



ROBINSON & COLE LLP

Employee Benefits & Compensation



SPECIAL EDITION

Jobs and Growth Tax Relief Reconciliation Act of 2003

This week the President is expected to sign the Jobs and Growth Tax Relief Reconciliation Act of 2003. The conference agreement of that Bill was passed by both the House and Senate late last week.

As reported in the last edition of Benefits e-news, the proposed Senate Bill contained provisions that would have had a major impact on non-qualified deferred compensation plans. Fortunately for sponsors of and participants in such plans, all revenue raising provisions, including those relating to executive compensation, were dropped from the Bill before adoption.

The final revision of the Act contains two important provisions that could impact employee savings. The most well-known provision is the reduction in the maximum tax rates on dividends and capital gains to 15% (5% for certain lower income taxpayers). These rules will apply for 2003 and will sunset at the end of 2008.

The Act also accelerates to 2003 the reduction in tax rates previously scheduled to take effect in 2006. These rate changes are still scheduled to sunset in 2010. The IRS expects to post new withholding tables reflecting the new tax rates on its [website](#) later this week.

Due to these changes, participants will likely reexamine their pre-tax and after-tax savings choices. Employers may use the lower withholding rates as a basis to encourage participants to increase pre-tax deferrals, as savings could be increased without a corresponding decrease in take-home pay. However, some participants may want to decrease pre-tax savings as, due to the decrease in tax rates (especially the capital gains rates), the "cost" of not contributing pre-tax dollars has been considerably reduced and the ability to access pre-tax dollars continues to be limited to hardship withdrawals and loans. Also, due to the decrease in tax rates, participants will be significantly less motivated to contribute after-tax dollars to any tax-deferred program.

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