

Important Tax Legislation Update

By Charles Clar

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This feature deals with USA tax laws and how you can use them to your advantage. It is made available on a more or less weekly basis.

Important Tax Legislation Update

On October 12, 2001, the House Ways and Means Committee approved an economic stimulus package that includes capital gains relief, a tax rebate for lower income individuals, and an acceleration in the tax rate cut for the 27.5 percent bracket. It also provides for a larger deduction for business equipment purchases and repeal of the corporate alternative minimum tax.

In a break from the bipartisan cooperation exhibited in Congress since the September 11 terrorist attacks, the tax bill was approved on a party line vote of 23 to 14. Debate between Democrats and Republicans was heated. The bill is scheduled to go to the full House for a vote very soon. Do remember that the Democratic controlled Senate is likely to press for significant changes in anything the House passes.

However, as the end of 2001 approaches vigilant taxpayers need to remain informed about the legislation's provisions. The final outcome might affect your year end tax planning strategy, particularly as it relates to capital gains.

This bill lowers the top capital gains rate for investments held more than one year from 20 percent to 18 percent; for investors in the 15 percent bracket, the rate drops from 10 percent to 8 percent. The reduction is effective October 12, 2001.

The amount of capital losses that can be written off each year is also increased. Under current law, capital losses can be used to offset capital gains plus up to \$3,000 of other income, such as your salary. Excess losses can be carried forward for use in future years.

Under the House bill, the \$3,000 limit increases to \$4,000 in 2001 and to \$5,000 in 2002.

This is a significant change, particularly for those of you who have stocks that are going nowhere fast and need to be sold, even at a loss.

Also, do you recall the Terrific Tax Tip feature on writing off non-business bad debts? You might consider reviewing that issue again since this possible change directly deals with that topic. And it could save you money!

As always, PLEASE make sure you read and understand the fine print. It wouldn't be taxes in America otherwise!

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