

## A Taxpayer-Friendly Tax Law

# 2003 Tax Relief Act Provides Numerous Benefits

**“Relief!”** That’s the key word in this year’s “Jobs and Growth Tax Relief Reconciliation Act.” In almost every instance, everyday taxpayers will find that the new law leaves more of their cash in their pockets.

Best of all, in most cases, there’s little you actually need to do. The benefits come your way automatically.

**The law is not groundbreaking legislation.** It does not purport to throw out the old tax code and replace it with sweeping legislative changes. Instead, its primary achievement is to *accelerate* tax breaks already on the books, but originally scheduled to kick in a few years in the future. The goal was to help jump start the anemic economy by giving consumers more cash through lower taxes.

**The 2003 tax law creates benefits in a broad range of areas.** All told, you could feel as if you were handed a decent little raise this year, courtesy of Uncle Sam. This is an overview.

**Federal income tax rates have been reduced.** The old rates were scheduled to drop incrementally. Beginning in tax years 2004 and 2006, they were to gradually decline by an average of 2 full percentage points for most tax brackets, and by 3.6% (from 38.6% to 35%) for the top bracket.

The 2003 legislation drops those levels down immediately, effective for tax year 2003. So, maximum rates this year decline

from 27%, 30%, 35%, and 38% to 25%, 28%, 33% and 35% respectively. So, depending on your tax bracket and deductions, this alone could put \$1,000 or more in your pocket this year.

**The lowest – 10 percent – tax bracket has been expanded.** This is one of those provisions that can benefit your child earning part-time income during school

or in the summer.

As the law had been, the lowest, or 10% tax bracket, was scheduled to be expanded in 2008, raising the upper threshold from \$6,000 to \$7,000 for singles (and from \$12,000 to \$14,000 for married couples). The new law accelerates that change, making it effective for tax year 2003.

**Dividend and capital gains rates are reduced.** This is where it gets even better. If you have investments, the tax burden on dividends and most long-term capital gains is reduced. Specifically, dividend income, which was taxed as ordinary income, now has a maximum rate of 15% (5% if you are in the 10% tax bracket), effective for gains realized on or after May 6, 2003, for assets held more than one year.

Note that this applies to most but not all equity investments. It does not apply, for example, to gains on collectibles, dividends from tax-exempt corporations, and dividends paid on certain employer securities. So, as always, be sure to check with your tax advisor before acting.

### **The marriage penalty is eliminated.**

In 2003 and 2004, the standard deduction for married couples will be increased to double that for single tax payers.

Additionally, the 15% tax bracket for marrieds will also be increased to twice the width of that for single taxpayers.

These changes, originally scheduled to come on line in 2005, take place starting in the 2003 tax year.

### **The child tax credit is increased.**

The child tax credit is increased from \$600 to \$1,000 per year, effective for 2003 and 2004. It was originally scheduled to be phased in between 2005 and 2010. Note: This credit is being paid in the form of a rebate check in 2003.

### **The Alternative Minimum Tax deduction limits have been increased.**

This is the most misunderstood tax on the books today. Its purpose is to prevent high-income individuals from abusing deductions and paying little if any income tax. However, it is complicated and the trigger thresholds had not been raised to account for inflation and increasing incomes. So, though its purpose was to assure that the rich paid their fair share, it has increasingly blindsided the average Joe as incomes have increased in recent years.



*continued inside...*

## Ten-Year Level Term

# A Cost Effective Life Insurance Product

**Life insurance is a tool.** Nothing more, nothing less. If you need coverage, the next choice is which type to buy. For more and more people, that choice is ten-year level term because it offers a cost effective alternative to either one-year term or a cash value policy.

**Look at one-year term insurance** (also called “annually renewable term”). It is an excellent product in many situations. It is ideal if you need (1) cheap coverage, since the initial one-year premium will almost always be the lowest you will find, and (2) your coverage need is truly short term.

The primary disadvantage of annually renewable term is that the premium will increase every year, year after year. This may not matter much when you are 20 or even 30 years of age. However, those rates start going through the roof as you get older. You run the very real risk of not being able to afford coverage at the time you need it most. Plus, if you become uninsurable, depending on the policy, you may not be able to renew your coverage.

**Cash value life insurance** is also a good choice in many situations. It provides life-long protection, a level or variable premium (depending on your choice of policy) and the opportunity for cash value accumulation.

Possible drawbacks to cash value products are (1) your premium will generally be higher than that for a term policy, & (2) you are paying for coverage designed to last a lifetime, even if you only need it for a decade.

**And then there is Ten-Year Level Term,** an attractive alternative to either of these other options if (1) you want a fixed, level, competitive premium for the initial term of the policy; (2) you anticipate that your need for coverage may decline – or at least change – in the years ahead; and (3) you want the flexibility to make these decisions as you choose.

### **How Ten-Year Level Term works:**

You select the coverage amount you need and pay the premium each year. The premium remains level for ten years, as does the death benefit. After that, you may – depending on the policy – renew for another ten year term. It's as simple as that.

**The advantages of Ten-Year Level Term** include the following:

1. You can stagger coverage, layering it to provide protection during the times you need



it most. For example, if you have a growing family, you know your needs will increase for a span of, say 20 years, then begin to decline gradually as older children finish college and leave home.

So, you may initially purchase policy A for \$200,000. Then, in five years, add policy B for another \$200,000; and then after five years add policy C for \$500,000 when you renew policy A. This gives you \$200,000 of coverage for the initial five years; \$400,000 for years six through ten; and \$900,000 for years 11 through 15. Policy B ends in year 15 which reduces your coverage to \$700,000 for years 16 through 20.

2. You can drop the coverage at any time without loss, since there is no cash value or penalty. When you no longer need insurance, stop paying your premium and your coverage will end. To reduce your coverage while retaining your rate guarantee, ask your carrier for a revised schedule page.

### **To learn about your Academy's new 10-Year Level Term Life Insurance Plan**

featuring attractive rates underwritten by New York Life Insurance Company, NY, NY 10010 on Policy Form GMR,

**contact AAFP Insurance Services at (800) 325-8166.**

We'll mail you information about the policy's features, costs, eligibility, renewability, limitations and exclusions. That way, you can make your own informed decision in the privacy of your home or office. There is no obligation. No salesperson will contact you.

In short, provided you remain insurable, you can drop or add insurance as you choose.

3. This coverage has premium guarantees that lock in your premium for the full ten-year period. It will increase at renewal, based on your age and health, and then remains fixed for the next ten-year period.

4. The rates are competitively priced, especially when compared to most cash value policies. When compared to one-year term insurance, the initial rate for the ten-year term will almost

always be higher; however, balanced over a ten-year premium-paying period, it may be lower in the long run. Check each policy carefully.

5. The rates can also be competitive against policies featuring longer fixed rate periods. On average, if you repeatedly renew your ten-year policy, your average annualized premium over 15, 20 or 30 years is going to be similar to or lower than the premium for a policy with a longer rate guarantee. This is the result of actuarial assumptions regarding the insurance company's acquisition costs, lapse rates, assumed mortality rates and mandated reserve requirements. The bottom line for you, the consumer, is that it can be more cost effective – even if you will need coverage for more than 10 years – to buy a ten-year fixed rate policy and renew, than it would be to select a 15- or 20-year policy.

6. A ten-year level term policy provides efficient, “pure” life insurance protection. There is no cash value accumulation. This means your premium goes to protection.

**Look at renewal rights** when shopping for a renewable policy. Not all policies are alike. For example:

- Some policies have terminal age restrictions. This means that everyone who attains a certain age (usually somewhere between 70 and 80), will lose their coverage. If your policy contains that restriction, make sure it also allows you to convert your coverage to a whole life policy.

- Other policies have health status restrictions. If you cannot pass their physical exam, they can refuse to continue your coverage at any price. Look for a policy that will let you stay insured so long as you are willing to pay the premium associated with your age and health.

# A Smart-Money Guide to Shopping Online

- Death benefits may not remain level. Some policies will let you renew your coverage regardless of your age or health, but you have to accept a lower amount of protection to renew the coverage.

**The bottom line:** Choose a policy that allows re-entry with the same benefit amount and another ten-year premium guarantee.

## Is Ten-Year Level Term right for you?

If you need high dollar amounts of coverage for a fixed period of time (such as while your children are at home and dependent on you financially or while you are building your retirement nest egg), you should find out more about ten-year level term coverage.

## Tax Relief

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To prevent this, the new law increases the exemption amounts for tax years 2003 and 2004 from \$49,000 to \$58,000 for marrieds (and from 35,750 to \$40,250 for singles). Unfortunately, these amounts are scheduled to decrease again after 2004.

### Corporations get a tax break.

The accumulated earnings tax and personal holding company tax have been lowered from a top rate of 35% to 15%.

### Businesses purchasing equipment also get a break.

Previously, a business could expense \$25,000 a year in new equipment. The new law increased that amount to \$100,000 for tax years 2003, 2004 and 2005. This is a powerful incentive to businesses (including medical practices) to expand or replace equipment. So, it may be a good idea to schedule the purchase of that new clinic equipment during this time frame.

These are some of the key provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003. All told, these and others provide a smorgasbord of tax relief for the majority of taxpayers.

**Your next step?** Most of these benefits come to you automatically. Still, if you haven't already done so, take the time to learn more about how the new tax law may impact you. Of course, when it comes to adjusting your assets or making other decisions based on the new law, be sure to consult your tax advisor first. As with any law, you need to watch the fine-print details.

For millions of families this holiday season, click-and-buy shopping will be the best way to purchase the perfect gift...and with good reason. Without ever leaving the comfort of home, you can buy almost anything imaginable from among the hundreds of thousands of web sites on the internet. Essentially, if you can think it, you can find it, from the trendiest high fashion apparel to the latest high-tech fishing gizmo – everything from books to boats, fresh fruit to furniture, computers to condiments, steaks to...well, you get the picture. Imagine the idea of mail order shopping. Well, multiply it by about ten thousand in terms of choices.

**The appeal** of shopping on line is obvious:

- **Convenience.** It's a lot easier to click through cyberspace sitting at your computer than to cruise for a parking space and fight the crowds at the mall. Plus, you can shop when you want to shop, 24-hours a day, seven days a week.
- **Time.** You can accomplish in minutes what might otherwise require hours.
- **Personal safety.** This is a key factor in many urban areas. The odds are lower that you will be mugged at your computer nook than roaming from store to store downtown.
- **Prices.** Thanks to increased competition in recent years, discounts abound. Many items can be obtained for less than at retail stores. Besides, you can comparison shop instantly.

**There is a down side** to shopping by internet. Be aware of some of the most common problems:

**Slow delivery...no delivery...wrong delivery.** Some companies can take from two to ten weeks to ship orders. If an order goes astray completely, you can end up

in a paperwork hassle that wipes out any convenience. Plus, if the order is wrong, you may be required to pay the freight to return it.

**You can't squeeze the fruit...** feel the fabric ...confirm the quality. Also, while most web sites try to present an honest, accurate description of their products, be alert for possible misrepresentation.

**Be aware of credit card security.** It's one thing to work with big-name secured sites, another to give your credit card number to a business that turns out

to be located in Nigeria and just opened last week to scam holiday shoppers.

**How to protect yourself** when shopping by mail:

- 1. Know your rights.** Federal Trade Commission regulations require that most types of orders be shipped within 30 days of receipt, unless the site indicates otherwise.
- 2. Pay by credit card.** If problems occur, you have greater leverage, since you can withhold your payment until the dispute is settled.
- 3. Keep written records** of your order, including the actual internet catalog page from which you placed the order. This helps protect you against misrepresented goods.
- 4. Stay on the main street,** so to speak. When in doubt, stick to sites and "storefronts" you know. If you wouldn't buy a watch from some guy on the corner, don't buy it from the internet equivalent.

**If you have a problem:** Rules on direct marketers are getting tougher. If you are unsatisfied with a company's service or products, write the FTC, Public Reference Branch, Room 130, Washington, DC 20580.



# Your **FINANCIAL** HEALTH

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## FINANCIAL FOOTNOTE...

### BUCKLING UP

Buckling up may save you money, as well as your life. According to information released by the National Highway Traffic Safety Administration (May 2002), even a minor road accident can cost you big bucks if you are in an accident. The average cost for a minor accident runs \$10,562 in medical services, lost productivity and property damage. A major accident can run more than \$1 million. The best way to save money? Wear your seat belt.

### THE COST OF KIDS

- On average, it costs \$249,180 to raise one child from birth to age 18 in a household with an income of at least \$65,800.<sup>1</sup>
- College costs this past academic year (2002-2003), averaged \$18,273 at four-year private colleges and \$4,081 at public universities.<sup>2</sup>

<sup>1</sup> Facts About Children, 2003 Field Guide to Estate Planning, by Donald F. Cady

<sup>2</sup> 2002-2003 College Costs, The College Board ([www.collegeboard.com](http://www.collegeboard.com))

## Your **FINANCIAL** HEALTH

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