The Economic Growth and Tax Relief Reconciliation Act of 2001 is now law, but what will it mean for you? Here are some of the provisions that will affect many individuals and families.

**Personal tax rate reductions**

**Tax rebates.** A reduction of the 15% income tax rate to 10% as of July 1, 2001, resulted in most taxpayers receiving a rebate. The 10% rate, was applied for half the year to the first $12,000 of income for couples, $10,000 for heads of household, and $6,000 for singles. This resulted in maximum rebates of $600 for couples, $500 for heads of household, and $300 for singles. Next year and thereafter until 2011 when the bill is scheduled to be repealed, the tax savings on this income will be twice as much because the new rate will be applicable for the entire year.

**Income tax rates.** Three of the four remaining income tax rates (28%, 31%, and 36%) will be reduced by 1% every two years until 2006. This means, for example, that the 28% rate will be reduced to 27% for 2002-2003, 26% percent for 2004-2005, and 25% percent for 2006 and later. The top rate of 39.6% will also be reduced by 1% for each of the first two bienniums, but the last reduction will be 2.6%, resulting in a 35% rate for 2006 and later.

**Family-friendly tax changes**

**Marriage penalty.** The marriage penalty is the additional income tax assessed two married people earning comparable wages in comparison to the lower tax assessed two single people who earn comparable wages. This disparity will be eliminated by gradual increases in the standard deduction for couples. The standard deduction for couples will become 174% of that for singles in 2005, 180% in 2006, 187% in 2007, 190% in 2008, and 200% in 2009 and after.

**Child tax credit.** The tax credit that taxpayers with children received for the 2000 tax year was $500 per child. This credit will be raised to $600 for 2001-2004, $700 for 2005-2008, $800 for 2009, and $1000 for 2010 and after.

**Education-related tax changes**

**College tuition.** College tuition will now become deductible for many taxpayers. Single filers with adjusted gross incomes under $65,000 and joint filers with AGI under $130,000 will be able to deduct up to $3,000 in tuition costs in 2002-2003 and up to $4,000 in 2004-2005. Those with incomes up to $80,000 (single) and $160,000 (joint) will be able to deduct up to $2,000 in 2004-2005. This deduction ends after 2005.

**Student loan interest.** Interest on most student loans will now be deductible. The income phase-out thresholds for those who may deduct interest on student loans has been increased to $55,000-$65,000 (single) and $100,000-$130,000 (joint). Also, there is no longer a limit on the amount of the deduction or a restriction on the loan years.

**Education IRAs.** Starting in 2002, Education IRA contribution limits have been raised from $500 to $2,000 per year and contributions can be made until April 15th for the previous year. The phase-out range for contributor income becomes $190,000-$220,000 for joint filers, twice that for single filers. Tax-free withdrawals can now be taken for elementary and secondary education expenses as well as higher education expenses, including such costs as those for tutoring, uniforms, equipment, and room and board.

**Retirement and estate tax changes**

**Retirement contributions.** Contribution limits for both traditional and Roth IRAs will increase to $3,000 for 2002-2004, $4,000 for 2005-2007, and $5,000 for 2008 and after. Those age 50 and above will also be allowed additional catch-up contributions of $500 in 2002-2005 and $1,000 in 2006 and after. Moreover, contributions to salary reduction plans like the 401(k), 403(b), and SEP will increase to $3,000 for 2002-2003, $4,000 for 2004-2007, and $5,000 for 2008 and after. Those age 50 and above will also be allowed additional catch-up contributions of $500 in 2002-2005 and $1,000 in 2006 and after. Moreover, contributions to salary reduction plans like the 401(k), 403(b), and SEP will increase to $3,000 for 2002-2003, $4,000 for 2004-2007, and $5,000 for 2008 and after.

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