MEMORANDUM JENNER&BLOCK

May 29, 2003

From: Arnold S. Harrison
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Subject: New Tax Act – the Jobs and Growth Tax Relief Reconciliation Act of 2003

The President signed the new tax bill into law on May 28, 2003. Most of the changes apply to individual taxpayers. There are only modest changes for businesses. Highlights of the Jobs and Growth Tax Relief Reconciliation Act of 2003 ("JGTRRA") include:

FOR INDIVIDUALS

Tax Rate Reduction on Ordinary Income

Reduce the regular income tax rates immediately, effective from January 1, 2003. The new rates are:

25% (down from 27%)
28% (down from 30%)
33% (down from 35%)
35% (down from 38.6%)

Tax Rate Reduction on Long-Term Capital Gains

For net long-term capital gains that used to be subject to a maximum 20% tax rate, the rate has been reduced to 15%. The lower rate is effective for gains taken into account on or after May 6, 2003.

For net capital gains that used to be subject to a maximum 10% tax rate, the rate has been reduced to 5%.

Higher rates continue to apply to recapture amounts and collectibles gain.

Dividends Taxed at the Same Rate as Long-Term Capital Gain

The tax rates on net long-term capital gain generally apply to dividend income. However, dividends are not capital gains and cannot be offset by net capital losses.

This change is effective for dividends received on or after January 1, 2003, but all such dividends are treated as gain taken into account on or after May 6, so the new 15% rate on net capital gains applies.

There are exceptions, including for dividends from certain foreign corporations and dividends on stock held for less than 60 days before the dividend is paid, where the dividends remain subject to ordinary income rates.

In general, dividends from regulated investment companies (such as mutual funds and money market funds) and from REITS will be subject to a look-through rule – dividends will generally qualify for the lower rate only to the extent of dividends received by the regulated investment company or the REIT.

Other Individual Tax Changes

- The AMT exemption amount is increased to $58,000 for married taxpayers filing a joint return and increased to $40,250 for single taxpayers.

- The child tax credit is increased from $600 to $1,000 per child, and the increase will be paid as an advance refund in 2003 based on credits allowed in 2002.

- The standard deduction amount for married couples filing a joint return is increased to twice that of a single taxpayer.

FOR BUSINESSES

Increased Expensing

In general, tangible property acquired for use in a small business can be expensed in the year purchased up to $100,000. The limit is an increase from $25,000. The higher ceiling is effective from January 1, 2003.

Additional First-Year Depreciation

In general, for property acquired after May 5, 2003, that is not expensed, the first year depreciation will be 50% of cost (up from 30%).

CAVEATS

There are numerous defined terms and exceptions that are not described in these highlights.

Some of the new rules are simply an acceleration to 2003 of changes that were expected in later years.

Most of the new rules have sunset provisions, although little reliance should be placed on those sunset provisions. It is widely expected that there will be significant debate and modification over time. Some changes may be permanent. Others may expire as scheduled or even sooner.

If you have any questions, please call us.

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