

LKR Alert

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Littman Krooks & Roth P.C.

Elder Law and Estate Planning

Bush Tax Proposal Signed Into Law

President Bush has signed a new tax bill into law. The new law significantly cuts both income taxes and estate taxes. Gift taxes are little affected. The new tax law reduces taxes by 1.35 trillion dollars over the next 10 years. The cut is actually 1.6 trillion dollars, but the lower number was met by assuming that all tax cuts would expire in 2011, at which time the existing law would be reinstated.

Unfortunately, one-third of the tax benefits will go to the wealthiest 1% of the population. Two-thirds of the tax benefits will go to the wealthiest 20% of the population. Passage of the tax bill effectively precludes any later action by Congress to significantly reduce the National Debt, to provide an infusion of money to protect the failing Social Security and Medicare systems or to provide a meaningful Medicare prescription program for seniors. Following are highlights of the new law:

Rebate Checks

Beginning this summer, the Treasury Department will mail rebate checks to taxpayers in the following amounts.

- \$300 for individual taxpayers
- \$500 for single parents
- \$600 for married couples

Income Tax Rates

All income tax rates above 15% will fall by one percentage point as of July 1, 2001.

A new 10% income tax rate will apply to the first \$6,000 of taxable income for single people, \$12,000 for married couples filing jointly.

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The current top income tax rate of 39.6% will drop to 35% by 2006. By 2006, the other rates will also drop gradually from 36% to 33%; 31% to 28%; and 28% to 25%, respectively. The 15% rate will remain unchanged.

Beginning in 2006, the income limits on itemized deductions will be adjusted upward.

Beginning in 2006, the personal exemption phase-out will be gradually repealed.

Estate Tax

The estate tax will be repealed in 2010.

The current top estate tax rate of 55% will immediately drop to 50% and will gradually be reduced to 45%.

The current \$675,000 exemption will be raised to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2006, and \$3.5 million in 2009.

Tax will be retained on certain gifts, but will be reduced to 40%.

Retirement

The tax-favored contribution limits for individual retirement accounts and Roth IRAs will gradually rise from the current amount of \$2,000 to a new limit of \$5,000. There will be no change in the income limits.

The tax-deferred contribution limits for 401(k)-type plans will gradually increase from \$10,500 to \$15,000.¹

¹ New York Times, Saturday, May 26, 2001.

Littman Krooks & Roth P.C. offers legal services in several areas of law, including Estate and Tax planning, Public Benefits, Medicaid, Health Care, Guardianship, Estate Administration/Probate, and Trusts and Estates. Our offices are located conveniently in Midtown Manhattan at 655 Third Avenue, and in White Plains, New York at 81 Main Street.

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