

**IRS****Fact Sheet****Media Relations Office****Washington, D.C.****Tel. 202.622.4000****For Release: January 2002****Release No: FS-2002-04****2001 TAX RATE REDUCTIONS AND ADVANCE PAYMENTS**

The Economic Growth and Tax Relief Reconciliation Act of 2001 lowered the tax rates above the 15 percent level by one percentage point, but this reduction did not take effect until mid-year. As a result, the tax rate schedules use "blended rates" of 27.5%, 30.5%, 35.5% and 39.1% for all of 2001. Taxpayers saw the effects of this change through reductions in the tax withheld from their pay in the second half of the year.

The law also created a new 10% tax rate on the first \$6,000 of taxable income (\$10,000 for a head of household; \$12,000 for a married couple). To give people this tax cut more quickly, the law directed that most taxpayers would receive this benefit as an Advance Payment check in the summer or fall of 2001. The checks were based on the taxpayers' 2000 tax returns. Thus, most people have received the full benefit of this change, and it will not affect how they complete their 2001 tax returns.

Some taxpayers who did not get the maximum amount for their 2001 filing status (\$300, \$500, or \$600) as an Advance Payment might be able to claim a Rate Reduction Credit on their returns, depending on their taxable income and tax liability for 2001. They should follow the instructions for Line 47 of Form 1040, line 30 of Form 1040A, or line 7 of Form 1040EZ.

The IRS mailed each taxpayer a notice with the Advance Payment amount before sending the check. Taxpayers who are unsure how much their Advance Payment was and who cannot locate that notice may call the IRS TeleTax system toll-free at 1-800-829-4477 to check on the amount.

Some taxpayers may have had their Advance Payments reduced or entirely offset by outstanding government debts, such as back taxes or a student loan, or by past-due child support obligations. They still received the benefit of the Advance Payment in such offsets and may not claim the Rate Reduction Credit for any amount so withheld.

A taxpayer will not have to pay back any difference if the Advance Payment -- which was based on the tax return for 2000 -- was larger than it would have been if it had been based on the actual 2001 income.

Dependents were not eligible for the Advance Payments or the Rate Reduction Credit. However, they may qualify to get the benefit of the lower tax rate by completing a Tax Computation Worksheet in the instruction book for the form they use.