

Understanding The New Tax Relief Laws

We have all learned about the upcoming tax rebates in 2002, that's the easy part. *The Economic Growth and Tax Relief Reconciliation Act of 2001* starts out by rebating taxpayers up to \$600 per household for 2001. This act is designed to steadily lower the tax rate over the next 10 years, however it also contains a provision repealing itself at the end of 2010. This means that unless Congress takes future action regarding this law, all of the tax cuts will go away and the estate tax will leap back into existence. That's just one of the many twists of the new legislation. Many people are finding that understanding this new law is a taxing process. In light of this, we have tried to make sense of it for you. We have summarized these new laws and sorted them into 5 basic categories.

Tax Rates

The centerpiece of the new law is reduced income tax rates. The 15% rate remains the same, but a new 10% rate has been added at lower income levels. Because the new 10% rate (which applies to the first \$12,000 of earned income) is retroactive to the beginning of the year, taxpayers will begin receiving refund checks from the Treasury as soon as this summer. The present plan is for everyone who filed a year 2000 tax return by April 15th to receive a check by October 1st. Single tax payers will receive up to \$300 and married filers will receive up to \$600. The following schedule depicts the decrease in tax rates that will take place over the next 5 years.

Year	2000	28%	31%	36%	39.6%
	2001-2003	27%	30%	35%	38.6%
	2004-2005	26%	29%	34%	37.6%
	2006	25%	28%	33%	35%

Individual Retirement Accounts

The increase in Roth and traditional IRA accounts was also approved, but it's been stretched out over a longer period than anticipated. As part of the so-called "catch-up" provision, investors age 50 and over will be allowed to contribute an extra \$500 per year beginning in year 2002 and an extra \$1,000 per year beginning in year 2006. The following schedule shows the increases from year to year over the next 10 years:

Year	Under Age 50	Age 50 and Over
2001	\$2,000	\$2,000
2002-2004	\$3,000	\$3,500
2005	\$4,000	\$4,500
2006-2007	\$4,000	\$5,000
2008	\$5,000	\$6,000

Beginning in year 2009 the contribution limit will be increased in \$500 increments to keep up with inflation.

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Education IRA's

Education IRA's are now more accurately labeled Education Savings Accounts. Even better, the contribution limit has been increased from \$500 to \$2,000 per year beginning in 2002. Also, the definition of "qualified education expenses" has been expanded to include qualified elementary and secondary school expenses and "computer technology or equipment," including internet access.

Other Tax Qualified Retirement Plans

Increases in 401(k), 403(b), SIMPLE IRA, SARSEP and 457 plans were also approved based on the following schedule. Note: The amount listed for 401(k) & Other plans also applies to 403(b)'s, SARSEP's, and 457 plans.

Year	401(k) & Other	SIMPLE
2002	\$11,000	\$7,000
2003	\$12,000	\$8,000
2004	\$13,000	\$9,000
2005	\$14,000	\$10,000
2006	\$15,000	indexed
thereafter	indexed	indexed

Estate Tax Phase-Out

The unified credit, which defines the amount of an individual's estate not subject to estate tax, will be increased each year beginning in 2002 until it is repealed in 2010. As mentioned previously, though, unless Congress takes further action, the estate tax will return for those with total assets in excess of \$1 million in 2011. There will also be a gradual reduction in the top rate of estate tax. Here's the scheduled phase-out and rate reduction:

Year Of Death	Exempt Amount	Highest Rate
2001	\$675,000	55%
2002	\$1 million	50%
2003	\$1 million	49%
2004	\$1.5 million	48%
2005	\$1.5 million	47%
2006	\$2 million	46%
2007-2008	\$2 million	45%
2009	\$3.5 million	45%
2010	Estate Tax Repealed	

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