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On May 28th, 2003, President Bush signed into law the Jobs and Growth Tax Relief and Reconciliation Act of 2003 (JGTRRA). The law makes no changes that directly affect deferred giving arrangements. However, it does enact reductions in the individual tax rates. Highlights of JGTRRA that may be of interest to gift planners include a reduced capital gains tax rate, reduced dividend tax rate and acceleration of the reductions in marginal income tax rates that were already scheduled.

Income Tax Rate Reductions

The 2003 JGTRRA change that will affect the widest number of taxpayers is an immediate reduction of the marginal tax brackets paid by all but the lowest earners. Under the change, the tax rates above 15% for 2003 and later years are 25%, 28%, 33%, and 35%. Previously, the rates for 2003 above 15% were 27%, 30%, 35%, and 38.6%. These rate reductions were scheduled to go into effect in 2006 under 2001 EGTRRA. After 2010, rates above 15% will revert to the pre-Economic Growth and Tax Relief Reconciliation Act of 2001 EGTRRA) levels (i.e., to 28%, 31%, 36% and 39.6%).

Capital Gains Tax Reductions

For sales, exchanges and capital gain income received on or after May 6, 2003, the long-term capital gains tax rate falls from 20 percent to 15 percent for taxpayers in the top four income tax brackets. The rates fall from 10 percent to 5 percent for the two lower brackets. The 15 percent rate extends through 2008, while the 5-percent rate continues through 2007 and drops to zero in 2008. The pre-JGTRRA rates -- 20 percent and 10 percent -- return in 2009. See below for extensions to these rates adopted under the Tax Reconciliation Act of 2006 (TRA 2006).

Dividend Income Rate Reductions

Qualified dividends received on January 1, 2003 until December 31, 2008 for taxpayers in the top four income tax brackets will be taxed at 15 percent. Dividends paid to taxpayers in the two lower brackets will be taxed at 5 percent until December 31, 2007. The rate for these low income tax brackets falls to zero in 2008. The pre-JGTRRA rates return in 2009, which means qualified dividends will be taxed at ordinary income tax rates at that time. See immediately below for extensions to these rates adopted under the Tax Reconciliation Act of 2006 (TRA 2006).

Capital Gains Tax and Dividend Income Tax Reductions extended under TRA 2006: Under the subsequent Tax Reconciliation Act signed into law by President Bush on May 17, 2006, the reduced 15% tax rate on eligible dividends and capital gains, previously scheduled to expire in 2008, has been extended through 2010. As a result, the following rates now apply:

In 2008, 2009, and 2010, the tax rate on eligible dividends and capital gains is 0% for those in the 10% and 15% income tax brackets.

After 2010, dividends will be taxed at the taxpayer's ordinary income tax rate, regardless of his or her tax bracket.

After 2010, the long-term capital gains tax rate will be 20% (10% for taxpayers in the 15% tax bracket).

After 2010, the 18% capital gains rate (8% for taxpayers in the 15% tax bracket) will be reinstated for qualified appreciated property held for five-years or more.

Impact on Charitable Giving

The reduction in personal income tax rates reduces the tax savings attributable to the charitable income tax deduction. For example, a donor formerly in the 38.6% bracket would realize income tax savings of $3,860 on a $10,000 charitable income tax deduction. Under JGTRRA, the top marginal rate goes down to 35% so the income tax savings for the same gift is only $3,500.

The reduction in tax rates benefits recipients of life income distributions. A gift annuity funded with appreciated property pays income characterized as ordinary income, capital gain income and tax-free income. An annuitant formerly in the 38.6% marginal income tax bracket will be subject to income tax at 35% retroactive to January 1, 2003. Capital gain income paid before May 6, 2003 will be taxed at the 20% capital gain tax rate. Capital gain income paid after that date will be subject to tax at the reduced 15% rate.

For example, an annuitant who is currently in the 38.6% bracket and receiving $500 of ordinary income, $300 of capital gain income, and $200 of tax-free income from her annuity each year, will enjoy $747 of income after taxes. Under the lower 35% and 15% rates, she will enjoy $780 in after-tax income, an increase of $33.

The range of taxable income levels to which each tax rate applies is indexed for inflation and therefore will not be known until the tax year is reached. See the tax tables for each filing status for the taxable income levels to which each tax rate applies in the most current year.

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