

# How Administration Tax Package Affects "Tax Loss Farming"

The Nixon Administration tax reform package indirectly limits some "tax loss farming" abuses. There are important differences in objectives and lines of attack between the Administration proposal and the Metcalf-Culver tax

loss farming bill. The Metcalf-Culver bill attacks the problems of non-farm interests in agriculture head-on. It limits or eliminates writing off farm losses over \$15,000 against non-farm income (if non-farm income is \$30,000

or over, no farm losses would be deductible). Eliminating the tax incentive is merely the device for accomplishing the objective. The Administration proposal comes at the problem from the other end—seeking to limit various ways people evade or unfairly reduce their taxes. Tax loss farming happens to be one abuse.

The Metcalf-Culver bill deals quite effectively with the encroachment of non-farm interests into agriculture. In the process, it closes an important tax loophole and brings a good deal of money into the Treasury (an estimated \$145 million a year). The Administration proposal deals less effectively with the entry of non farmers into agriculture. Neither does it close the tax loss farming loophole quite as firmly, nor does it promise to bring as much money into the Treasury (an estimated \$10 million the first year and \$50 million a year by 1975).

The major Administration de-

vice for closing the tax loss farming loophole is to limit capital gains after farm losses have been excessive (above \$5,000 a year). Thus, the conversion of ordinary income into capital gains by sustaining heavy losses year after year which are written off against ordinary income, would be sharply limited. It gets at the problem in an indirect and complicated way. Here's how it would work

When farm losses are over \$5,000, a figure representing the excess would go into what is called an Excess Deductions Account (EDA). Future farm income would reduce the EDA and would be taxed as ordinary income as long as anything is left in the EDA. No capital gains would be allowed until the EDA is wiped out.

For example, a corporate executive owns a farm and in 1969 ordinary deductions exceed ordinary income by \$20,000. He can write off this loss against his other income, however, \$15,000 goes into his EDA. In 1970, his ordinary farm income equals farm expenses, but he sells breeding stock for \$20,000. Presently, if he had held this stock for more than a year, the \$20,000 would be taxable as capital

gains. But under the new proposal, he would be required to pay ordinary income tax on \$15,000 (the amount in the EDA), and would be eligible for the capital gains rate only on \$5,000.

This same rule would apply to land, but only up to the actual amount spent on such improvement on soil and water conservation, or the amount in his EDA, whichever is lesser. Another part of the Administration proposal provides for recapture of excessive depreciation on livestock, the same as now applies to farm machinery. The period livestock must be held for capital gains would be extended to two years (from the present one year). This would cut down some of the "play" by Wall Street farmers by making it less attractive for them to get in and get out so quickly. In addition, the Administration proposal would allow losses of \$50,000 more than gross income for only three out of five years, instead of the present five consecutive years.

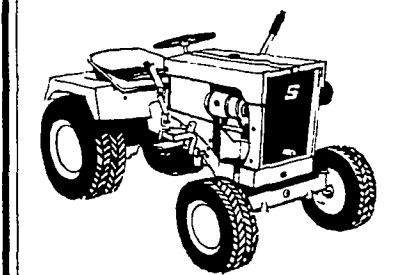
Another part of the Administration reform package would cut down some of the gross abuses by a Limit on Tax Preferences (LTP). One such "tax preference" is capital expenditures on farms such as soil conservation, terracing, drainage, etc. But this limit would only apply when the total of such preferences, such as oil depletion, depreciation of property given to charity, and farm preferences total more than the individual's ordinary income. It would probably take a combination of such preferences to be affected.

If agricultural chemicals were not used for insect control, crop and livestock production would decrease by 25 to 30 per cent in a few years. With such losses, most food items would be in short supply and prices of food would rise greatly.

This **SIMPLICITY** tractor with Hydrostatic Drive wants to be compared.

Test us against any other hydrostatic drive tractor. The Simplicity will operate continuously at full tractive effort (tilling, cultivating, etc.) without overheating. The Simplicity starts smoothly and runs quietly in any weather and with any attachment. Gone forever are the jerky starts and whining gears that plague some other units. As a matter of fact, if you don't try some other hydrostatic tractor, you'll never know how good you've got it with Simplicity.

- Rugged 12-hp Synchro-balance engine
- Change speed and direction with one lever
- Optional 48-inch No-Scalp mower
- Change attachments in minutes — without tools
- 4 Horse Powers To Pick From — 6 - 7 - 10 - 12



**Allen G. Musser**  
Bowmansville, Pa.  
Phone: 445-4161 or 445-6721

Need . . .

## HAY - STRAW - EAR CORN

Buy Now and Save!

More and more farmers are buying from us for better value and all around satisfaction.

Delivered — any quantity

Phone Area Code 717 687-7631

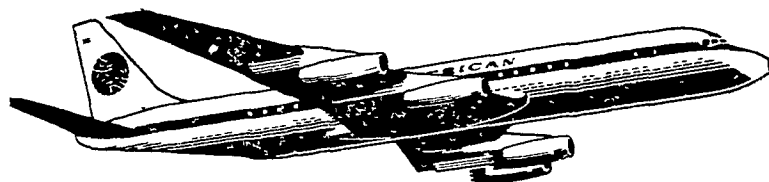
### Esbenshade Turkey Farm

"America's Oldest"  
PARADISE, PA.



# 91<sup>st</sup> ANNIVERSARY SALE

- STARTS FRIDAY, MAY 2 — DOORS OPEN AT 9:30 A.M.
- EIGHT BIG DAYS OF SAVINGS IN THE GREATEST SALE OF THE YEAR!
- VALUES GALORE FOR YOUR FAMILY, FOR YOUR HOME, FOR YOURSELF!



## OUR GRAND PRIZE!

### WIN A TRIP FOR TWO TO LONDON



Be sure to register on our second floor for this thrilling vacation . . . a 14-day trip to London via Pan American Airways, arranged by Ridgeway Tours.

● No purchase necessary. Winner's name will be drawn Saturday, May 10, at 4:50 P.M. Alternate prize: a \$1200 shopping spree.

SHOP FRIDAY AND TUESDAY 9:30 TO 9  
OTHER DAYS 9:30 TO 5