and another 1/3 for 2008 & 2009. ( <b>IRC §151(d)</b> / Act §102)
<b>Phase-out of itemized deductions</b>	Phase-out begins at \$132,950 (\$66,475 for MFS)	The existing phase-out of itemized deductions is repealed for years beginning after December 31, 2009. For the years 2006 & 2007 the phase-out is reduced by 1/3, and another 1/3 for 2008 & 2009. ( <b>IRC §68</b> / Act §103)
<b>Child Tax Credit</b>	\$500 credit for each child under age 17, with phase-out at various levels based on filing status	This amount is increased as follows: ( <b>IRC §24</b> / Act §201(a)) <ul style="list-style-type: none"> <li>- 2001-2004 - \$600</li> <li>- 2005-2008 - \$700</li> <li>- 2009 - \$800</li> <li>- 2010 - \$1,000</li> </ul>
<b>Child Tax Credit</b>	Nonrefundable except when a taxpayer has three or more children	Refundable to the extent of 10% of taxpayer's earned income in excess of \$10,000 (as indexed). This rate increases to 15% for years beginning after December 31, 2004.  The provision for families with three or more children remains and is used after the new provision above.  Effective for years beginning after December 31, 2000. ( <b>IRC §24</b> / Act §201(c))

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Child Tax Credit</b>	AMT is calculated before credit through 2001	AMT is permanently calculated before this credit. ( <b>IRC §26 / Act §201(b)</b> )
<b>Child Care Assistance Credit for Employers</b>	Employers can deduct expenses relating to supporting child care.	A credit is allowed for 25% of qualified child care expenses and 10% of qualified child care resource and referral expenditures (up to a maximum credit of \$150,000 per year) for providing a qualified child care facility. There are many restrictions to this provision, but it will still benefit many employers who make or provide day care facilities for their employees. This is effective for years beginning after December 31, 2001. ( <b>IRC §45F / Act §205</b> )
<b>Dependent Care Credit</b>	<p>Maximum credit is 30% with the rate decreasing by one percentage point for each \$2,000 (or fraction thereof) that the taxpayer's AGI exceeds \$10,000, down to a minimum credit of 20% (\$28,000 of AGI).</p> <p>Maximum eligible expenses are \$2,400 for one child and \$4,800 for two or more children</p>	<p>Maximum credit is 35% with the rate decreasing by one percentage point for each \$2,000 (or fraction thereof) that the taxpayer's AGI exceeds \$15,000, down to a minimum credit of 20% (\$43,000 of AGI).</p> <p>Maximum eligible expenses are \$3,000 for one child and \$6,000 for two or more children.</p> <p>These provisions are effective for years beginning after December 31, 2002.</p> <p><b>(IRC §21 / Act §204)</b></p>
<b>Adoption Credit and Assistance Programs</b>	The credit and exclusion is phased out at various income levels.	The start of the phase-out based on AGI increases from \$75,000 to \$150,000, beginning with years beginning after December 31, 2001. This amount will also be adjusted for inflation beginning after 2002. ( <b>IRC §137 / Act §202(b)</b> )
<b>Adoption Credit and Assistance Programs</b>	The credit is allowed to be used after AMT calculations for years through 2001.	AMT is permanently calculated before this credit. ( <b>IRC §26 / Act §202(f)</b> )

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<p><b>Adoption Credit and Assistance Programs</b></p>	<p>A credit is allowed for up to \$5,000 of qualifying expenses (\$6,000 for a special needs child). This credit ends for nonspecial needs children as of December 31, 2001.</p> <p>The exclusion from income applies for this same amount when an employer is providing adoption assistance payments to an employee. The exclusion from income for a nonspecial needs child ends after December 31, 2001.</p>	<p>The credit is permanently extended for the adoption of all children.</p> <p>The credit is increased to \$10,000 of qualifying expenses for all nonspecial needs children. The credit continues to be allowed in the year after the year the expenses are paid, except for expenses paid or incurred in the year the adoption becomes final in which case the credit for those expenses is allowed in the year the adoption becomes final.</p> <p>The credit is automatically \$10,000 for all special needs children, regardless of the amount of qualifying expenses, although the credit is only allowed in the year the adoption of the special needs child becomes final.</p> <p>The exclusion from income for employer provided benefits is permanently extended for the adoption of all children.</p> <p>The exclusion is increased to \$10,000 of qualifying expenses for all nonspecial needs children. The exclusion is automatically \$10,000 for all special needs children, regardless of the amount of qualifying expenses.</p> <p>These provisions are generally effective with costs incurred and paid after December 31, 2001. Although the limitation of \$10,000 applies for the adoption of all children starting after December 31, 2001, the <i>automatic</i> \$10,000 allowed for special needs children is effective for adoptions finalized after December 31, 2002.</p> <p>The \$10,000 will be indexed for inflation beginning after 2002. <b>(IRC §23 / Act §202(a) &amp; §202(c))</b></p>

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by <b>IRC section and Act section</b> )
<b>Marriage penalty</b>	Standard deduction	Increase standard deduction for MFJ to twice the amount allowed for unmarried taxpayer filing as Single, phased-in over five years beginning in 2005. (Tax year 2005 will provide MFJ filers a standard deduction equal to 174% of the amount allowed to taxpayers filing Single.) ( <b>IRC §63 / Act §301</b> )
<b>Marriage penalty</b>	The MFJ 15% tax bracket is higher than the Single tax bracket, but not double	Increase the MFJ 15% tax bracket ceiling to twice the Single 15% tax bracket ceiling, phased-in over four years beginning in 2005. (Tax year 2005 will provide MFJ filers a 15% tax bracket ceiling equal to 180% of the amount allowed to taxpayers filing Single.) ( <b>IRC §1(f) / Act §302</b> )
<b>Earned income tax credit</b>	The starting of the phase-out of the EIC for MFJ filers is the same as Single filers	The starting of the phase-out of the EIC for MFJ filers will be higher than Single filers, effective for years beginning after December 31, 2001. ( <b>IRC §32 / Act §303(a)</b> )
<b>Earned income tax credit</b>	Nontaxable earned income is included in computation	Only includes earned income included in the taxpayer's gross income. This simplifies the calculation by removing the former inclusion of nontaxable earned income from the computation of the EIC. Effective for year beginning after December 31, 2001. ( <b>IRC §32(c) / Act §303(b)</b> )
<b>Earned income tax credit</b>	Modified AGI must be calculated	Replaces "modified AGI" with "AGI". Effective after 2001. ( <b>IRC §32 / Act §303(d)</b> )
<b>Earned income tax credit</b>	Earned income credit definition of qualifying child is somewhat confusing, especially "foster child"	<p>Some simplification exists. Now a qualifying child must be</p> <ol style="list-style-type: none"> <li>1) A son, daughter, stepson, or stepdaughter, or a descendant of any such individual,</li> <li>2) A brother, sister, stepbrother, or stepsister, or a descendant of such, or</li> <li>3) An eligible foster child of the taxpayer. A foster child is defined as an individual who:               <ol style="list-style-type: none"> <li>a) is placed by an authorized placement agency, and</li> <li>b) the taxpayer cares for as his/her own child.</li> </ol> </li> </ol> <p>Effective for year beginning after December 31, 2001. (<b>IRC §32 / Act §303(e)</b>)</p>

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Earned income tax credit</b>	Tie-breaker rules when two people are eligible for EIC for same child basically say higher AGI	<p>New tie-breaker rules exist in this order:</p> <ol style="list-style-type: none"> <li>1) If one taxpayer is the child’s parent, that taxpayer is the only one who can receive the credit,</li> <li>2) If both taxpayers are the child’s parents, the one the child lives with most during the year is the “winner”,</li> <li>3) If both taxpayers are the child’s parents and the child lived with both equally, then the parent with the highest AGI is the “winner”, and</li> <li>4) If no one claiming the child is the child’s parent, then the taxpayer with the highest AGI is the “winner”.</li> </ol> <p>Effective for year beginning after December 31, 2001. (IRC §32 / Act §303(f))</p>
<b>Earned income tax credit</b>	Relationship test includes a son, daughter, stepson, stepdaughter, or a descendant of such (and a foster child which is discussed next)	Relationship test is expanded to include a brother, sister, stepbrother, or stepsister, or a descendant of such <b>AND</b> who the taxpayer cares for as the taxpayer’s own child. Effective for tax years beginning after December 31, 2001. (IRC §32(c)(3)(B)(iii) / Act §303(e)(1))
<b>Earned income tax credit</b>	Foster child must live with taxpayer entire year	Foster child must live with taxpayer more than one half of the year, effective for tax years beginning after December 31, 2001. (IRC §32(c)(3)(B)(iii) / Act §303(e)(2))
<b>Education IRAs</b>	<p>Annual contributions are limited to \$500.</p> <p>The phase-out for MFJ begins at \$150,000 with a \$10,000 range</p>	<p>The contribution limit increases to \$2,000. The phase-out for MFJ begins at \$190,000 with a \$30,000 phase-out range.</p> <p>Effective for year beginning after December 31, 2001. (IRC §530 / Act §401(a) &amp; §401(b))</p>
<b>Education IRAs</b>	Undistributed balances are deemed distributed at age 30	This does not apply in the case of a special needs beneficiary, to be defined by regulations. Effective for years beginning after December 31, 2001. (IRC §530 / Act §401(d))

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Education IRAs</b>	Excess contributions included any contributions for a year if contributions had been made to a qualified State tuition program for the same beneficiary	Excess contributions are no longer affected by contributions to a State tuition program, effective for contributions for tax years beginning after December 31, 2001. ( <b>IRC §4973(e)</b> / Act §401(g))
<b>Education IRAs</b>	Contributions for a year must be made by December 31 of the same year	Contributions are treated as if made on the last day of the year if they are made by the <u>unextended</u> due date of the contributor's Federal income tax return for the contribution year (generally April 15 for individuals). This is effective for tax years beginning after December 31, 2001. ( <b>IRC §530</b> / Act §401(f))
<b>Education IRAs</b>	Qualified expenses are defined and must be for "higher" (post-secondary) education	<p>"Qualified expenses" is expanded to include:</p> <ol style="list-style-type: none"> <li>1) Expenses for tuition, fees, academic tutoring, special need services, books, supplies, and other equipment incurred in connection with the enrollment or attendance of the beneficiary at a public, private, or religious school,</li> <li>2) Expenses for room and board, uniforms, transportation, and supplementary items or services (including extended day programs) required or provided by such a school in connection with such enrollment, and</li> <li>3) Expenses for the purchase of any computer technology or equipment (as defined in §170(e)(6)(F)(i)) or Internet access and related services, if such technology, equipment, or services are to be used by the beneficiary and the beneficiary's family during any of the year the beneficiary is in school.</li> </ol> <p>The term "school" includes any school that provides elementary or secondary education (K-12), as determined under State law, as well as "higher" education as provided under the former law.</p> <p>Effective for year beginning after December 31, 2001. (<b>IRC §530</b> / Act §401(c))</p>

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Education IRAs</b>	Contributions must be made by individuals	Contributions can be made by corporations and other entities (including tax-exempt organizations) regardless of their income during the year of the contribution. This is effective for calendar years beginning after December 31, 2001. ( <b>IRC §530 / Act §401(e)</b> )
<b>Education IRAs</b>	Excess contributions must be removed by the due date of the beneficiary's tax return for the year of the contribution. If no return is filed, the excess must be removed by the 15 <sup>th</sup> day of the 4 <sup>th</sup> month after the end of the year.	<p>Excess contributions must be removed <u>before</u> the 1<sup>st</sup> day of the 6<sup>th</sup> month following the year <b>during</b> which the contributions were made. (Normally this will be "before June 1<sup>st</sup>".)</p> <p>With the new contribution deadline rules an excess contribution to a 2002 Education IRA which was made in March of 2003 would have to be withdrawn before June 1<sup>st</sup>, 2004, while an excess contribution made in December 2002 for 2002 would have to be withdrawn before June 1<sup>st</sup>, 2003. This may not be the way Congress intended. Watch for this to be corrected in a later Act.</p> <p>Effective for years beginning after December 31, 2001. (<b>IRC §530 / Act §401(f)</b>)</p>
<b>State Tuition Programs</b>	Existence under §529 is limited to state programs	This is expanded to include educational institutions once they obtain a ruling or determination that their program meets the requirements. Effective with contributions after 2001 and distributions after 2003. ( <b>IRC §529 / Act §402(a)(1)</b> )
<b>State Tuition Programs</b>	The State must impose a non de minimis monetary penalty for nonqualifying distributions	An additional 10% tax is assessed on the amount of nonqualifying distributions after December 31, 2003. The same exceptions that apply to nonqualifying distributions from Education IRAs also apply to these programs. ( <b>IRC §529 / Act §402</b> )
<b>State Tuition Programs</b>	Qualifying expenses include room and board	The definition of "room and board" is changed to the amount that is used for determining costs when applying for Federal financial aid programs. ( <b>IRC §529 / Act §402(e)</b> )

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>State Tuition programs</b>	Distributions are generally taxable	Distributions are tax-free to the extent used to pay qualified higher education expenses effective for tax years beginning after December 31, 2001 (after December 31, 2003 for educational tuition programs). ( <b>IRC §529(e)(3)(B)</b> / Act §402(b))
<b>State Tuition programs</b>	The account can be transferred to a member of the beneficiary's family without taxation	The "member of family" listing now includes any first cousin of the beneficiary, effective for tax years beginning after December 31, 2001. ( <b>IRC §529(e)(2)</b> / Act §402(d))
<b>Employer provided educational assistance</b>	The exclusion from income for this benefit has been extended temporarily many times	The exclusion from income for employer provided educational assistance is made permanent. ( <b>IRC §127</b> / Act §411(a))
<b>Employer provided education assistance</b>	Employer provided educational assistance for graduate level courses are not eligible for the exclusion.	Graduate level courses qualify for the exclusion effective for courses beginning after December 31, 2001. ( <b>IRC §127</b> / Act §411(b))
<b>Student loan interest</b>	Limited to a 60-month payment period	Unlimited payment period for interest paid after December 31, 2001, in tax years ending after December 31, 2001. ( <b>IRC §221</b> / Act §412(a))
<b>Student loan interest</b>	Phase-out limitation applies	The phase-out limits are increased to \$50,000 (\$100,000 for MFJ), with a phase-out range of \$15,000 (\$30,000 for MFJ), effective for tax years ending after December 31, 2001. ( <b>IRC §221</b> / Act §412(b))
<b>Scholarships under the National Health Service Corps Programs and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Programs</b>	Exclusion applies but requires service obligation by the recipient	Removes the service obligation effective for amounts received after December 31, 2001. ( <b>IRC §117</b> / Act §413)

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Education expense deduction</b>	Limited to work related expenses and is part of the 2% Miscellaneous Itemized deductions	<ol style="list-style-type: none"> <li>1) Creates an above the line deduction for up to \$3,000 (per return) of expenses in 2002 &amp; 2003 if modified AGI is not more than \$65,000 (\$130,000 for MFJ, \$0 for MFS). (No deduction is allowed if modified AGI exceeds these amounts, respectively)</li> <li>2) This increases to \$4,000 in 2004 &amp; 2005 if modified AGI is not more than \$65,000 (\$130,000 for MFJ, \$0 for MFS); \$2,000 if AGI is over \$65,000 but not over \$80,000 (\$160,000 for MFJ, \$0 for MFS). (No deduction is allowed if modified AGI exceeds these amounts, respectively)</li> <li>3) Deduction is not permitted for a student if either the Hope or Lifetime Learning credit is taken for a student.</li> <li>4) Expenses have same definition as Hope and Lifetime Learning credits.</li> <li>5) Denied if taxpayer is eligible to be claimed by another taxpayer.</li> <li>6) Deduction is denied for nonresident aliens.</li> </ol> <p>Effective for tax years beginning after December 31, 2001 and before January 1, 2006. (<b>IRC §222</b> / Act §431(a))</p>
<b>Estate tax</b>	Exists	Repealed for deaths after December 31, 2009. ( <b>IRC §2210</b> / Act §501(a))
<b>Generation skipping transfer tax</b>	Exists	Repealed for transfers after December 31, 2009. ( <b>IRC §2664</b> / Act §501(b))
<b>Estate tax</b>	Qualified Domestic Trusts	With respect to the surviving spouse of a decedent dying before January 1, 2010, §2056A(b)(a)(B) will not apply after December 31, 2009, and §2056A(b)(a)(A) will not apply after December 31, 2020. ( <b>IRC §2056A</b> / Act §501(a))

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Estate and Gift tax</b>	Maximum tax rate is 55%.  Also have a 5% surtax to bring the maximum effective rate to 55%	Eliminate the surtax and the top two rates so maximum rate is 50% for a decedent dying or gifts made after December 31, 2001. (IRC §2011 / Act §511(a))
<b>Estate and Gift tax</b>	Maximum tax rates exceed 50%	Reduce the maximum tax rate by one percentage point each year starting with calendar year 2003 (49%) and ending with 2007 (45%). (IRC §2001 / Act §511(c))
<b>Estate tax</b>	Exemption amount gradually increases	The exemption amount is increased to: (IRC §2010 / Act §521(a))  \$1,000,000 for the years 2002 & 2003, \$1,500,000 for the years 2004 & 2005, \$2,000,000 for the year 2006, 2007, & 2008, and \$3,500,000 for the year 2009.
<b>Estate tax</b>	Credit for state death taxes	The state death tax credit is reduced by: <ul style="list-style-type: none"> <li>- 25% for the year 2002,</li> <li>- 50% for the year 2003,</li> <li>- 75% for the year 2004, and</li> <li>- replaced for years after 2004 with a <u>deduction</u> for the amount of estate, inheritance, legacy, or succession taxes actually paid to any State or the District of Columbia.</li> </ul> (IRC §2011 & §2058 / Act §532(b))
<b>Generation skipping transfer tax</b>	Exemption amount is \$1,000,000	Exemption amount is equal to the Estate Tax Exemption above. (IRC §2631 / Act §521(c))
<b>Gift tax</b>	Maximum tax rates exceed 50%	For gifts made after December 31, 2009, the maximum gift tax rate is 35%. (IRC §2502 / Act §511(d))
<b>Gift tax</b>	Exemption amount gradually increases to \$1,000,000	Exemption amount is \$1,000,000 for gifts made after December 31, 2001. (IRC §2505 / Act §521(b))
<b>Estate tax</b>	Special benefit for Family Owned Business Interests	This benefit is repealed for deaths after December 31, 2003. (IRC §2057 / Act §521(d))

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by <b>IRC section and Act section</b> )
<b>Estate tax</b>	Estates are generally required to be reported if their value exceed the exemption amount	An estate tax return is required for any estate that exceeds \$1,300,000 in value. Failure to file this return is subject to a possible \$10,000 failure to file penalty. The due date is the same as the due date for the decedent's final income tax return. ( <b>IRC §6018, §6075 &amp; §6716</b> / Act §542(b))
<b>Gift tax</b>	Taxable gifts are required to be reported. Penalties are based on the gift tax due.	Taxable gifts are required to be reported. Failure to file this return is subject to a \$500 failure to file penalty, and a \$50 penalty per donee for failing to report such information to the donee.  Effective for gifts after December 31, 2009. ( <b>IRC §6019 &amp; §6716</b> / Act §542(b))
<b>Estate tax</b>	Installment payment of the tax is available in certain cases	<ol style="list-style-type: none"> <li>1) The closely-held business exception includes interests in qualifying lending and finance businesses (for deaths after December 31, 2001). (<b>IRC §6166(b)(10)</b> / Act §572)</li> <li>2) Stock in holding company stock that is non-readily-tradable is eligible, even if the underlying stock held is readily tradable (for deaths after December 31, 2001). (<b>IRC §6166(b)(8)(B)</b> / Act §573)</li> <li>3) The number of allowable partners and shareholders in a closely held business increases from 15 to 45 (for deaths after December 31, 2001) (<b>IRC §6166(b)</b> / Act §571)</li> </ol>

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<p><b>Basis in inherited property</b></p>	<p>Inherited property generally has a basis equal to the FMV on the date of death, except for certain property such as IRD</p>	<p>This “step-up” in basis to FMV on the date of death is repealed with respect to decedents dying after December 31, 2009.</p> <ol style="list-style-type: none"> <li>1) The basis of inherited assets will be the lesser of the decedent’s adjusted basis in the assets or the FMV of the assets on the date of death (DOD).</li> <li>2) A basis increase is allowed for “certain property.” This increase is \$1,300,000, plus NOL and capital loss carryovers from the decedent’s final return, plus the loss that would have been allowable under §165 if inherited property had been sold at FMV immediately before the decedent’s death. This increase cannot increase the basis of any property above its FMV on the DOD.</li> <li>3) “Certain property” is defined by what it is not. It does not include:               <ol style="list-style-type: none"> <li>a) Property acquired by the decedent by gift within 3 years of DOD, except if received by gift from spouse,</li> <li>b) Stock or securities in a foreign personal holding company,</li> <li>c) Stock of a DISC or former DISC,</li> <li>d) Stocks in certain other foreign investment companies,</li> <li>e) Property which falls under the IRD rules.</li> </ol> </li> <li>4) This \$1,300,000 increase is \$3,000,000 for qualified spousal property which is property transferred from a decedent to a spouse as a) outright transfer property (property transferred directly to the spouse with some limitations), or b) qualified terminable interest property (property in which the spouse has an income interest in for life).</li> </ol> <p><b>(IRC §1014 &amp; §1022 / Act §541)</b></p>

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>IRA</b>	Contributions are limited to \$2,000	Contribution limits are increased to: <ul style="list-style-type: none"> <li>- \$3,000 for tax years beginning in 2002 through 2004,</li> <li>- \$4,000 for 2005 through 2007, and</li> <li>- \$5,000 for 2008 and after.</li> </ul> The \$5,000 amount will be indexed (in \$500 increments) for years beginning after December 31, 2008. <b>(IRC §219 / Act §601)</b>
<b>IRA</b>	Contributions are limited to \$2,000	The contribution limit for an individual who is age 50 or over at the end of the year is increased by \$500 for the years beginning in 2002 through 2005, and \$1,000 for the years beginning in 2006 or after. This is referred to as a “catch-up” contribution. <b>(IRC §219 / Act §601)</b>
<b>Pensions</b>	Defined benefit plan currently has a limit of \$90,000 (indexed)	This limit is increased to \$160,000, effective for years ending after December 31, 2001. <b>(IRC §415 / Act §611(a))</b>
<b>Pensions</b>	Compensation is limited to \$150,000 (indexed)  The maximum contribution limit is \$30,000 (indexed)	Compensation limits increase to \$200,000.  The maximum contribution limit is increased to \$40,000.  These are effective for years beginning after December 31, 2001. <b>(IRC §401 / Act §611(b))</b>
<b>Pensions</b>	Elective deferrals under §401(k), SARSEPs, and 403(b) annuities have a maximum of \$10,000 (indexed)	The deferral maximum increases to \$11,000 for years beginning after December 31, 2001. This amount increases \$1,000 each year after, until it reaches its maximum of \$15,000 for years beginning after December 31, 2005.  The \$15,000 amount will be indexed (in \$500 increments) for years beginning after December 31, 2006. <b>(IRC §402(g) / Act §611(c))</b>
<b>Pensions</b>	Elective §457 deferrals have a maximum of \$7,500 (indexed)	The deferral maximum increases to \$11,000 for years beginning after December 31, 2001. This amount increases \$1,000 each year, until it reaches its maximum of \$15,000 for years beginning after December 31, 2005. <b>(IRC §457 / Act §611(d))</b>

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Pensions</b>	SIMPLE deferrals have a maximum of \$6,000 (indexed)	<p>The deferral maximum increases to \$7,000 for years beginning after December 31, 2001. This amount increases \$1,000 each year after, until it reaches its maximum of \$10,000 for years beginning after December 31, 2004.</p> <p>The \$10,000 amount will be indexed (in \$500 increments) for years beginning after December 31, 2005. <b>(IRC §408(p) / Act §611(e))</b></p>
<b>Pensions</b>	Stock Bonus and Profit Sharing plans have a contribution deduction limit of 15%	The contribution deduction limit increases to 25% effective for years beginning after December 31, 2001. <b>(IRC §404 / Act §616)</b>
<b>Pensions</b>	Contributions to a defined contribution plan by employees are limited to 25% of compensation	This limitation is generally increased to 100% for years beginning after December 31, 2001. <b>(IRC §403(b), §415, §457 / Act §632)</b>
<b>Pensions/IRAs</b>	none	A taxpayer can elect to treat part of the elective deferrals as after-tax Roth contributions effective for years beginning after December 31, 2005. Upon distribution, these amounts can be rolled into another designated Roth account or into a Roth IRA. Distributions from these accounts would be tax-free under the same provisions as a Roth IRA. <b>(IRC §402A / Act §617)</b>
<b>Pensions</b>	Employers receive a deduction for their expenses relating to setting up a new retirement account	<p>A credit is available for the employer equal to 50% of the employer's qualified start-up costs. The credit maximum is \$500 for the first year and each of the following two years.</p> <p>The credit becomes part of the General Business Credit, but cannot be carried back to any year beginning before January 1, 2002.</p> <p>Effective for years beginning after December 31, 2001. <b>(IRC §45E / Act §619)</b></p>

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Pensions</b>	none	<p>A nonrefundable credit can be claimed for elective deferrals and IRA contributions equal to a percentage of the first \$2,000 of deferrals and IRA contributions, providing the taxpayer's AGI is low enough (\$50,000 for MFJ, \$37,500 for HH, and \$25,000 for others). The percentage starts at 50%, reduced to 20%, 10%, and finally 0% as the taxpayer's AGI increases to the levels indicated here.</p> <p>The taxpayer must be at least 18 years of age by the end of the year, cannot be eligible to be claimed by another taxpayer for the year, cannot be a student as defined in the dependency tests.</p> <p>This credit is taken after AMT calculations.</p> <p>Other limitations apply including denial if there have been distributions in the prior two years.</p> <p>Effective for years beginning after December 31, 2001. (<b>IRC §25B / Act §618</b>)</p>
<b>Pensions</b>	Fully vested after either five years (with no vesting requirement each of first four years) or seven years (with 20% vesting after third year and increasing by 20% each year thereafter)	<p>The vesting changes to 1) full vesting after three years with no vesting requirement each of first two years, or 2) full vesting after six years (with 20% vesting after second year and increasing by 20% each year thereafter).</p> <p>Effective for plan years beginning after December 31, 2001, except for collective bargaining agreements.</p> <p><b>(IRC §411 / Act §633)</b></p>

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Pension</b>	none	<p>Similar to the IRA catch-up provision, an individual who is age 50 or over at the end of the year can make additional catch-up deferrals to §401(k), §403(b) annuities, SARSEPs, SIMPLEs, and §457 plans.</p> <p>The additional catch-up deferrals for §401(k), §403(b) annuities, SARSEPs, and §457 plans is:</p> <ul style="list-style-type: none"> <li>- \$1,000 for 2002,</li> <li>- \$2,000 for 2003,</li> <li>- \$3,000 for 2004,</li> <li>- \$4,000 for 2005, and</li> <li>- \$5,000 for 2006 and after.</li> </ul> <p>The additional catch-up deferrals for a SIMPLE is:</p> <ul style="list-style-type: none"> <li>- \$500 for 2002,</li> <li>- \$1,000 for 2003,</li> <li>- \$1,500 for 2004,</li> <li>- \$2,000 for 2005, and</li> <li>- \$2,500 for 2006 and after.</li> </ul> <p>This does not apply to a §457 plan for an employee's last three years before retirement since a special provision already exists under §457(b)(3).</p> <p>The catch-up deferral cannot be nondeductible contributions.</p> <p>This is effective for years beginning after December 31, 2001. <b>(IRC §414 / Act §631)</b></p>
<b>Pensions</b>	QDRO rules do not apply to §457 plans	QDRO rules apply to §457 plans and the taxation will be the same as other plans under §402(e)(1), effective for plan years beginning after December 31, 2001. <b>(IRC §414(p) / Act §635)</b>

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Pensions</b>	Rollover options are limited, depending on the type of plan	1) Distributions from qualified retirement plans, §403(b) annuities, and governmental §457 plans can generally be rolled over to any such plans or arrangements. 2) The 10-year averaging option is not permitted if there was a rollover from a plan that would not have been eligible for the 10-year averaging under prior law. 3) Surviving spouses are able to roll over distributions from the deceased spouse's plans. Effective for distributions made after December 31, 2001. ( <b>IRC §402, §403 &amp; §457</b> / Act §641)
<b>Pensions</b>	§457 deferral limitation takes into account other deferrals including §403(b), §401(k), SEPs and SIMPLEs.	The §457 deferral limitation no longer takes into account other deferrals effective for tax years beginning after December 31, 2001. ( <b>IRC §457(c)</b> / Act §615)
<b>Pensions</b>	A self-employed who claims religious exemption from SE tax <u>cannot</u> have a Keogh or SIMPLE based on this income	A self-employed person who claims religious exemption from SE tax <u>can</u> have a Keogh or SIMPLE based on this income for years beginning after December 31, 2001. ( <b>IRC §401(c)(2)(A)</b> / Act §611(g))
<b>Pensions</b>	An employer can distribute an ex-employee's retirement plan balance if it is \$5,000 or less, but must give the employee the opportunity to elect to have it rolled over directly to an IRA	When an ex-employee's retirement balance is more than \$1,000, but not more than \$5,000 and the employer wants to make this distribution, the employer must roll over the retirement plan balance to an IRA at a designated trustee, but must give the employee the opportunity to elect to have it rolled into another IRA or qualified plan or receive the distribution directly. The employer is required to give a notice to the employee that the distribution to the designated trustee can be rolled to another IRA without cost or penalty. ( <b>IRC §401(a)(31)</b> / Act §657)
<b>Pensions</b>	Hardship distributions from CODAs, such as §401(k), are not eligible to be rolled over	Hardship distributions of any kind are not eligible to be rolled over for distributions made after December 31, 2001. ( <b>IRC §402(c)(4)(C)</b> / Act §636(b))
<b>Pensions</b>	Regulations prohibit an employee from making a §401(k) deferral for 12 months after receiving a hardship distribution	The IRS is to revise this regulation to reduce the restricted period from 12 months to 6 months for tax years beginning after December 31, 2001. ( <b>Regulation §1.401(k)-1(d)(2)(iv)(B)(4)</b> / Act §636(a))

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Pensions</b>	Loans from qualified retirement plan and a disqualified person are prohibited transactions	A sole proprietor, partner, and S corporation owner is now not a disqualified person for purposes of the prohibited transaction rules relating to loans from a qualified retirement plan. ( <b>IRC §4975(f)(6)(B)</b> / Act §612)
<b>IRAs</b>	Distributions can be rolled over into the same IRA or another IRA	Distributions from an IRA can also be rolled over into qualified plan, §403(b) annuity, or governmental §457 plan. Contrary to normal traditional IRA distribution rules, amounts rolled over under this provision will deemed to be from pre-tax contributions and earnings existing in the traditional IRA. After-tax contributions to an IRA cannot be rolled into any of these non-IRA plans.  Effective for distributions after December 31, 2001. ( <b>IRC §408(d)</b> / Act §642)
<b>Pensions/IRAs</b>	Distributions of after-tax contributions in a qualified plan cannot be rolled over	Rollovers of distributions of after-tax contributions in a qualified plan are permitted, but only through a direct rollover. The new plan must have a separate accounting for the rolled in after-tax amounts and subsequent earnings. Effective for distributions after December 31, 2001. ( <b>IRC §402(b)</b> / Act §643)
<b>Pensions/IRAs</b>	Rollovers must be accomplished within 60 days	The Secretary may waive the 60-day requirements where the failure to waive such requirement “would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.” Effective for distributions after December 31, 2001. ( <b>IRC §402(c) &amp; §408(d)</b> / Act §644)
<b>Pensions</b>	none	A trustee-to-trustee transfer from a §403(b) plan to a defined benefit governmental plan will not generate income if the transfer is for the purchase of permissive service credit under the plan or certain repayments to which §415 does not apply. ( <b>IRC §403(b) &amp; §457</b> / Act §647)
<b>Pensions</b>	Amounts deferred under a §457 plan are includible in income when paid or made available	Amounts deferred under a §457 plan are includible in income only when paid, effective for distributions after December 31, 2001. ( <b>IRC §457</b> / Act §649)

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<b>Employer sponsored retirement planning services</b>	Questionable as to taxability to employees	Qualified retirement planning services are a tax-free fringe benefit to employees. This includes any retirement planning advice or information provided to an employee and his/her spouse by an employer maintaining a qualified employer plan. Discrimination rules apply. Effective for years beginning after December 31, 2001. ( <b>IRC §132(a)(7) &amp; §132(m)(new)</b> / Act §665)
<b>Sale of residence</b>	Exclusion of \$250,000 (\$500,000 for MFJ) is available to individuals	The estate or beneficiary of a decedent's principal residence can use the exclusion upon the sale of the property if the decedent met the ownership and use tests. Effective for deaths after December 31, 2009. ( <b>IRC §121</b> / Act §542(c))
<b>Alternative Minimum Tax</b>	Exemption amounts are \$45,000 for MFJ, \$22,500 for MFS, and \$33,750 for unmarried individuals.	Increase the exemption amounts (one time) by \$4,000 for MFJ and \$2,000 for all other filing status, effective for years beginning after December 31, 2000 and beginning before January 1, 2005. ( <b>IRC §55(d)</b> / Act §701)
<b>Corporation Estimated tax payments</b>	Corporations make estimated payments in the 4 <sup>th</sup> , 6 <sup>th</sup> , 9 <sup>th</sup> , and 12 <sup>th</sup> month of their tax year.	100% of a corporation's estimated payments normally due on September 17, 2001, are not due until October 1, 2001.  20% of a corporation's estimated payments normally due on September 15, 2004, are not due until October 1, 2004. (The remaining 80% of this amount is due on September 15, 2004.)  (Act §801)
<b>Accumulated Earnings tax</b>	Tax rate is 39.6%	Tax rate is the highest individual tax rate effective with taxable years beginning after December 31, 2000. ( <b>IRC §531</b> / Act §101(c)(4))
<b>Personal Holding Company</b>	Tax rate is 39.6%	Tax rate is the highest individual tax rate effective with taxable years beginning after December 31, 2000. ( <b>IRC §541</b> / Act §101(c)(5))

<b>ISSUE</b>	<b>PRIOR LAW</b>	<b>NEW LAW</b> (followed by IRC section and Act section)
<p><b>Restitution received by victims of the Nazi Regime</b></p>	<p>none</p>	<p>Any payments or distributions received by an eligible individual (or the individual’s heirs or estate) are not included in gross income and also are not taken into account for computing taxable Social Security benefits. An “eligible individual” is a person who was persecuted on the basis of race, religion, physical or mental disability, or sexual orientation by the Nazi Germany, any other Axis regime, or any other Nazi-controlled or Nazi-allied country.</p> <p>Eligible payments include any payment which:</p> <ol style="list-style-type: none"> <li>1) Is payable from any foreign country, the US, or any other foreign or domestic entity, or a fund established by any such country or entity, any amount payable as a result of a final resolution of a legal action, and any amount payable under a law providing for payments or restitution of property,</li> <li>2) Constitutes the direct or indirect return of, or compensation or reparation for, assets stolen or hidden from, or otherwise lost to, the individual before, during, or immediately after World War II including any proceeds of insurance under policies issued on eligible individuals by European insurance companies immediately before and during World War II, or</li> <li>3) Consists of interest which is payable as part of any payment or distribution covered under paragraphs 1) and 2) above.</li> <li>4) Any interest earned by: <ol style="list-style-type: none"> <li>a) Escrow accounts or settlement funds established pursuant to the settlement of the action entitled “In re: Holocaust Victim Assets Litigation” (E.D.N.Y.) C.A. No. 96-4849,</li> <li>b) Funds to benefit eligible individuals or their heirs</li> </ol> </li> </ol>

		<p>created by the International Commission on Holocaust Insurance Claims as a result of the Agreement between the Government of the United States of America and the Government of the Federal Republic of Germany concerning the Foundation “Remembrance, Responsibility, and Future,” dated July 17, 2000, or</p> <p>c) Similar funds subject to the administration of the United States courts created to provide excludable restitution payments to eligible individuals (or heirs or estates).</p> <p>The basis of any property received as part of the excludable restitution payment is the FMV on the date the individual receives the property.</p> <p>This provision is effective for any amounts received on or after January 1, 2000. The Act also states, “Nothing in this Act shall be construed to create any inference with respect to the proper tax treatment of any amount received before January 1, 2000.” (Act §803)</p>
<p><b>Sunset provision</b></p>		<p>In brief the Congressional Budget Act of 1974 requires a certain majority in Congress to have a Tax Act as large as TRA ‘01 become law. It was rightfully feared that TRA ‘01 would not have enough votes so the entire Act had to have a sunset provision. Every change in this act disappears as of December 31, 2010, unless Congress makes them permanent between now and then. (Act §901)</p>

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## ADVANCE REFUND CHECKS

The new Act will result in most individuals receiving an “advance refund check” from the United States Treasury in hopes of stimulating the economy.

One of the changes in the Act is the creation of a 10% tax bracket for the first \$12,000 of taxable income for MFJ, \$10,000 for HH, and \$6,000 for everyone else. Previously this was part of the 15% tax bracket. Therefore everyone will save five percentage points on this income. This saves \$600 for MFJ, \$500 for HH, and \$300 for everyone else.

An “advance refund check” will be sent to taxpayers for all or part of the amount of tax savings they will have for 2001 as a result of this bracket change. The “advance refund check” will be equal to the amount of savings a taxpayer would have had for their 2000 tax return if the creation of the 10% bracket had been in effect for 2000. (The 2000 return is used as the basis for determining the amount of the advance refund check and for no other purpose.)

Instead of having the 10% bracket incorporated into the tables and schedules for 2001, the 2001 return will have a credit equal to the amount of savings a taxpayer has as a result of the creation of this 10% bracket less the amount of the “advance refund check” already given to the taxpayer, (but not below zero).

When taxpayers file their 2001 tax returns, they are entitled to a credit against their tax equal to the 5% point difference, calculated in the same way as the checks mentioned above, except using the 2001 tax return data. The amount of the advance refund check will reduce this credit, but not less than zero. If the advance refund check is less than the 2001 credit, the taxpayers will receive the benefit of the difference to reduce their 2001 income tax liability. If the check is more than the 2001 credit, the credit will be zero, but the taxpayers do not have to repay the difference. Such a difference could exist for low income taxpayers who had income in one year and not the other.

Checks will be issued, preferably by October 1, for all taxpayer that filed by April 15th. Checks will be issued by the end of the year 2001 for all taxpayers who file late or on extensions, if time permits. No checks will be issued after December 31, 2001, so taxpayers who file near or after the end of the year will not receive a check. The Department of the Treasury can close this period earlier than December 31, 2001, in order to fully implement the intent of this provision. These advance refund checks will be issued in the order of the last two digits of the taxpayer identification number (which is generally a taxpayer’s Social Security number), from the lowest to highest.