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Personal Finance | Article published June 22, 2003

Tax cut good news for some, bad news for others

Benefit for most workers, business, economy, but not for some with rising pay, investments

By [HOMER BRICKEY](#)
 BLADE SENIOR BUSINESS WRITER

Many thousands of Toledo-area taxpayers will be among 25 million families getting extra mid-year tax refunds starting next month.

And just about every worker will have some extra folding money starting next week, when employers are required to adjust paycheck withholding rates to comply with the \$350 billion tax-cut package signed into law by President Bush last month.

The rate change should bring \$1 to \$11 more a week in a paycheck for most workers, but will mean an additional \$40 to nearly \$200 a week for highly paid workers. Plus, people with children under age 17 likely will receive a refund check in about a month for \$400 per child as an advance payment for a higher child-tax credit to be claimed on next year's tax filing form.

Those changes and others are likely to mean a significant infusion of cash into the economy, although how much will be spent buying merchandise versus paying bills or simply invested is unclear.

"The [refund] checks could be spent quite quickly," said George Mokrzan, a senior economist for Huntington National Banks in Columbus. "It could [go] for anything the consumer wants."

Even as consumers make plans for the extra cash, merchants are looking forward to seeing more dollars in the register, small-business owners are thinking about buying new equipment, and investors are fine-tuning their strategies.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 offers something for everybody, despite some concerns that it will balloon the federal budget deficit and that some provisions seem to favor the wealthy.

It also has a potential downside for some: It could result in more people being



(THE BLADE/JEREMY WADSWORTH)

Instant child-tax refunds will benefit Jim and Lisa Wheeler, a Sylvania Township couple with four children ages 5 to 11: Lauren, 11, Megan, 7, Nick, 5, and Jake, 9. They say that the money will be used for educational expenses for their children, who are attending parochial schools.

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required to pay the alternative-minimum tax. This tax was originally designed to ensure that even the most wealthy taxpayers pay at least some income tax, but in recent decades, rising salaries and certain investments resulted in millions of Americans paying it.

It's uncertain how much the new tax law might mean in an average refund next year. More than 80 percent of the 122 million tax returns filed for last year were due refunds, averaging \$1,966, down slightly from the year before.

The most immediate impact is the change in the tax brackets - some lowered, others broadened to include higher income people in a lower bracket - resulting in more take-home pay for the average worker. Employers have to change withholding by July 1; some have already done so. The government expects to collect \$20 billion less this year in wage withholding taxes, and \$35 billion less next year.

Next most immediate is a check qualified taxpayers will receive between July 25 and Aug. 8. People with children age 16 and younger who can claim a child tax credit should receive a check for up to \$400 a child, as the credit increases to \$1,000 from the \$600 limit previously. The checks will come during the heavy vacation time and just weeks prior to the outset of school, when back-to-school spending will heat up.

Another provision of the law liberalizes depreciation rules for businesses, including the opportunity for some to deduct the entire amount of new equipment up to \$100,000 without having to bother with annual depreciation. Some expect the change to stimulate businesses to replace and upgrade equipment.

The tax bill also benefits investors by reducing capital-gains taxes and lowering taxes on corporate dividends.

Among local people looking forward to the instant child-tax refunds are Jim and Lisa Wheeler, a Sylvania Township couple with four children ages 5 to 11. The money will be used for educational expenses for their children, who are in parochial schools.

"That will be an awesome help," said Mrs. Wheeler, a stay-at-home mom. Her husband is a medical-equipment salesman.

Bob and Lynn Huepenbecker, a Toledo couple with five children ages 10 to 18, also have plans for their refund, which should apply to three children.

"It will get spent, believe me," said Mr. Huepenbecker, a purchasing agent. Three of the children are in sports, which is expensive, he noted.

Merchants expect to benefit by consumer spending.

"We hope it will help," said Scott Wyman, general manager of Bedland Furniture Gallery on Reynolds Road. His business benefited from the last mid-year refunds, issued in 2001 as part of the larger \$1.35 trillion tax-cut package, he said.

The latest round of tax cuts should bolster the sputtering economy, many economists say.

The sudden refunds "will support the consumer economy in the widest way imaginable," said Richard DeKaser, chief economist for National City Corp. in Cleveland. "The money could be broadly spent."

One likely beneficiary is the travel

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(THE BLADE/HERRAL LONG)
 Scott Wyman, general manager of Bedland Furniture Gallery on Reynolds Road, expects to benefit from consumer spending.

[ZOOM 1](#)

industry. Gina Garwood, president of Atlas World Travel of Sylvania Township, said: "You never know for sure, but I think we'll benefit. There's a lot of pent-up demand. People have delayed and delayed and delayed their vacations. I'm sure we'll see some of that money."



But Randy Auslander, owner of Phil's TV & Appliance Sales & Service on Sylvania Avenue, isn't so sure his business will benefit. "We're hopeful, but what I'm finding lately is that people short on money feel they need to pay bills before making major purchases," he said. The last round of interim refunds two years ago was not a bonanza for him, he added.

Many business owners themselves are expected to consider spending because of a new provision that allows them to receive a quick deduction for buying new equipment instead of spreading the depreciation out over several years. This tax break, called Section 179 expensing, has been quadrupled from the former limit of \$25,000 through 2005, plus other depreciation rules have been sweetened.

Mark Moses, an owner of two businesses, said he likely will use much or all of the allowable \$100,000 for each firm: He owns Moses Automotive, a Toledo repair shop, and is part-owner of Indian Motorcycle Toledo, a dealership now in Maumee that soon will move into a new \$3 million facility in Rossford.

Automotive diagnostic equipment is often more expensive than the previous expensing limits would allow, and big-ticket equipment is needed for the dealership, he said. "Certainly, with what we're doing, this will do a lot for us," he said.

Still, he's not sure how much the tax bill will do for business in general.

"It was designed as an incentive to get business to spend money," he said. "But it may be a Band-Aid for the heart attack that already happened."

Doug Shelton, president of Superior Impressions, a print shop in the Uptown district, said the tax changes will allow business owners to buy expensive digital equipment and high-speed color copying machines, which in turn will be good for his business. He has no plans, though, to take on additional debt to buy new equipment.

The tax-cut package has provisions that alleviate the so-called marriage penalty, which previously penalized couples. For starters, married taxpayers, filing jointly, in the 15 percent bracket can now make up to \$56,800 instead of \$46,700 before. And the standard deduction for couples (\$9,500) is now twice that of a single, which should make it more attractive for many couples to claim the standard deduction without having to fill out, as in the past, the Schedule A form of deductible expenses such as charitable contributions and home-mortgage interest.

The law expanded the lowest tax bracket of 10 percent, benefiting many low-income people. The top income to qualify for it rose to \$7,000 from \$6,000 for single filers and to \$14,000 from \$12,000 for couples.

Still, some criticize the tax changes as mostly benefiting the wealthy. Policy Matters Ohio, a nonprofit Cleveland research group, said a study by the nonprofit Institute of Taxation and Economic Policy in Washington found that Ohioans earning less than \$43,000 a year - or 60 percent of the state's taxpayers - will receive an average tax cut over the next four years of \$380. Those earning more

than \$272,000 - or the top 1 percent - will get a \$53,240 tax cut in the same period.

As for the refund checks, some taxpayers with children will not get one this summer. The government plans to send out checks automatically to taxpayers whose 2002 returns show they are qualified. But people with children born this year won't get the refund, though they can claim the credit on their 2003 returns in April. Anyone whose child turns 17 this year also won't receive a credit. And, only a partial credit is allotted to people with income above \$110,000 but lower than \$149,000.

The refund checks are to be issued according to Social Security numbers. The checks will be sent July 25 to people whose Social Security numbers end in 00 to 33, on Aug. 1 to people with numbers ending 34 to 66, and on Aug. 8 to people with numbers ending 67 to 99.

There are income limits that may force some taxpayers to give back part of their refunds when they file their returns early next year. And many low-income families won't get a refund this summer because they weren't able to claim the child tax credit last year, although most were able to get earned income credits. One pending bill would enable those families to get a refund check, but it has encountered resistance from those to say it would balloon the budget deficit too much.

The new tax law has complexities that may cost taxpayers down the road. Tax experts suggest, for example, that most people should not adjust their wage withholding amounts to try to recoup the overpayments taken out of their paychecks in the first half of this year. The reason is that other factors could crop up that would cut into that amount, resulting in payments next spring to the Internal Revenue Service, rather than a refund.

Another issue is that more people likely will be subjected to the alternative minimum tax, predicted Greg Hendel, a partner in the Maumee accounting firm of Hendel & Zuchowski. He predicts that many taxpayers will find deductions disallowed under the alternative tax calculations, resulting in a larger tax burden.

"It's a sleeper, he said."

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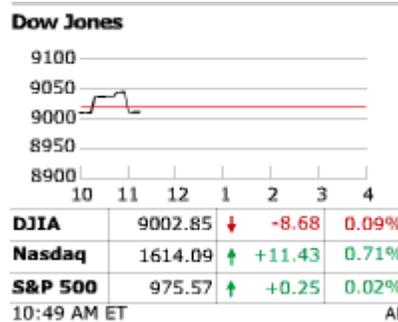


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