Economic Recovery Tax Act to save farmers dollars

BY DEBBIE KOONTZ

LANCASTER — Last week President Reagan signed the Economic Recovery Tax Act, and Lancaster Farming reported an overview on the Act as it will affect farmers.

With more information and some predictions available at this time, we'd like to summarize last week's report and delve into the savings you as farmers can expect from the Act.

Perhaps the biggest savings for the farm will be the possibility for couples to leave estates worth 1.2 million dollars tax free to heirs and not have federal tax to pay. An entire estate can be given to a survivor with no federal death tax due for surviving spouses of decedants who die after this year.

An estate of up to $600,000 can be left at death with no federal tax by the mid 1980's. It starts rising gradually next year, moving from $175,000 to $225,000.

Also, for decedants to use lower value rules on estates for farms, the decendant needn't have been as active in management operations as was previously necessary.

This is retroactive to estates of people who died in 1977 or later.

But how about some history on estate tax to give us some perspective on the situation:

Senator Roger Jepsen reports in his bi-monthly agricultural commentary that the estate tax was passed back in 1916 with two goals in mind — to pay for World War I and to end any chance that pockets of wealth would form in this country.

He says, "The arguments for appeal (against this early estate act) are just as clear cut. First, the estate tax brings in an insignificant amount of money — just about one and a half percent of federal revenues in 1980. Second, the tax has proven to be an intolerable burden on farmers and small businessmen — the middle class — the backbone of this country and the people who can least afford to pay it."

"Ironically, the very rich, the people who were supposed to be affected by the estate tax, were able to avoid (paying) it through careful planning," Jepsen said.

So in effect we had two estate taxes. A light one for the rich who can afford to plan ahead and a confiscatory one for everyone else — an estate tax which forces the heirs to sell the farm or the business just to pay the bill, Jepsen reports.

The Tax Act also changes social security benefits in that benefits can be received by the owner, and his property can still qualify for a reduced valuation tax break — if he was active in the operation for 5 of the 8 years before the time the benefits began.

Also, major shifts in tax policy are stated in provisions reducing the tax rate on capital gains from 28 percent to 20 percent and on unearned income, from 70 percent to 50 percent.

In a recently published booklet by Peat, Marwick, Mitchell and Co. the international accounting firm, the gift tax change is summed up as so: "The most significant change in gift taxes is the increase in the annual gift tax exclusion from $3000 to $10,000. The gift tax is generally computed by applying the rate schedule to cumulative taxable transfers made during the donor's lifetime and subtracting any gift taxes payable on previous gifts. The tax is then further reduced by a unified credit to the extent still available. The estate tax is an extension of the gift tax and is computed similarly and is changed as stated above.

Under the 10-5-3 accelerated depreciation system, useful lives of equipment, buildings, property and machinery will be shortened for tax purposes. The changes in depreciation rules are retroactive to January 1, 1981. Any assets placed into service after 1980 will come under the new Act.

General-purpose buildings can now be written off in 15 years.

Reagan's new five-year plan covers large trucks, machinery including farm tractors, and one purpose agricultural buildings. These 5-year assets qualify for a 10 percent investment credit. You can take 15 percent in the first year, 22 percent in the second and 21 percent in the remaining three years.

Under the three-year category will fall highway tractors, light-duty trucks, breeding animals and machinery and equipment used for development.

The Washington Newsletter reports that through 1986, the tax cuts will amount to $732.9 billion, about equal to the entire present federal budget.